

**CODE OF CONDUCT  
ASSESSMENT  
FOR  
LUPIN HUMAN WELFARE AND  
RESEARCH FOUNDATION  
(LHWRF)**



## EXECUTIVE SUMMARY

The Code of Conduct report for LUPIN HUMAN WELFARE AND RESEARCH FOUNDATION (LHWRF) evaluates the company's adherence to various code of conduct parameters. The study examines and comments upon the common minimum indicators such as:

- Client Origination & Targeting
- Loan Pricing & Transparency
- Loan Appraisal
- Privacy of Client Information
- Staff Behaviour & Client Grievance Handling
- Integrating Social Values Into Operations
- Relationship Management and Feedback Mechanism
- Compliance Status of MFI vis-à-vis the Recent RBI Guidelines

SMERA believes that LHWRF exhibits an above average level of adherence to all parameters and consequently complies well with the code of conduct laid out. This document details SMERA's approach and methodology for this study and gives observations of its assessment team while conducting the evaluation. The Approval; Documentation; Dissemination and Observance (ADDO) framework has been used for assessment and measuring Lupin Foundation's adherence towards ethical operational practices.

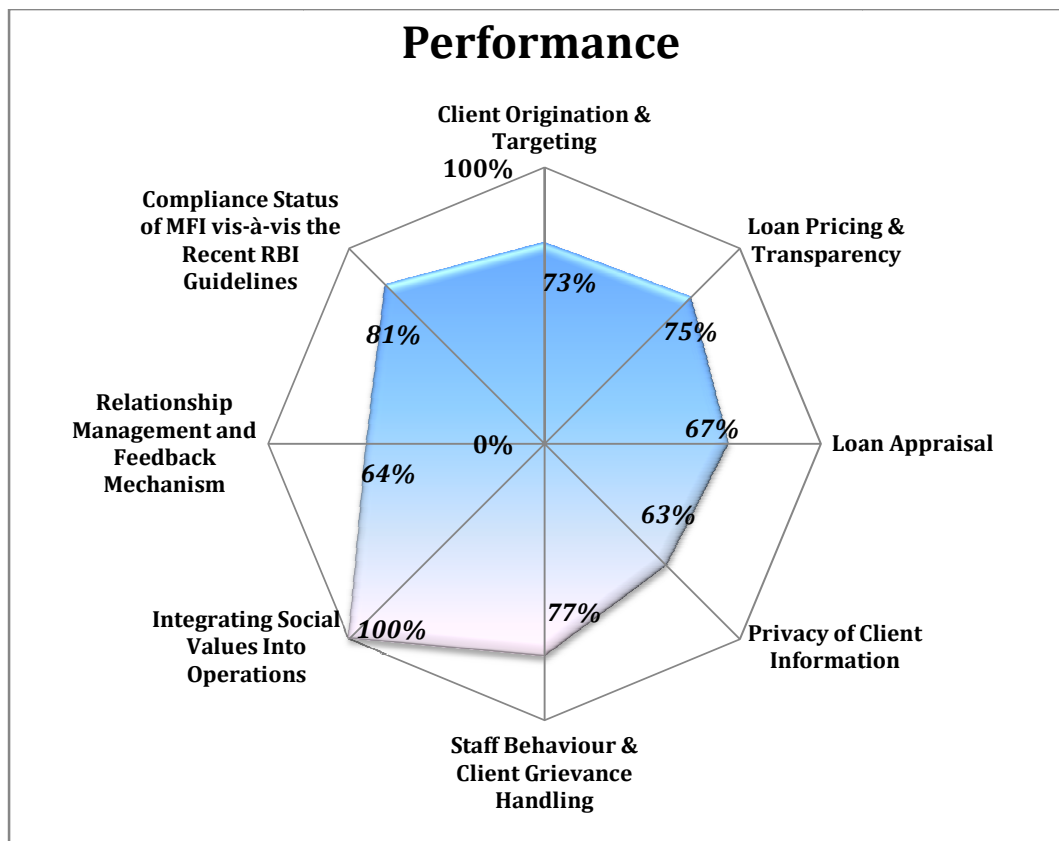
## RATING

Code of Conduct Assessment Score : 74%, COCA Rating - COCA 3 (Above Average Level of Adherence)

## RATING SCALE

Rating	Rating Definition
COCA 1	Very High Level of Adherence
COCA 2	High Level of Adherence
COCA 3	Above Average Level of Adherence
COCA 4	Average Level of Adherence
COCA 5	Below Average Level of Adherence
COCA 6	Low Level of Adherence

## MATRIX



**SCORES ON PARAMETERS**

<b>Code of Conduct Parameters</b>	<b>Obtained</b>	<b>Maximum Score</b>	<b>% Performance</b>
Client Origination & Targeting	16	22	73
Loan Pricing & Transparency	12	16	75
Loan Appraisal	12	18	67
Privacy of Client Information	5	8	63
Staff Behaviour & Client Grievance Handling	27	35	77
Integrating Social Values Into Operations	10	10	100
Relationship Management and Feedback Mechanism	18	28	64
Compliance Status of MFI vis-à-vis the Recent RBI Guidelines	26	32	81

**SNAPSHOT**

<b>D&amp;B D-U-N-S® Number</b>	91-517-1870
<b>MFI Name</b>	LUPIN HUMAN WELFARE AND RESEARCH FOUNDATION (LHWRF)
<b>Tradesytle</b>	LUPIN FOUNDATION
<b>Head Office Address</b>	160, Krishna Nagar, Bharatpur - 321 001 Rajasthan India
<b>Telephone</b>	(91) (5644) (223023) (91) (5644) (232437)
<b>Fax</b>	(91) (5644) (224241)
<b>Webpage</b>	<a href="http://www.lupinfoundation.in">www.lupinfoundation.in</a>
<b>Email</b>	<a href="mailto:lupinfoundation@gmail.com">lupinfoundation@gmail.com</a> <a href="mailto:lupinbharatpur@hotmail.com">lupinbharatpur@hotmail.com</a>
<b>Corporate Office Address (Lupin Limited)</b>	Laxmi Tower, B-Wing, 7th Floor, Bandra - Kurla Complex, Bandra (East), Mumbai - 400 051 Maharashtra India
<b>Line of Business</b>	Microfinance services under Self Help Group (SHG) Model, Joint Liability Group (JLG)* Model and Individual Lending
<b>Chief Executive</b>	Mr. Sita Ram Gupta, Executive Director
<b>Legal Form</b>	Trust constituted as Society
<b>Registration Number</b>	Indian Trust Act 180 - 27/2/90 Societies Registration Act 134 - 1990/91 FCRA Registration No. 125460010
<b>Establishment Date</b>	02/Oct/1988
<b>Registration Date (As society)</b>	31/Jan/1991
<b>Commencement of microfinance operations</b>	1995
<b>Total Employees for microfinance operations</b>	30
<b>No. of Branches</b>	20
<b>Geographical Reach</b>	05 States i.e. Rajasthan, Madhya Pradesh, Maharashtra, Uttarakhand and Uttar Pradesh
<b>Visit of the Assessment Team</b>	31 <sup>st</sup> January, 2013 to 02 <sup>nd</sup> February, 2013 and 12 <sup>th</sup> February, 2013.

