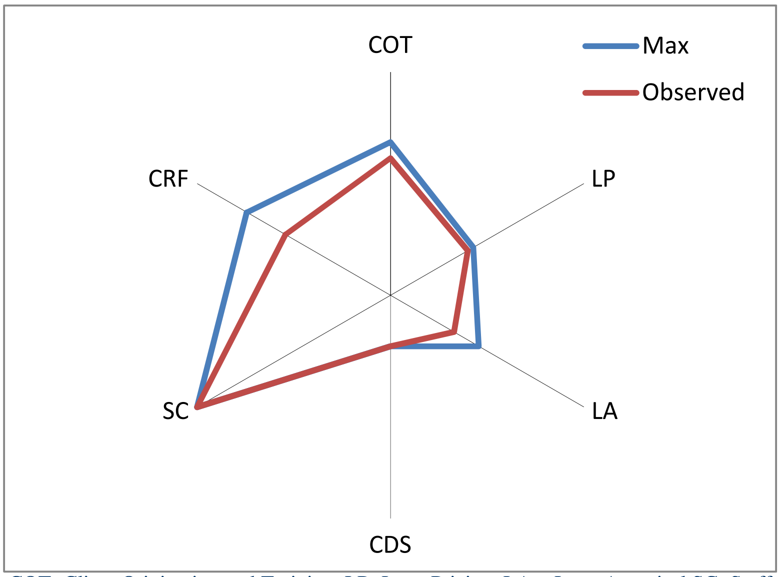
Microfinance Code of Conduct Compliance Assessment

Equitas Micro Finance India Pvt Ltd | Chennai, India

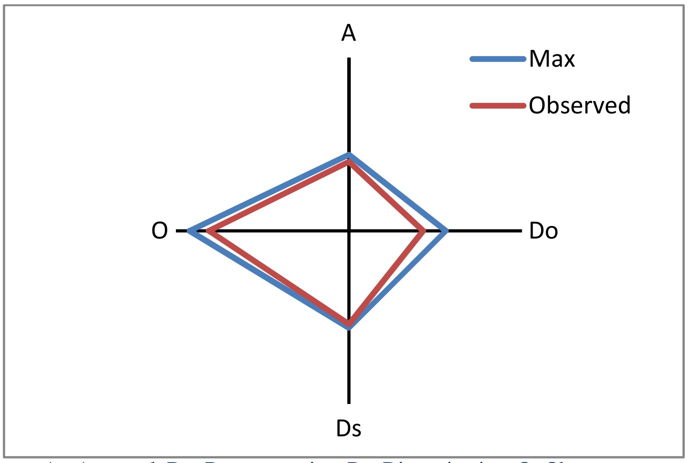
Composite COCA Score: 88%, Very high level of adherence

Score on Dimensions



COT=Client Origination and Training, LP=Loan Pricing, LA = Loan Appraisal SC=Staff Conduct, CDS=Client Data Security, SC=Staff Conduct, CRF=Client Relationship and Feedback

Score on Parameters



A= Approval, Do=Documentation, Ds=Dissemination, O=Observance

Rationale

Equitas receives high score on the COCA dimensions on account of its policies for ethically originating clients, complete transparency in the interest rates and its focus on maintaining professional staff conduct.

Highlights

- Equitas has publicly stated its commitment for responsible pricing. The organisation charges an all-inclusive declining balance interest rate on its loans. There are no upfront fees or security deposits on the loans. Reducing balance interest rate and all other terms and conditions of the loans are clearly communicated to the clients.
- Equitas provides adequate emphasis to ensure professional staff conduct.
- The organization has clear guidelines and policies to deal with the situations where clients are facing genuine difficulties in repayment of installments. The organization is careful in applying joint liability or 'peer pressure' in order to ensure that this does not create undue stress for the clients.

Areas of improvement

- There is scope to further improve loan appraisal by including expenses and indebtedness of the clients in the criteria to determine the loan sizes. There should also be independent checks on whether the stated appraisal criteria are being applied correctly.

Code of Conduct Assessment Compliance Assessment Tool

This tool requires scores to be assigned on the six Code of Conduct dimensions – **Client Origination, Loan Pricing, Loan Appraisal, Client Data Security, Staff Conduct and Client Relationship and Feedback**, across the four parameters – **Approval, Documentation, Dissemination and Observance.** While the tool does not measure adherence to any code of conduct in particular, the six dimensions have been drawn from a review of the norms prescribed for MFIs including Sadhan's and MFIN's code of conducts, guidelines from the Reserve bank of India and CGAP's client protection principles. The methodology followed for this assessment is presented in annexure 2 and the framework of the tool is presented in annexure 3. Distribution of COCA scores will be used to develop a grading system once data from 30 MFI assessments have been analyzed.