\* Joint Liability Group (JLG) Model is followed only in Dhule district.

## **BACKGROUND**

Lupin Rural Support Programme (LRSP) was initiated as the corporate social responsibility (CSR) initiative taken by Dr. Desh Bandhu Gupta for rural development at Lupin Ltd\*. Later LRSP was renamed as “LUPIN HUMAN WELFARE AND RESEARCH FOUNDATION” (LHWRF). Today LHWRF operates as independent non government organization registered under the Rajasthan Societies Registration Act, 1958 and Indian Trust Act, established on 02/Oct/1988, with Mr. Devendra Nath Gupta as President, Mr. Sita Ram Gupta as Executive Director and Mr. Meghraj Gupta, Mr. Krishna Kumar Agrawal, Mr. Jagdish Khatri, Mr. Anil Kumar Garg, Mr. Chanrakant Garg and Mr. Vijay Goyal as members. The objective of LHWRF is to provide an alternative model of holistic rural development in the country, which is sustainable, replicable and ever evolving.

LHWRFs’ operations are spread across more than 2,200 villages in India located in five states namely Rajasthan, Madhya Pradesh, Maharashtra, Uttarakhand and Uttar Pradesh. . The microfinance operations started in the year 1995 and spread in Rajasthan, Maharashtra and Madhya Pradesh with the headquarters based at Bharatpur, Rajasthan.

LHWRF is managed by a team of experienced management professionals. Mr. Sita Ram Gupta (Executive Director) holds a Bachelor’s degree in Engineering and has worked with Rajasthan State Electricity Board (RSEB) and has been associated with the LHWRF since inception. Dr. Swati Samvatsar has recently joined LHWRF as a Chief Programme Manager.

LHWRF has adopted the group lending model and individual lending model for carrying out microfinance activities. Group lending model i.e. Self Help Group (SHG) approach wherein 10 to 20 women members come together to form a group and Joint Liability Group (JLG) approach wherein 05 members come together to form a group. Individual loan model is primarily for the entrepreneurs’ for meeting requirements of their micro enterprises. Subject has implemented an innovative model in Rajasthan, named “Lupin Gram Vikas Panchayat (LGVP)” a voluntary committee consisting of president, secretary, treasurer and members representing each section of borrower community.



LHWRF does not come under the purview of regulatory framework applicable to NBFC-MFIs, as it's been registered as a society and a trust under the Rajasthan Societies Registration Act, 1958 and Indian Trust Act, respectively.

\*LUPIN LIMITED is a leading pharmaceutical company in India promoted by Dr. Desh Bandhu Gupta in year 1968. The company is engaged in manufacturing of bulk drugs and formulations. The company has operations in almost 70 countries worldwide.



## **Business Model**

### **Loan Products**

LHWRF follows group lending model and individual lending model. Group lending model i.e. Self Help Group (SHG) approach wherein 10 to 20 women members come together to form a group and Joint Liability Group (JLG) approach wherein 05 members come together to form a group. The loans are provided for new business or expansion and house repair. Loan amount ranges from ₹ 10,000 to ₹ 25,000 to both men and women on interest of 20% p.a. on reducing balance basis (except in Dhule District, Maharashtra where the members get interest subsidy of 5% p.a. on reducing balance basis from Lupin Limited and interest rate of remaining 15% p.a. on reducing balance basis is charged to the members).

### **Insurance Products**

Insurance service is provided by Lupin Human Welfare And Research Foundation (LHWRF) through The Oriental Insurance Company Limited. It provides insurance facility to the clients against accidental death only. Client has to contribute ₹ 60/- p.a. as a premium.

### **OBJECTIVE OF THE STUDY**

The objective is to evaluate LHWRFs' adherence to the code of conduct laid down by Sa-dhan and MFIN,

The broad parameters for assessing the Code of Conduct are as follows

- Client Origination & Targeting
- Loan Pricing & Transparency
- Loan Appraisal
- Privacy of Client Information
- Staff Behaviour & Client Grievance Handling
- Integrating Social Values into Operations
- Relationship Management and Feedback Mechanism
- Compliance Status of MFI vis-à-vis the Recent RBI Guidelines

## **FRAMEWORK AND SCOPE**

The current perception surrounding Indian microfinance paints all entities across the sector in the same shade. However the fact that microfinance organizations display significant variations is important and needs to be adequately brought out. SMERA has always comprehensively and holistically assessed the risks involved in MFI operations and the resultant social impact of MFI operations.

Besides evaluating creditworthiness of MFIs, SMERA also assess trustworthiness, operational excellence, quality of loans of MFIs, socio-economic impact and MFIs emphasis towards ethical behavior and responsible lending.

SMERA has used the following framework for assessment of MFIs - The Approval; Documentation; Dissemination and Observance (ADDO) framework for measuring adherence of MFIs towards ethical operational practices.

As part of the assessment, SMERA visited 08 branches of LHWRF in Rajasthan and Maharashtra. The assessment was conducted as per a specific methodology and questionnaire.

**LIST OF BOARD MEMBERS**

<b>Name</b>	<b>Designation</b>	<b>Qualification</b>	<b>Year of Joining</b>
Mr. Sita Ram Gupta	Executive Director	B.E. (Electrical)	1989
Mr. Devendra Nath Gupta	President	LLB	2003
Mr. MeghRaj Gupta	Member	Post Graduate	1990
Mr. Krishna Kumar Agarwal	Member	Post Graduate	2003
Mr. Jagdish Khatri	Member	Post Graduate	2004
Mr. Anil Kumar Garg	Member	LLB	2006
Mr. Chandra Kant Garg	Member	Post Graduate	2005
Mr. Vijay Goyal	Member	LLB	2006
Dr. Brijmohan Bharadwaj	Member	BHMS	2007
Ms. Salho Hembrom	Principal Project Coordinator	MSW	2006
Mr. Ankur Khandelwal	Member	CA	2009
Ms. Rita Gupta	Member	Ph.D	2006
Mr. Satish Gera	Member	Graduate	2004
Mr. U.S Jurel	Member	BHMS	2007
Ms. Mithlesh Agarwal	Member	Ph.D	2007

### HIGHLIGHT OF OPERATIONS

Particulars	31-Mar-2012	31-Dec-2012
No. of states for Microfinance Operations	3	3
No. of districts covered	16	16
Total No. of employees for microfinance operations	28	30
Number of Active individual Borrowers	4,221	4,534
No. of SHGs formed	3,748	4,042
Portfolio Outstanding (in ₹ thousands)	48,638	55,946

Client origination is central to ethical microfinance operations. The code of conduct requires MFIs to practice ethical client origination while extending access to financial services. Also, an MFI's commitment to targeting low income clients demonstrates its social mission. The way an MFI identifies and grows its client base must be approved by the board. The board should also ensure that the MFI's product and services reach suitable clientele.

LHWRF follows individual lending model for micro enterprise development for youth, SHG model for women in rural and urban areas and JLG model only in Dhule district of Maharashtra for both men & women.. LHWRF also integrates its microfinance operations through a committee of local representative called Lupin Gram Vikas Panchayat (LGVP). The LGVP consists of a president, secretary, treasurer and seven members representing all communities residing in a particular village. LGVP acts as a bridge amongst women SHGs, farmers, youth groups and LHWRF and acts as social collateral.

Eligibility criteria for membership and group formation are: age, household income, availability of know your customer (KYC) documents, members belonging to same locality, majorly lending for income generation purposes only. LHWRF majorly provides (around 80 %) loans to Below Poverty Level (BPL) clients.

The loan application for new beneficiaries is routed through LGVP. The interested members approach LGVP for loan, further LGVP selects the eligible members who fulfill the criteria and recommend for the loan. LGVP checks reputation of the borrower in the particular area, repayment capacity and purpose of availing the loan. LGVP after verification of proof of residence along with other required documents forwards it to credit officer or block coordinator (in LHWRF block coordinator has duties & responsibilities of branch manager). Members of LGVP give personal guarantee for all the loans sanctioned to the borrowers and also play vital role in the recovery process in case of any delay.

In SHG model, Credit officer forms the SHG wherein 10 to 20 women borrowers come together to form a group. After formation of SHG, training of group is conducted & the saving habit of the member for six months is observed. Thereafter either LHWRF provide direct loan or link the group to the bank through bank linkage program.

In Dhule district, cluster coordinator\* (\*designation is same as credit officer) is responsible for client origination of JLG.. LHWRF conducts study of the potential new area and conducts survey on the basis of primary and secondary data of area to be entered. The criteria for selecting a new area for lending are: it

should be rural area for low-income groups, population density, proximity to existing operational areas, sources of income, socio-economic and political features, other loan sources, other MFI's in the area, etc.

Cluster coordinator provides information to the members about the organization, product & services, lending methodology, etc. Cluster coordinator forms the JLG wherein 5 borrowers come together to form a group.

Block coordinators are the key persons for microfinance activities and other developmental programs of the LHWRF. They are supported by credit officers and women supervisors.

The following measures / documents are taken to ensure identity of the clients:

- Photograph of a member.
- Proof of address (i.e. Ration Card, Below Poverty Level Card) and Proof of identity (i.e. Voter ID Card, Letter of Identity from Sarpanch) are collected from all the applicants. However as informed by management, loans can also given to the clients who are having only proof of address (*As per example 1*).
- In Dhule district beside above mentioned documents, school leaving certificate & bank statement is also taken from the borrower.
- Personal information form filled by block coordinator / credit officer.

Information regarding annual housing income, personal assets, loans from other sources etc. has been captured in the survey form.

The identification of right target client, household income, and individual income is a challenge for LHWRF. Targeting poor is the approach which LHWRF follows. However, LHWRF depends on self-declaration given by the clients rather than capturing an alternative source such as housing index or asset classification.

LHWRF also takes self-declaration from the members for the loans availed from different MFIs / sources; however in some of the personal information form verified, the details were not provided by the members. *During the interaction with the member; the assessment team has observed that few of the members were availing loans from other sources (As per example 2)*. Further LHWRF has not entered into any tie-up with any RBI approved credit bureau for sharing clients' data to check the indebtedness of the members.

Staffs have been trained on client originating & targeting aspects. LHWRF does not provide any incentive to the block coordinator/ credit officer.

*Example 1 – While going through loan file of borrowers of Kamaa branch, it was observed that one of the borrowers Mr. Tekchand Sharma has submitted ration card only. However proof of identity (i.e. Voter ID Card, Letter of Identity from Sarpanch) was not available in the loan file.*

*Example 2 - Mr. Bimlesh Shrichand member of - Kumher branch.*

*The borrower was availing loan of ₹ 25,000 from LHWRF for purchasing of sound system machine. Borrower has not paid last few installments and is not available at workplace most of the time. While discussion with the father of the borrower, assessment team came to know that he was already availing a loan from Basix Microfinance. At the time of disbarment the credit officer of LHWRF was not aware of this loan availed from other source by the member.*

Approval	Documentation	Dissemination	Observance
<ul style="list-style-type: none"> <li>LHWRF has approved principles of ethically originating clients. This includes ensuring identity of clients before application of loans through appropriate documentary evidences.</li> <li>LHWRF has appointed LGVP as an intermediary between borrowers &amp; LHWRF for client selection &amp; origination. Members of LGVP give personal guarantee for all the loans sanctioned to the borrowers.</li> </ul>	<ul style="list-style-type: none"> <li>Manuals and process notes clearly specify the directions for obtaining KYC documents from client. The procedure for client origination is clearly laid out.</li> </ul>	<ul style="list-style-type: none"> <li>LHWRF has a moderate system of dissemination of its approved policies through training.</li> </ul>	<ul style="list-style-type: none"> <li>Interviewed Staff members were aware of the client origination process and products.</li> <li>It is observed that in some cases only address proof (i.e. Ration Card or BPL Card) has been collected as a KYC document.</li> <li>In some of the personal information form verified, the details regarding loans availed from different MFIs / sources were not filled by the members.</li> <li>LGVP is liable to pay in case of default, however same was not observed during the visit.</li> </ul>

Client Origination & Targeting	16	22
Approval	3	4
Documentation	3	3
Dissemination	4	5
Observance	6	10



## LOAN PRICING & TRANSPARENCY

Score - 75 %

The transparency observed by the MFI in terms of pricing of loans is examined in detail. The pricing of loans covers interest rate, loan processing charges, additional charges taken if any, security deposits or advance installments, etc. Considering these costs while pricing the loans, may change the effective interest rate charged to the clients. 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.