Section 1: Scores[1] and facts

Code of Conduct dimensions	Maximum	Observed	%
Client Origination and Targeting (COT)	24	21.6	90%
Loan Pricing (LP)	15	13.6	91%
Loan Appraisal (LA)	16	12.4	78%
Client Data Security (CDS)	8	8.0	100%
Staff Conduct (SC)	35	35.0	100%
Client Relationship and Feedback (CRF)	26	19.0	73%
Total	**124**	**109.7**	**88%**

Compliance parameters	Maximum	Observed	%
Approval (A)	22	21.0	95%
Documentation (D)	28	21.5	77%
Dissemination (D)	28	27.0	96%
Observance (O)	46	40.2	87%
Total	**124**	**109.7**	**88%**

MFI's profile	
Name of the MFI	Equitas Micro Finance India Pvt Ltd
Legal form	Non Banking Financial Company (NBFC)
Operational Head	Mr PN Vasudevan
Year of starting microfinance	2007
Branches	250 (September 2010)
Operational area	Tamil Nadu, Pondicherry, Andhra Pradesh, Rajasthan, Maharastra, Madhya Pradesh, Gujarat.
Total number of staff involved in microfinance	2,323 (September 2010)
Visit of the Assessment team	December 2010
Correspondence address	4th Floor, Temple Tower 672, Anna Salai Nandanam, Chennai – 600035

[1] The scores have been colour coded as follows. Red = Less than 60% indicating significant scope of improvement; Orange = 60% or more but less than 80% indicating moderate to high level of adherence; Green = 80% or more indicating high to very high level of adherence

Microfinance Methodology
Equitas follows the Joint Liability Group (JLG) model of Microfinance inspired by the Grameen Bank of Bangladesh. Clients are organized in groups of five and upto five groups constitute a center. Structured training is provided to the clients prior to their enrolment in the Microfinance programme of the organization. Successful completion of the Group Recognition Test (GRT) marks the entry of a client in the microfinance programme. Centers meet once every fortnight when the loan installments are collected by the Relationship Officers of Equitas. The organization provides loans between Rs10,100 and Rs17,500 payable fortnightly over 18-24 months.

Details of the loan products[2]

Product	Description	Loan size	APR[1]	EIR[2]	% in portfolio
Microfinance loans	Microfinance loans are provided to clients for their own businesses or for businesses in which the client is actively involved. Loans are repaid in Equal Fortnightly Installments (EFIs) over 18-24 months. Interest is accounted for by the MFI on a declining basis @26.0%. A charge of 0.35% per annum on the loan amount is collected from the clients for providing life insurance cover equivalent to the loan amount.	Rs10,100 to Rs 17,500.	26.7%	26.7%	96.0%
Additional Microfinance Loans	Additional Micro Finance Loan of up to Rs.3,000 can be availed by clients who repay the microfinance loans on a timely basis. This loan can be taken only within the window of 25th to 30th installment of microfinance loan. Loans are repaid in Equal Fortnightly Installments (EFIs) and the duration of the loan is for one year.	Rs3,000	26.7%	26.7%	1.7%
Vidya loan (Education loan)	Vidya loans can be taken by the clients for paying school fees of their children. Loans are repaid in Equal Fortnightly Installments (EFIs) and the duration of the loan is for one	Rs2,000 or Rs3,000	26.7%	26.7%	2.3%

[2] This table provides APR and EIR on the loans with effect from 20 December 2010. Prior to that APR varied between 26.5% to 28.5% and EIR varied between 27.85% and 29.9% depending on whether the client was in the urban area, semi-urban area of rural branch. From 20 December 2010 all branches follow the same interest rate structure.

	year				
Gold loan	Gold loan is provided to the clients for purchasing gold coins. Loans are repaid in Equal Fortnightly Installments and loan term is between 6 months to one year.	Rs2,000 to Rs15,000	26.7%	26.7%	Negligible

1. APR takes into account interest income and upfront fees on the loans (including those for insurance).
2. EIR taken in to account interest income, upfront fees and security deposits/loan linked savings on the loans.