SMERA covers transparency by assessing honesty, communication, and accountability of the practices of MFI through sub parameters such as frequency of training given to clients, disclosure of terms and conditions of MFI, measuring awareness of the terms and conditions through client visit, language used in the disclosure and surprise visit conducted by the MFI staff.

LHWRF charges interest of 20.0% per annum on a reducing balance basis (except in Dhule District, Maharashtra where the members get interest subsidy of 5% p.a. on reducing balance basis from Lupin Limited and interest rate of remaining 15% p.a. on reducing balance basis is charged to the members) along with processing fee of 1% of loan amount. Further borrower has to contribute ₹60/- p.a. as an insurance premium.

LHWRF also gives loan to women borrowers at 16.0% per annum on a reducing balance basis under funding from Rashtriya Mahila Kosh and loans for agriculture & organic farming at 14.0% per annum on a reducing balance basis under funding from NABARD.

LHWRF maintains high transparency in the interest rates charged to its clients. The organisation discloses all terms & conditions of all financial products to the borrowers including interest rate on the loan, insurance premium and processing fees in written as well as verbal communication at the time of disbursement of loan. The details are written on the passbook of the borrower in the regional language.

*The assessment team of SMERA has observed in most of the cases that the borrowers were not aware of interest rate and other fees charged; however they were familiar with the installment amount.*

*During Dhule district branch visit it is observed that details like interest rate, insurance premium and processing fees are not printed on the loan pass book.*

As per LHWRF policy, credit officer should update the loan passbook and issue receipt to the borrower for every installment paid. However, same is not observed in few branches visited (*As per example 3*).

LHWRF loan ranges from ₹ 10,000 to ₹ 25,000. The loan amount mainly depends on community and nature & prosperity of the business. There is no uniformity of loan amount within the group.

In Dhule district, LHWRF charges 10% as a penalty on the overdue amount, if the repayment is delayed for more than 30 days and separate receipt for the same is issued. However in genuine cases penalties get cancelled on approval from higher authorities. However, in Rajasthan and Madhya Pradesh there is no penalty charged on delay of repayment.

Pre payment of loan is allowed in case a group or an individual wants to drop out or close their account. Further in JLGs, an individual can pre close the loan but he/she will be liable for the loan availed by the other members till the end of the tenure. On the event of pre-payment; interest of that month is collected along with the remaining principal amount.

***Example 3** – During the branch visit of Kumher & Kamaa, the assessment team of SMERA has observed receipts were not issued to the borrowers for the collection received and only loan passbook has been updated by the credit officer. As informed by block coordinator / credit officer, receipts are only issued if borrower pays the installment amount in branch office and does not have loan passbook along with him / her. Further in few instances passbook were also not updated properly.*

Approval	Documentation	Dissemination	Observance
<ul style="list-style-type: none"> <li>LHWRF board has approved principles of pricing loans and transparency in a responsible manner.</li> </ul>	<ul style="list-style-type: none"> <li>The loan pricing criteria and method of charging have been clearly documented in the policy manuals of the organization.</li> </ul>	<ul style="list-style-type: none"> <li>Interest rates and all other charges on the loans are mentioned clearly on the loan passbooks provided to the clients. However same are not mentioned on the loan passbook provided to borrowers in Dhule district.</li> <li>Loan repayment receipts are not issued in some of the branches.</li> </ul>	<ul style="list-style-type: none"> <li>Awareness level of the clients about the interest rates and method of application and other charges was observed to be Low. However, many of the clients are aware of the installments amount.</li> <li>It has observed in few branches (i.e. Kumher, Kamaa) receipts are not issued to the borrowers for the collection received; only loan passbook has been updated by the credit officer.</li> <li>Interest rates and all other charges are not mentioned on the loan passbook provided to borrowers in Dhule district.</li> </ul>

Loan Pricing & Transparency	12	16
Approval	3	3
Documentation	1	1
Dissemination	1	2
Observance	7	10

The selection of the right kind of borrower and proper assessment is critical for the success of the MFI. The appraisal processes followed by the MFI, the checks and balances, know your customer (KYC) documents collected by the MFI to verify the genuineness of the borrowers, the process adopted by the MFI to avoid multiple lending / over-indebtedness and requirement of the loan are assessed in detail. The loan appraisal should take into account the repayment capacity of the clients given the loan size and the duration of the loan.

Loan appraisal is primarily the responsibility of the block coordinator. Once the loan application form is received through LGVP, credit officer visits the house of the borrower and fills the survey detail form. The block coordinator randomly conducts field visit to check its ongoing business or house visit to verify the need of borrower before sanctioning the loan amount. During the process, block coordinator / credit officer provides information to the members about the organization, product & services, lending methodology etc. Loan application form and survey sheet is duly signed by guarantors and checked by the block coordinator / credit officer. The block coordinator/ credit officer forward the application with attachment of survey details and KYC documents to the micro finance department. Accounts officer and Senior Programme Coordinator of microfinance department verify the availability of the funds and feasibility of the loan proposals. This is then forwarded to Executive Director for the loan approval. After the approval, the block coordinator / credit officer complete the documentation according to the prescribed format. After completion of documental formalities, loan amount is released from head office to the client through the block coordinator/ credit officer. Loan is disbursed in branch office or in the function arranged for disbursement of loans.