Key facts and figures			
Parameters	**Mar-09**	**Mar-10**	**Sep-10**
Active borrowers	339,158	888,600	1,262,071
Number of branches	87	167	250
Number of states	3	6	7
Total staff involved in microfinance	701	1,573	2,323
Portfolio outstanding (Rs mn)	2,880.1	6,052.8	8,683.8
Amount of loans disbursed (Rs mn)	3,296.4*	6,125.0*	5,696.8**
PAR_{60}	0.01%	0.07%	0.13%
Yield on Portfolio (YoP)	29.38%	29.47%	28.15%
Operating Self-Sufficiency (OSS)	119.67%	148.85%	147.48%
Return on Assets (RoA)	0.61%	3.83%	4.40%

*Disbursement during the full year
**Disbursement during the half year.

Equity Structure (March 2010)	
Shareholder	**% stake in the company**
Promoters	4.77
Individual investors	10.73
Bodies corporate – India	4.36
Bodies corporate – foreign	73.94
Financial institutions	4.85
Employees and Ex-employees	1.35
Total	**100.00**

Profile of the Board of Directors	
Name	**Profile**
M Rangachary	Non Executive Director and chairman
M Anandan	Non Executive Director
Gary Ng Jit Meng	Non Executive and Nominee, Lumen Investment Holdings Ltd
Namgial	Independent, Non-Executive and SIDBI Nominee
VP Nadkumar	Non Executive Director
Paolo Brichetti	Non Executive Director and Nominee MVA ventures Ltd Mumbai
PB Sampath	Independent and Non Executive Director
V Shankar	Independent and Non Executive Director
Vishwanatha Prasada Subbaraman	Non-Executive and Nominee, Caspian Funds
PN Vasudevan	Managing Director

Section 2: Observations

2.1 Client Origination and Targeting (COT) Observed score 90%

Equitas' score on COT is high on account of its strong systems to ensure identity of clients, commitments towards not involving unauthorsied agents in the client origination process and its focus on avoiding clients who have taken loan from three or more MFIs.

Client origination in Equitas is primarily the responsibility of the Sales Officers (SOs). During client mobilization meetings, they inform potential clients about the products and processes of Equitas and invite them to form groups and join its microfinance programme. The terms and conditions of membership including the interest rates, other charges and the concept of joint liability are explained clearly to the clients during mobilization meetings. These are further reinforced during the Compulsory Group Training (CGT). The following measures are taken to ensure identity of the clients.

- Photograph and proofs of identity and address are collected from all the applicants. In order to check whether client or someone from her household already has a loan from Equitas, de-duplication process is carried out with the help of the Ration Card number of the applicant
- Sales Officers visit houses of all clients prior to enrolment. Branch Manager visits houses of about 20% of the clients.
- Clients are required to visit the branch offices for Group Recognition Test (GRT) as well as disbursement of loans.
- Field risk audit team conducts house visits for at least 10% of the clients after disbursement of loans. In addition, about 10% of the clients are contacted over phone after disbursement of loans.

Equitas has adopted MFIN's code of conduct where it has committed to ensure that

- MFIN will not be the fourth lender to a client and
- Total exposure of the client will not be more than Rs50,000.

This is clearly communicated to the clients at the time of group mobilisation itself and information pertaining to indebtedness of clients is obtained in the loan forms of the clients (for new loans as well as for renewal of loans). Verification by the Field Risk Audit team and tele-verification specifically check the existing indebtedness of the clients. Additionally, from February 2011, the organisation plans to use the services of a Credit Bureau to check indebtedness of the clients.

Staff have been trained on how to apply this aspect of the code of conduct and there are checks as well as sanctions to ensure that the code is being followed. Further, from November 2010, the organisation has done away with sales targets as well as the direct monetary incentives for enrolment of clients for its Sales Officers to reduce the likelihood of the Sales Officers misrepresenting indebtedness of clients. Sales Officers typically, avoid localities where more than 3-4 MFIs are operating. In localities, where other MFIs have started operations after Equitas, specific recommendations on the indebtedness and repayment capacity of the clients is provided by the Relationship Officers (ROs) of Equitas before renewal of loans.

In the past, Equitas has faced problems pertaining to involvement of unauthorised agents in the client origination process, particularly in some of the branches of Chennai, primarily on account of high sales targets of the SOs and weaker controls. The organisation has taken several steps to control this problem. Some of these are

- All employees of the organisation have been trained on the importance of not involving unauthorised personnel in operations. This has been incorporated in the product and process notes.
- Potential clients are told during the mobilization meetings and CGT that they should not entertain anyone who claims to represent Equitas without verifying their credentials. They are also told that they should not pay any unauthorised sums to anyone for obtaining loans. Formal written undertaking is obtained from the clients that they have not made any unauthorised payments to anyone including the center leaders.
- Field Risk Audit and tele-verification functions were established to specifically check if any unauthorised personnel have been involved in client origination.
- From November 2010, the organisation has done away with targets and related incentives for enrolment of new clients in order to reduce the likelihood of the SOs getting involved with the unauthorised agents.