LHWRF has a policy of recording the monthly household income and expenditure of the borrower in the application form and the value of the loan taken from other MFIs based on the information provided by the client. *During the interaction with the member; the assessment team has observed that few of the members were availing loans from other sources; however credit officer was not aware of that the same. (As per example 2).* On the basis of this information block coordinator decides the value of the loan and forwards the application to Head Office.

Once the loans are approved, concerned credit officer intimates members about the sanction of loan, charges to be paid, etc.

LHWRF conduct loan utilization check (LUC) for all the loans. However, LHWRF is not maintaining the same in any documented format. There is a field in the loan passbook to mention the purpose for which

the loan has been taken; *however, it is observed that in few cases purpose of loan is not mentioned or wrongly mentioned in the loan pass book (As per example 4 & 5).*

Loan disbursement usually takes place by way of cash in branch office or in the function arranged at nearby location for disbursement of loans (Except in Dhule district where loans are disbursed in cheques only). LHWRF has made it compulsory that members along with their guarantor should be present at the time of loan disbursements. Block coordinator / credit officer conducts orientation meeting on the day of disbursement to give the information about the loans and insurance services that member are going to avail. LHWRF collects the charges such as processing fees and insurance premium at the time of disbursement and also issues the receipts to each member for the same.

**Example 4 - Mr. Shyam Kishor Gangaram borrower of - Kumher branch.**

*The borrower was availing loan of ₹ 25,000 from LHWRF. It was observed that purpose of loan and date of collection was not filled by credit officer in the loan passbook.*

**Example 5 - Mr. Hasan Mohammad borrower of - Kamaa Branch**

*The borrower was availing 2<sup>nd</sup> cycle loan of ₹20,000 from LHWRF for purchasing of hair cutting equipments and to renovate its existing hair cutting saloon. However, on loan passbook purpose was wrongly mentioned as general store business. Loan was disbursed on 23<sup>rd</sup> May, 2012; since then borrower has paid only first three installments and remaining installments are overdue on account of slowdown in business.*

Approval	Documentation	Dissemination	Observance
<ul style="list-style-type: none"> <li>LHWRF policy requires that adequate loan appraisal should be performed before disbursing a loan and proper examination of the repayment capacity of the borrowers should be undertaken.</li> <li>LHWRF does not have a policy to check multiple lending / indebtedness of the borrower; however they rely on the declaration provided by the member.</li> <li>LHWRF does not have any policy to maintain records regarding loan utilization check.</li> </ul>	<ul style="list-style-type: none"> <li>The guidelines for appraising a loan application are documented in the operational manual. Information pertaining to income, purpose of loan, savings and loan taken from other source is obtained at the time of survey form / loan application.</li> </ul>	<ul style="list-style-type: none"> <li>The branch staffs were found to be moderately aware of how to conduct the loan appraisal as per the guidelines.</li> </ul>	<ul style="list-style-type: none"> <li>All the loan applications verified contained details of household income and expenditure; however the details pertaining to loans from other sources were not efficiently captured in application forms.</li> <li>LHWRF conducts a LUC for all the loans. However, LHWRF is not maintaining the same in any documented format.</li> <li>Loan appraisal mechanism is found to be low on account of significant reliability on field / ground staff as block coordinator does not conduct visit to each applicant for appraisal.</li> </ul>

Loan Appraisal	12	18
Approval	3	5
Documentation	4	4
Dissemination	2	3
Observance	3	6

**PRIVACY OF CLIENT INFORMATION**

**Score - 63 %**

Client confidentiality is an important function of any organization. MFI collects personal information about its clients that is either required or necessary to provide them with financial products or services. The MFI should not disclose or misuse non-public personal information to affiliates or non-affiliated third parties, except as permitted by law or client privacy policy disclosure. For this, SMERA assessed whether MFI maintains physical, electronic and procedural safeguards for the client information.

LHWRF has a moderate system of storage and retrieval of documents and information collected from the clients. There was not any software to maintain the client personal information, however same have been maintained in excel sheet which might be accessible to any employee, hence the amount of privacy found to be low. The files containing documents and members profile are kept at the head office only, however files pertaining to Dhule district is kept in respective branches.

Approval	Documentation	Dissemination	Observance
<ul style="list-style-type: none"> <li>LHWRFs' policy requires that the information received from the clients is stored and maintained properly. However there is no policy to prohibit unauthorised access.</li> </ul>	<ul style="list-style-type: none"> <li>Process manuals provide adequate guidelines on how the client documents and information has to be recorded and files have to be stored.</li> </ul>	<ul style="list-style-type: none"> <li>All the branches visited displayed adequate awareness of data storage processes.</li> </ul>	<ul style="list-style-type: none"> <li>All the files are kept properly in head office or respective branches. Branch staffs have access to entire data of client.</li> <li>The relevant data might be accessible to any employee.</li> </ul>

Client data security	5	8
Approval	0	1
Documentation	1	2
Dissemination	2	2
Observance	2	3

This section evaluates the process of the MFI with respect to staff selection, appraisal and incentive mechanism, staff behavior with clients, effectiveness of the client grievance mechanism.

**Staff Behaviour -**

LHWRF has adopted policies that lay adequate emphasis on the conduct of its staff members towards the clients. The following are the important aspects of the expected behaviour of field staff towards the clients.

1. Staff should remain truthful to the objectives of the organisation and duty towards the members.
2. Staff should not indulge in any criminal activities such as theft, telling lies, fraud, accepting or giving bribe or any other crimes.
3. Staff will not resort to any kind of coercive recovery measures.
4. Staff will not use abusive, threatening language for collection of loan.
5. Staff should behave properly with the staff / members.
6. Staff should not pass any important information about the organisation to any outsider.
7. Staff should not accept any amount in excess of prepayment/collection or borrow any amount from members.
8. Staff should not use the members' installment amounts for personal use or to give the money to anybody else.
9. The EMIs will be collected by Credit officer / block coordinator. If banking facilities are available in the working vicinity then amount will be deposited on the same day of collection. In other circumstances amount will be deposited with HO microfinance in next day from the date of collection. *However, assessment team has observed that process has not been followed in some of the visited branches (As per example 6).*
10. Staff should issue the receipt for the amount received from the members. However same has not observed in few branches (*As per example 3*).

LHWRF has written HR manual related to selection, recruitment, training, evaluating the staff performance and promotions. For recruitment of employee advertisements have been made through local newspapers in accordance with the needs of the organization. All appointments shall be made by Executive Director / Chief Programme Manager.