The management now feels that due to these measures it has been able to overcome the problems related to unauthorised agents even in the areas where the problem was quite acute. In M2i's opinion, despite all sincere efforts, some of these agents may still be in existence (though their influence may now be low) as shown in **caselet 1**.

Caselet 1, Dhanaxmi Nagar, Chennai

This case pertains to the Dhanalxmi-1, 2 and 3 centers of Arumbakkam branch in Chennai district of Tamil Nadu. Regular center meetings of this group is held at the place of a person (male) who operates a milk distribution agency apparently on behalf of some of the centers of Equitas who have got together as an informal Self-Help Group. At this place, meetings of one of the groups of L&T Microfinance also takes place and the center leader of one of Dhanalxmi-1 group is also the leader of L&T's groups. The operator of the milk distribution agency and the center leader have been instrumental in organising some of the groups of Equitas and L&T. Although they insist that they received no monetary compensation for doing this, they may influence the behaviour of the clients in the future.

Approval (A)	Documentation (D)	Dissemination (D)	Observance (O)
Equitas has approved of principles of ethically originating clients. This includes ensuring identity of clients before disbursement of loans through appropriate documentary evidences and physical verification and non-involvement of unauthorised agents in the client origination process.	Various product and process notes clearly specify the client origination process.	Equitas has a strong system of dissemination of its approved policies through training and formal certification.	All staff members (interacted with by the assessment team) had access to the latest product and process notes and were found to be aware of the guidelines for client origination. In some areas in Chennai, however, unauthorised agents may still be involved although their influence may be limited.

2.2 Loan Pricing (LP) Observed score 91%

The Score on Loan Pricing is high on account of the practice of charging and communicating to clients an all inclusive reducing balance interest rate on the loan products.

Equitas has publicly stated its commitment for pricing its loans responsibly. The organisation believes that initial losses and the cost of expansion should be borne by the investors rather than the initial customers. According to the management, when the organisation started operations in 2008, it determined that once it reaches a reasonable scale of operations, its Operating Expenses will be close to 7.5% of the average loans outstanding. Loan prices were determined by adding the cost of funds (12-13%), cost of loan losses (2%) and a reasonable margin of profit (3-4%).

As per the policy, Equitas targets a Return on Equity of 20-22% and will adjust its interest rates on loans if Return on Equity exceeds 25%.

Currently Equitas charges interest of 26.0% per annum on the loans it provides. In the past, interest rates have varied from 26% to 29% per annum.

Equitas accounts for interest on its loans on a reducing balance basis. It maintains high transparency in the interest rates charged to its clients. The organisation communicates an all inclusive interest rate on the loan to the borrowers in written as well as verbal communication. There are no processing fees or upfront deposits except charges for the insurance. As a result there is no significant difference between the Internal Rate on Return (IRR) on the loans and the Effective Interest Rate (EIR).

A 0.35% per annum on the loan amount is charged for providing life insurance cover equivalent to the loan amount to the client. In the event of death of the client during the term of the loan, outstanding loan amount is waived off and the amount already paid by the client is refunded to the nominees.

Equitas does not collect any security or upfront deposit on the loans.

Equitas does not charge any penalty for delays in repayment of installments. Interest cease to be charged on the loan accounts in case it is past its loan term. Therefore, total amount to be paid by the clients does not exceed what has been communicated to them at the time of the disbursement even when the loan becomes overdue.

In case a client wants to prepay her loan, she is required to pay the outstanding principal as reflected in her loan account. In addition, there is prepayment penalty of 2% in case the loan is prepaid before completion of one year of the term and 1% in case it is paid after one year. The organization, however, does not encourage pre-payments.

Approval (A)	Documentation (D)	Dissemination (D)	Observance (O)
The Board of Equitas has approved of principles of pricing loans in a responsible manner.	Interest rate and method of charging have been mentioned clearly in all the product and process notes of the organisation.	Interest rates and all other charges on the loans are mentioned clearly on the loan passbooks provided to the clients. They are also told about this during the CGT conducted by the ROs.	Level of awareness of the clients about the effective interest rates and method of application was found to be low. However, almost all the clients are aware of the installments size, duration and the various charges on the loans.

2.3 Loan Appraisal (LA) — Observed score 78%

The score on Loan Appraisal can improve if the appraisal criteria on the eligibility of loans includes expenses as well as indebtedness of the clients and stronger controls are introduced to ensure that the appraisal criteria are being adhered to.

Loan appraisal is primarily the responsibility of the Branch Managers. The organisation collects information related to income, expenses and indebtedness at the time of enrolment of the clients. As per the policy, total Equal Fortnightly Installment burden of the client cannot be more than 10% of the monthly income of the household. While this is a reasonable criteria, one of the weaknesses of this system is that the practical application of this criteria is left to the Branch Manager. There is no check either by the software system or the Field Risk Audit that this criteria has been applied correctly. Also, the membership form contains details of the income of the family members but not of the clients themselves so the income related information captured in the membership form is incomplete. The assessment team of M2i came across two loan forms (out of about 100 form verified) where the income of family members was mentioned as 'zero'.

Given, however, that currently the EFIs are low (close to Rs250 for first cycle loans and Rs550 for the second cycle loans), and the organisation works primarily in the urban and semi-urban areas (where income levels are relatively higher) the probability of this criteria being violated is low. Further, overall check on the indebtedness levels of the clients (not more than 3 MFIs and loan of Rs50,000) ensures that the clients are not indebted beyond their capacity to repay.

Approval (A)	Documentation (D)	Dissemination (D)	Observance (O)
Equitas' policy requires that adequate loan appraisal be performed before disbursing a loan.	The guidelines for appraising a loan application is clearly presented in the product and process notes. Information pertaining to income, expenses and indebtedness of clients households is obtained at the time of loan application.	The branch staffs were found to be well aware of the loan appraisal criteria. They had access to manuals and circulars which clearly presented these criteria.	Application of income criteria at the time of loan appraisal is left to the Branch Manager. There is no check either by the software system or the Field Risk Audit on whether this has been applied correctly.

2.4 Client Data Security (CDS) — Observed score 100%

Equitas's score on CDS is high on account of its system to ensure privacy of client's data.

Equitas has a well-defined system of storage and retrieval of documents and information collected from the clients. These are processed in the Central Processing Center of Equitas in Chennai. The soft copies of the documents are stored in the software and the hard copies are stored in the document warehouse located in Chennai. The software system has also been audited regularly to makes sure that there are no loopholes in the security system of the software. Branch staff do not have access to client data except what is necessary to generate collection sheets. Branch staff do not have even the addresses of the clients.

Approval (A)	Documentation (D)	Dissemination (D)	Observance (O)
Equitas's policy requires that the information received from the clients is stored properly and unauthorised access is prohibited.	Various products and process manuals provide adequate guidelines regarding documents and information collected from the clients.	Staff are trained on the approved policies through training and dissemination.	Branch staff do not have access to client's data except what is required for their day-to-day operations.

2.5 Staff conduct Observed score100%

The score on staff conduct is high on account of systems to ensure professional conduct of staff members in all situations.

Equitas provides adequate emphasis on the conduct of its staff members towards the clients. The following are the important aspects of the expected behaviour of staff towards the clients.

1. Staff should always behave politely with the clients and their family members. In no situation they should talk in a loud voice or show their anger.
2. Staff should always address clients and female members in the family as "Madam" or *"amma"* (mother) and should never address them by their first name. They should address male members in the family as "Sir".
3. Staff should not say anything to the clients which is not directly related to their work pertaining to the concerned center or the clients.
4. Staff should not visit clients on Sundays. They should not visit them after 6.00 pm in the evening.
5. Staff should never enter the house of the clients (except when the center meeting itself is conducted in the house of the clients). This rule is to be followed even when staff is conducting door-to-door collections with the approval of the Senior Management.
6. When on duty, staff should always be dressed formally.
7. Staff should not accept any gifts or eatables from the clients.
8. Staff should always come for the center meetings or other purposes at the appointed time and place.

One of the important aspects of staff's induction training is conduct towards clients. There is a formal process of certification for the field staff which involves trainings and examinations. Unless a staff is certified he is not allowed to interact with the clients. We found that the above mentioned rules of staff conduct were known to all the staff members interviewed and they were found to adhere to these in all the situations.

<u>Policies and procedures of recovery of loan installments</u>

All the clients are required to meet every fortnight for the purpose of repayment of their Equal Fortnightly installments (EFIs). These meetings are also attended by the designated Relationship Officers (RO) of the company. The ROs carry collection sheets (which specify how much is to be collected from each member in the center) and pre-printed receipts for each client. The center leader collects the installments from the clients and hands over the amount collected along with the loan passbook to the RO. The RO, after ensuring that the amount is correct, pastes the pre-printed stickers on the client's passbook.