One of the important aspects of staff's induction training is conduct towards clients. Detailed guidelines have been provided to staff in the policy documents as well as operational manual regarding the way they should interact with the clients. LHWRF does not provide any incentives to the staff.

#### **Loan collection and recovery process -**

MFIs should develop collection practices that require all clients to be treated with dignity and respect, even when they fail to meet their contractual commitments. 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.

Usually credit officer / block coordinator collects the repayment from borrowers. Sometimes even borrowers pay their installments directly into the respective branch. LHWRF issues loan passbooks to each borrower and informs them to keep the respective passbook with themselves. *However in some of the group visited it was observed that the passbooks of the borrowers were kept with any one person of the group.*

Credit officer carries collection sheet which contains the loan installment member-wise generated through system in the Head Office / Branch Office. Credit officer after ensuring that the amount is correct updates the client's passbook and issues the receipt to individual member. *Over-writing was observed in some of the loan passbooks provided to borrowers.*

Members of LGVP give personal guarantee for all the loans sanctioned to the borrowers and also play vital role in the recovery process in case of any delay. LGVP is liable to pay in case of default, however same was not observed during the visit.

An important aspect of the recovery procedure is that although there is high degree of emphasis on timely recovery and application of peer pressure or pressure from LGVP, this does not always mean that all the scheduled installments should come on the same day. In case borrower is unable to pay the installment, credit officer along with LGVP try to convince the borrower for the payment. If still borrower is unable to pay the installment, then credit officer and LGVP continuously takes follow-up for the overdue installment. In JLG model, if 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, credit officer takes an appointment with the borrower(s) as to when should he come next for collection of overdue installments. Even block coordinator and micro finance in-charge also visit the overdue client, if necessary.

*During the discussion with overdue clients, the assessment team came across that behavior of credit officer was cordial with the borrowers during the time of delay as well.*

LHWRF does not have any client grievance cell & training has not been provided to staff regarding client grievance handling and reply mechanism.

*Example 6 - During the visit of Kamaa branch, while going through various registers / files it was observed that installment amount was collected on 23/Dec/2012 but it was deposited in HO on 29/Jan/2013. During that period credit officer kept that money at his home.*

*Further in Deeg branch, assessment team came across that registration fees collected for the loans disbursed in May, 2012, Aug, 2012 & Nov, 2012 was deposited to HO in Jan, 2013.*

*In Roopvas branch it was observed that in May, 2012 loan was disbursed without collecting the processing fees. However, as informed by block coordinator the processing fees amount was collected at the time of 1<sup>st</sup> installment.*

Approval	Documentation	Dissemination	Observance
<ul style="list-style-type: none"> <li>• Various policies of the organization provide adequate directions for staff to treat client with respect and dignity. Clear directions are there on how to deal with situations where one or more clients are facing problems in repayment of installments.</li> <li>• LHWRF does not have any firm policy related to client grievance handling.</li> <li>• LHWRF has the policy to involve LGVP in the recovery process.</li> </ul>	<ul style="list-style-type: none"> <li>• There are detailed guidelines in the policy and operational manuals on the expected conduct of the staff members with the client.</li> </ul>	<ul style="list-style-type: none"> <li>• The entire branch staff members interviewed displayed adequate level of awareness on staff behaviour.</li> <li>• Some of the guidelines have not been followed by the staff members (<i>As per example 7</i>).</li> </ul>	<ul style="list-style-type: none"> <li>• Entire staff was found to be aware of the rules of staff behaviour.</li> <li>• Behaviour of staff towards clients was found to be professional in almost all situations encountered.</li> <li>• Collected cash were not deposited in bank / HO on time in few instances; in few cases it was kept in the house of the branch staff.</li> <li>• In case of any delays; LGVP are involved in the recovery process as they are also the guarantor for the loan.</li> </ul>

<b>Staff Behaviour &amp; Client Grievance Handling</b>	<b>27</b>	<b>35</b>
Approval	6	7
Documentation	6	6
Dissemination	7	10
Observance	8	12

## **INTEGRATING SOCIAL VALUES INTO OPERATIONS**

**Score - 100 %**

Sustainability is an increasingly relevant issue for MFIs; accordingly sustainability management strategies and practices are significant. For example, appropriate environmental and social performance objectives, targets and indicators need to be integrated with quality, cost and other more conventional performance measures. SMERA assess governance, board composition, and area of expertise of the board, how social values are assessed by the management or board and the transparency in financial accounting.

LHWRF maintains a high standard of governance and integrity by inducting persons with good and sound reputation in the industry and understanding of microfinance as members of board of directors or governing body. LHWRF has qualified and professional board having diversified functional expertise. The board members are actively involved in policy making and approvals, fund mobilization, responsible for all decisions at a strategic level, approving business plan, reviewing the performance and other important decisions pertaining to LHWRF. Board also performs functions such as review of financials and discussion on the auditor's report, committee report, etc. The senior management team updates the board regularly on operations and key developments in each department.

LHWRF maintains a high standard of integrity by adopting policies to attain the vision of the organisation to make life easier for the poor. LHWRF provides the financial support to both men (especially youth) and women mainly for income generation purpose to establish a sustainable business and in turn enabling them to reduce their poverty and to attain the social value.

The tenure of the loan provided to the borrower differs according to loan amount and household income to protect the poor client.

Insurance service is also provided to the member of LHWRF through 'The Oriental Insurance Company Limited'. It provides insurance facility to the clients against accidental death.

LHWRF also provides health camps for the villagers, training on income generation activities to men & women. LHWRF provides training to youth on animal husbandry, agricultural activities & bee keeping etc. LHWRF also conducts programs like entrepreneurship development, capacity building etc.