In case one or more members of the group are unable to pay the installment, other members of the group are asked to contribute on their behalf, reminding them of the group liability. In case the amount does not come till the end of the meeting, the RO disperses the meeting and proceeds to the next meeting. He informs his Branch Manager about the issue and takes an appointment with the center leader as to when should he come next for collection of overdue installments **(See case lets 2 and 3).** The RO or other staffs never visit the house of the delinquent client.

An important aspect of the recovery procedure is that although there is high degree of emphasis on timely recovery and application of peer pressure, this does not always mean that all the scheduled installments should come on the same day. In case, one or more clients of the group are not able to repay during the scheduled group meeting, the RO proceeds to his next meeting and comes back for the follow-up at the scheduled time and place. There are often instances where the amount is recovered with a delay of 5-10 days. From November 2010, the organisation has done away with the incentive for collections at the branches and therefore now there is no monetary penalty in case collections are not 100%.

The organisation is careful in application of joint liability and 'peer pressure' and is aware that its indiscriminate application may lead to undue stress for clients and their alienation. **(See caselet 4)** Equitas classifies problems in repayment as short-term or long-term.

<u>Short-term issue</u>: Any issue which results in a member temporarily unable to service her installment for a month or less (two installments) is considered a short-term issue. However, if such temporary reasons impacts more than 5 members in the center, it will be treated as a long-term issue.

In case of a short-term issue, other members in the center are encouraged to repay on behalf of the delinquent member in accordance with the concept of joint liability.

<u>Long term issue:</u> Any problem due to which a member is unable to service her installments for more than a month, or which impacts more than 5 members in the center will be treated as a long-term issue. In case of long-term issue the loan is taken up either for restructuring or complete or partial waiver depending on the merit of the case.

Caselet 2: MGR street-1, Guduvanchery branch, Kanchipuram This group is in its first cycle loan but is facing repayment issues since April 2010. There are 24 members in the group but 5-6 members are facing problems in repaying regular fortnightly installments. The assessment team visited this center on 16 December 2010. During the meeting regular installments from five clients could not be collected. The group members refused to pay on behalf of the delinquent clients and the Center Leader promised that she would try to collect installments from the delinquent clients in 4-5 days and inform the RO when she is able to collect the installments. The loan officer collected the regular installments, informed his Branch Manager, and went for his next meeting. On enquiry it was revealed that sometimes, the center leaders contributes on behalf of the delinquent members and collects the installments from them later.
Caselet 3: MGR street-2, Guduvanchery branch, Kanchipuram. This center has not been facing any problem in repayments. The assessment team visited this center during its scheduled center meeting. 11 out of 24 members of the center, including the center leader, were absent from the meeting. The Center Leader had also collected the installments from 5 members but could not come for the meeting as, unexpectedly; she had to go to hospital early in the morning on the day of the meeting. The group members told the loan officer that they would inform him when the Center Leader is back from the hospital. The loan officer collected installments for the remaining clients and went for his next meeting. He did not insist on the present group member contributing on behalf of the clients

for whom amount could not be collected.
Caselet 4: Ranga Street, Tambram branch, Kanchipuram One of the clients of this center has not been paying her installment on account of temporary migration since May 2010. Other group members have not been repaying on behalf of the clients but have been paying their own installments. The group members have been offered to avail of the migration policy of the company (where they have to pay only 50% of the remaining principal outstanding) but he group members insist that they are in touch with the delinquent client and that she could come back to settle her loan. The group meetings continue to be conducted as usual and the loan officer does not insist on other clients repaying on behalf of the delinquent clients.

Approval (A)	Documentation (D)	Dissemination (D)	Observance (O)
Various policies of the organisation provide adequate directions for staff conduct with clients. Clear directions are there on how to deal with situations where one or more client are facing problems in repayment of installments.	These rules are mentioned in various product and process notes and staff rules.	Equitas has an effective system of training and certification for dissemination of these guidelines.	All staff were found to be aware of the rules of staff conduct. Behaviour of staff towards clients was found to be professional in all situations encountered.

2.6 Client Relationship and Feedback (CRF) — Observed score73%

Equitas' score on Client Relationship and Feedback can improve if independent checks are introduced to ensure that the all client complaints are being resolved in a timely manner.

Phone numbers of the RO, and the BM is mentioned in the meeting register of the center. Apart from this, the phone number of the Head Office is also mentioned in the passbook provided to the clients. In the Head Office, there is a dedicated person to receive clients complaints who maintains a formal register of complaints. Once the complaint is received, it is forwarded to the operations department who in turn forwards it to the concerned Area Manager. The Area Manager ensures and reports that the complaint is resolved to the satisfaction of the client or as per the policies.

Clients have been informed of this mechanism and most of them were found to be aware of this.

The organisation is now in the process of communicating a Toll-free helpline number to all its clients. It is envisaged that now all client's complaints will be received by the Field Risk Audit department which will ensure follow-up and reporting.

Apart from this, the call center under the Field Risk Audit department makes calls to over 10% of the clients to obtain feedback from the clients on the processes followed by the organisation.

Equitas has undertaken several other initiatives to improve its relationship with the clients. Some of these are mentioned below.

- All the branches are sanctioned a budget of Rs2,000 per month to undertake some development activities for the clients like organising health camps or training camps.
- Equitas, through the Equitas Development Initiative Trust runs several schools and after school-tuition centers for children of its clients where education at subsidised rates is provided.
- The organisation, through Equitas Dhanya Kosha (a Section 25 Company), runs several small departmental stores from where clients can purchase food items of daily use at lower than market prices.

Approval (A)	Documentation (D)	Dissemination (D)	Observance (O)
The policy provides adequate and appropriate directions for addressing complaints from clients and maintaining sound relationships with them.	Product and process manuals provide detailed guidelines regarding collection of feedback and actions to be taken upon them.	Phone numbers of the centralised helpline is printed on the loan cards provided to the clients. They are also informed of the grievance redressal mechanism during the trainings.	All the clients were found to be aware of Equitas's branch officer address as well as the helpline number.

2.7 Opinion of important stakeholders

Discussions with the Equitas' lenders revealed that they had a favorable opinion of the it's field practices and client relationships. Equitas also enjoys a healthy reputation among its peer for its operational practices. It has played an important role in establishing MFIN – the network of NBFC MFIs in India. The MD of the organization is also involved actively in activities of MFIN and he has played a key role in setting up a credit bureau for MFIs in India.

Annexure 1: Matrix of Score Obtained

Indicators	A		Do		Ds		O		Total	
	Max	Obt	Max	Obt	Max	Obt	Max	Obt	Max	Obt
Client origination and targeting	5	4.5	5	4.5	5	5.0	9	7.6	**24**	**21.6**
Loan Pricing	3	3.0	1	1.0	2	2.0	9	7.6	**15**	**13.6**
Loan Appraisal	4	3.5	4	2.0	3	3.0	5	3.9	**16**	**12.4**
Client Data Security	1	1.0	3	3.0	2	2.0	2	2.0	**8**	**8.0**
Staff Conduct	7	7.0	7	7.0	10	10.0	11	11.0	**35**	**35.0**
Client Relationship and Feedback	2	2.0	8	4.0	6	5.0	10	8.0	**26**	**19.0**
Total	**22**	**21.0**	**28**	**21.5**	**28**	**27.0**	**46**	**40.2**	**124**	**109.7**

A= Approval, Do=Documentation, Ds=Dissemination, O=Observance, Max = Maximum, Obt = Obtained score

Annexure 2: List of Branches Visited

This tool requires scores to be assigned on the six Code of conduct dimensions – Client Origination, Loan Pricing, Loan Appraisal, Client Data Security, Staff Conduct and Client Relationship and Feedback, across the four parameters – **Approval, Documentation, Dissemination and Observance.** The assessment requires visits to the MFI's head-office as well as branch offices. The visit is spread over a period of four to six days. The first day is spent at the head office. The assessment team visits the branches on days 2 to 6.

This assessment includes:

1. Discussions with key staff members and the senior management at the head office, particularly the senior operational management team as well as the human resources team. These discussions focus on key issues of the code of conduct identified above.
2. Review of policy documents and manuals at the head office. These are reviewed in order to assess the policy as well as documentation regarding important aspects of the code of conduct.
3. Sampling of branches at the head office. The assessment team samples between three to fifteen branches, depending on the size of the MFI for review. The branches are chosen in across different states in case the MFI operates in more than one state. Care is exercised to include older branches as well as branches that are distant from the head office or the regional office. The sampling of the branches is performed at the head office of the MFI.
4. Discussions with the branch staff at the branch office. Discussions with branch managers and the field staff is carried out to assess their understanding of the key code of conduct principles.
5. Sampling of respondents in the selected branches. A judgmental sampling is performed on the MFI's clients by the assessment team to draw respondents from the interest group. Around 100 to 150 clients are selected for interviews. Of these around, 30 respondents are those that have been having problems in attending meetings or making repayments. The remaining respondents are chosen to reflect different locations within the MFI's branch.
6. Interview with the clients. Information from the clients is collected ideally during the group meetings. If this is not possible, visits are made to the clients' locations for collecting information.
7. Review of loan files at the branch office. This review focuses on loan appraisal performed before disbursing loans as well as the documents collected from the clients.