Approval	Documentation	Dissemination	Observance
<ul style="list-style-type: none"> <li>LHWRF has approved principles of integrating social values into operations.</li> </ul>	<ul style="list-style-type: none"> <li>LHWRF maintains integrity by adopting policies or process notes to attain the vision of the organization to reduce the poverty by 2015 &amp; to improve the quality of life of the poor by providing access to financial and support service.</li> </ul>	<ul style="list-style-type: none"> <li>LHWRF has a system of dissemination of its social values.</li> </ul>	<ul style="list-style-type: none"> <li>LHWRF maintains an adequate standard of governance and integrity in operation.</li> <li>Some of the visited borrowers agreed that they have benefited by the social programs provided by LHWRF.</li> </ul>

Integrating social values into operations	10	10
Approval	2	2
Documentation	2	2
Dissemination	2	2
Observance	4	4

## RELATIONSHIP MANAGEMENT AND FEEDBACK MECHANISM

Score - 64 %

MFI's need to build sustainable and long term relationship with clients. Sound relationship management enhances the quality of the clients' experience with the MFI. This allows the MFI to better understand clients' needs and grievances. MFI's need to have formal mechanisms to get feedback and complaints from the clients. Customer complaints should be taken seriously, investigated and resolved in a timely manner. Responsibilities relating to receiving client grievance, feedback and action plans need to be clearly identified and allocated. SMERA evaluates these practices in detail.

LHWRF has a moderate procedure to be responsive to client feedback and does not have a well established dedicated feedback and grievance redressal mechanisms.

For any grievance, client can call on the phone number of the head office, which is printed on the backside of loan pass book. *Clients have been informed of this mechanism during disbursement of the loan; however the clients visited were not found to be aware of this mechanism and the number printed on the backside of loan passbook. Further phone number of the head office or concerned person is not printed on the backside of loan pass book provided to borrowers in Dhule district.* There is no laid out procedure of receiving and responding to complaints of the members. However LHWRF maintains the register for the complaints received and the action taken against it. No complaint was found in complaint register.

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

- Training on leadership, self-development and income generating activities
- Economic, social & infrastructural development
- Capacity building workshops
- Building awareness in Health, Education, Insurance etc.
- Business development services

Approval	Documentation	Dissemination	Observance
<ul style="list-style-type: none"> <li>The policy does not provide adequate and appropriate directions for addressing complaints from clients and feedback mechanism; however the contact numbers of head office are printed on loan passbook and complaint registered has been maintained.</li> </ul>	<ul style="list-style-type: none"> <li>Operational manuals do not provide guidelines regarding collection of feedback from client and actions to be taken upon them. However it is mandatory to have complaint number to be printed on the loan passbook.</li> </ul>	<ul style="list-style-type: none"> <li>Phone numbers of the head office are printed on the loan passbook provided to the clients. However, the same is not printed on the loan passbook provided to Dhule district borrowers.</li> </ul>	<ul style="list-style-type: none"> <li>Clients visited were not aware of the phone numbers of the head office given to resolve their grievances which were printed on loan passbook.</li> <li>Generally clients said that they were overall satisfied with the services of the LHWRP.</li> </ul>

Relationship Management and Feedback Mechanism	18	28
Approval	1	2
Documentation	5	7
Dissemination	3	6
Observance	9	13

**COMPLIANCE STATUS OF MFI VIS-À-VIS THE RECENT RBI GUIDELINES**

**Score - 81 %**

SMERA examines the adherence level of the MFIs with respect to the guidelines issued by RBI. Thus the Code of Conduct exercise involves a comprehensive review of MFIs policies and systems and whether these translate into ethical microfinance practices. However, LHWRF does not fall under the purview of RBI, still they have complied with the most of the terms and conditions of guidelines issued by RBI. Such as -

<u>Conditions as per RBI Guidelines</u>	<u>LHWRFs' Policy</u>	<u>Compliance</u>
Household annual income levels for eligible borrowers in  Rural Areas not exceeding: ₹ 60,000.  Non-Rural Areas not exceeding: ₹ 120,000.	The company obtains the declaration from the borrowers regarding monthly household income and expenditure in loan application form.	During the branch visit, the assessment team has not observed any loan application form having household annual income exceeding prescribed amount.
Loan amount does not exceed ₹ 35,000 in the first cycle and ₹ 50,000 in subsequent cycles.	LHWRF offers loan of ₹ 10,000 to ₹ 25,000 in the first cycle, the loan amount is based on nature of income generating activity.  Maximum loan of ₹ 25,000 is offered to the borrower.	LHWRF meets the criteria.
Total Indebtedness of the borrowers should not exceed to ₹ 50,000	The loan offered by LHWRF ranges between ₹ 10,000 to ₹ 25,000. LHWRF takes a declaration from the client for the amount of indebtedness in the application form.	The assessment team has observed that in few application forms declaration from the client for the amount of indebtedness is not filled.
Tenure of the loan not to be less than 24 months for amounts in excess of ₹ 15,000	The maximum loan size is ₹ 25,000 repayment tenure ranges from 12 to 48 months.	The assessment team has observed that loans in excess of ₹ 15,000 are mostly having tenure of 24 months.  However in Dhule district loans in excess of ₹ 15,000 are mostly having tenure of 18 months.  LHWRF partially meets the criteria.
Repayment frequency should be weekly, fortnightly or monthly at	Repayment of the loan	LHWRF does not meet the criteria prescribed by RBI as it



the choice of the borrower	installments is monthly.	offers only monthly based repayment.
Interest rate should not exceed 26% p.a. on a reducing balance basis	LHWRF charges interest @ 20% p.a. on reducing balance basis (except in Dhule District, Maharashtra where the members get interest subsidy of 5% p.a. on reducing balance basis from Lupin Limited and interest rate of remaining 15% p.a. on reducing balance basis is charged to the members).	LHWRF meets the interest rate criteria.
Loan pricing to include processing fee (not exceeding 1% of the loan amount)	LHWRF is charging processing fee of 1% of the loan amount.	LHWRF meets the processing charges criteria fully.
Collateral free loans	LHWRF does not accept any collateral for extending the credit.	LHWRF meets the collateral free loans criteria fully.
MFIs shall not collect any Security Deposit / Margin from the borrower.	LHWRF does not collect any security deposit / margin from the borrower.	LHWRF meets the criteria fully.
No late payment or prepayment penalties.	LHWRF does not take late payment or prepayment penalties from the clients.  In Dhule LHWRF charges 10% as a penalty on the overdue amount, if it delayed for more than 30 days.	LHWRF partially meet the criteria prescribed by RBI.
Share complete client data with all RBI approved Credit Bureaus, as per the frequency of data submission prescribed by the Credit Bureaus.	Currently LHWRF is not sharing any client data with any RBI approved Credit Bureaus.	LHWRF does not meet the criteria prescribed by RBI. However they are planning to have tie-up with any one of the approved Credit Bureaus.
Minimum 75% of the MFIs portfolio should be given for income generation activities.	Aggregate amount of loan, extended for income generation activity, is not less than 75% of the total loans given by the LHWRF.	Loans are given mainly for income generation and in few cases for house repair.