As part of the assessment, we visited 8 branches of Equitas in two states. The details of the branches visited are provided below.

Sr No	Branch	District	State	No of clients interviewed
1	Ashok Nagar	Chennai	Tamil Nadu	38
2	T Nagar	Chennai	Tamil Nadu	05
3	Arumbakkam	Chennai	Tamil Nadu	15
4	Chengalpattu	Kanchipuram	Tamil Nadu	0

5	Tambaram	Kanchipuram	Tamil Nadu	12
6	Guduvanchery	Kanchipuram	Tamil Nadu	25
7	Safire	Jaipur	Rajasthan	34
8	Adarshnagar	Jaipur	Rajasthan	26
Total				**155**

Annexure 3: Code of Conduct Assessment – Framework

Code of conduct dimensions

- Client origination and targeting: Client origination is central to ethical microfinance operations. The code of conduct requires MFIs to practice ethical client origination which results in greater access to financial services. Also, an MFI's commitment to target the low income clients demonstrates its social mission. The way an MFI identifies its clientele and goes about growing a clientele must be approved by the board, which should also see to it that there is adequate attempt by the MFI to ensure that its product and services reach the appropriate clientele.
- Loan pricing: The scientific determination of loan price (interest rates) reflects well on the MFI's management and it also shows how effective the MFI is in providing loans to the clients at the least possible cost. The way its loan products are priced should be approved by the board. Ideally the board members should be aware of the cost of the loan products to the clients.
- Loan appraisal: The lending to a client should be in accordance to her repayment capacity or else she may get over-indebted and her economic situation may deteriorate. The loan appraisal should take into account the repayment capacity of the clients given the loan sizes and the duration of the loan. These are important client protection principles.
- Client data security: The privacy of sensitive data of individual clients regarding their demographic details should be adequately secured so that it is not used by unauthorized parties to cause stress to the clients. For this purpose, MFIs need to define explicitly access rights to all the demographic data pertaining to clients sex, race, age, income, disabilities, mobility (in terms of travel time to work or number of vehicles available), educational attainment, home ownership, employment status, and location.
- Staff conduct: All the staff members of an MFI should treat its clients with respect and dignity. The two important aspects of staff behavior are:
  1. Communication with clients – There should be guidelines for staff to deal with specific situations involving their interface with the clients such as group meetings, loan disbursements and collections. These should ensure that customers with low levels of financial literacy understand the product, the terms of the contract, and their rights and responsibilities. Clients should also be aware of the debt recovery practices of the MFI. They should be aware of what to expect in case there is a delayed payment or a default. Clients should be encouraged to ask questions regarding the product and policies. Also, the staff should ensure that arrive for meeting in time.
  2. Loan collection and recovery process - MFIs should evolve collection practices that require all clients to be treated with dignity and respect, even when they fail to meet their contractual commitments. The following should be strictly avoided:
     - Abusive language or threats
     - Harassing borrowers at odd hours
     - Forcible entry into dwelling and forced seizure of property without the legal orders

- Relationship management and feedback mechanism: It is important for MFIs to build sustainable and long term relationship with clients. Sound relationship management enhances the quality of the clients' experience with the MFI. It also allows the MFI to better understand clients' needs and grievances. MFIs need to have formal mechanisms to get feedback and complaints from the clients. Customer complaints need to be taken seriously, investigated and resolved in a timely manner. The responsibilities relating to receiving client grievance and feedback and acting upon them need to be clearly identified and allocated.

Compliance

In order to fully integrate operations with the principles presented above, MFIs need to adopt a comprehensive approach involving the board, the management as well as other staff members and clients. This tool measures the adherence to these principles on four parameters:

1. Approval at the policy level from the board
2. Documentation of the guidelines and procedures that emerge from the policy
3. Dissemination of the guidelines and procedures across the organization
4. Observance in practice of these guidelines and procedures.

Weights

The following matrix presents the weights given to the various dimensions and parameters in the tool.

Weight Matrix	Approval	Documentation	Dissemination	Observance	**Totals**
Client Origination	4%	4%	4%	7%	**19%**
Loan Pricing	2%	1%	2%	7%	**12%**
Loan Appraisal	3%	3%	2%	4%	**13%**
Client Data Security	1%	2%	2%	2%	**6%**
Staff Conduct	6%	6%	8%	9%	**28%**
Client Relationship and Feedback	2%	6%	5%	8%	**21%**
Totals	**18%**	**23%**	**23%**	**37%**	**100%**