Note - LHWRF has also received a certificate from chartered accountant for adherence of major guidelines issued by RBI.

Approval	Documentation	Dissemination	Observance
<ul style="list-style-type: none"> <li>The policies framed by board of LHWRF mostly adhere with respect to the guidelines issued by RBI.</li> </ul>	<ul style="list-style-type: none"> <li>Circulars have been issued to follow the RBI guidelines.</li> </ul>	<ul style="list-style-type: none"> <li>Policies were updated / modified on most of the recent guidelines issued by RBI.</li> </ul>	<ul style="list-style-type: none"> <li>Most of the guidelines issued by RBI are adhered by LHWRF.</li> </ul>

Compliance Status of MFI vis-à-vis the Recent RBI Guidelines	26	32
Approval	5	6
Documentation	4	5
Dissemination	7	9
Observance	10	12

## WEIGHTS

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

Weight Matrix	Approval	Documentation	Dissemination	Observance	Total
Client Origination & Targeting	2%	2%	3%	6%	13%
Loan Pricing & Transparency	2%	1%	1%	6%	9%
Loan Appraisal	3%	2%	2%	4%	11%
Privacy of Client Information	1%	1%	1%	2%	5%
Staff Behaviour & Client Grievance Handling	4%	4%	6%	7%	21%
Integrating Social Values Into Operations	1%	1%	1%	2%	6%
Relationship Management and Feedback Mechanism	1%	4%	4%	8%	17%
Compliance Status of MFI vis-à-vis the Recent RBI Guidelines	4%	3%	5%	7%	18%
<b>Total</b>	<b>18%</b>	<b>18%</b>	<b>23%</b>	<b>41%</b>	<b>100%</b>

### LIST OF BRANCHES VISITED

SMERA has used the following framework for assessment of MFIs - The Approval; Documentation; Dissemination and Observance (ADDO) framework for measuring adherence of MFIs towards ethical operational practices. The assessment requires visits to the MFI's head-office as well as branch offices.

This assessment includes:

1. Discussions with key staff members and the senior management at the head office and branch 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 and systems and process of MFI.
2. Review of manuals and policy documents at the head office. These are reviewed in order to assess the policy as well as documentation regarding important aspects.
3. Sampling of branches at the head office. The assessment team selected eight branches as samples, as per the size of the MFI for review. Out of eight branches six are located in Rajasthan and remaining are in Dhule, Maharashtra. Care is exercised to include old & new branches as well as branches that are distant from the regional office and branches with the higher overdue.
4. Discussions with the branch staff at the branch office. Discussions with Block Coordinators and Credit Officer are carried out to assess their understanding of the key code of conduct principles and systems and process.
5. Selection of groups from the sample branches. A judgmental sampling is performed on the MFI's clients by the assessment team to draw respondents from the interest group. Some individual borrowers and groups from each sample branches was selected for interviews. Out of which few respondents are those that have been having problems in attending meetings or making repayments. SMERA has also selected respondents those have defaulted in the past or started repaying on defaulted loans.
6. Interview with the clients. Information from the clients is collected ideally during the group meetings / individually as well as visits are made to the clients' locations for collecting information.
7. Review of loan application and insurance claim settlement files at the branch office. This review focuses on loan appraisal performed before disbursing loans as well as the documents collected from the clients and the process of insurance claim settlement and duration of settlement from the date of death or death certificate received.

As part of the assessment, SMERA visited 08 branches of LHWRF in Rajasthan & Dhule (Maharashtra). The details of the branches visited are provided below.

Sr. No.	Branch Name	Region
1.	Kumher	Rajasthan
2.	Deeg	Rajasthan
3.	Kamaa	Rajasthan
4.	Sewer-A (Bharatpur)	Rajasthan
5.	Sewer-B (Bharatpur)	Rajasthan
6.	Roopwas	Rajasthan
7.	Dhule	Dhule
8.	Sakri	Dhule

## METHODOLOGY

1. Collecting minimum documents from the MFI to understand in detail the scope of operations in terms of areas, products, borrower profile etc.
2. Sample selection of branches (sample may be decided by taking into account the loan outstanding portfolio, recency customer grievances received, different products concentration, location, type of borrowers, PAR, etc.).
3. Visit to head office and understanding the code of conduct, vision and mission statement, policies, procedures and processes of MFI pertaining to loan appraisal, loan pricing, collection mechanism, documentation, re-scheduling & write off, etc.
4. Interacting with CEO/ Managing Director and the core team and seeking relevant information.
5. Detailed review of the processes framed for selection of areas and villages, client orientation, group formation and pricing of loans.
6. Interaction with the groups to find out the extent of transparent disclosures, the MFI has made to them in terms of product & services, pricing, insurance, terms and conditions, overleveraging or multiple borrowings, frauds or corruption / commission kickbacks asked by the officers for sanctioning of loans if any. Unethical behavior of the staff, if any, would be specifically addressed.
7. Interaction with the credit officers on sample basis to assess compliance with policies and obtain their feedback / opinion on the policies and systems with specific focus of customer grievances and feedback mechanisms. The incentive structure for the staff would also be assessed.
8. Prepare detailed report and submit to management for review.
9. Prepare final report and submit to the management.

**Questionnaire for the field visit**

1	Name of the Member
2	How did members came to know about the MFI and who motivated to form the group
3	What Kind of training provided before sanctioning of loan?
4	Does anyone visited the house pre and post disbursement
5	Loan amount taken
6	Amount Applied for (If sanctioned is less - Reason)
7	Interest Rate and any other Charges
8	Any commission paid to anyone for availing loan
9	Purpose of Loan
10	Mode of Repayment
11	Installment amount
12	Aware of pending installments or balance outstanding
13	Any penalty charged
14	What are the KYC documents submitted?
15	Where the disbursement of loan happens and under who's presence?
16	Where collections of loan take place?
17	Any delays / default at present or in past, If Yes, what is the reason?
18	Number of Family members
19	Earning Family Member
20	Occupation of Spouse
21	Monthly Family Income
22	Number of Childers going School
23	Aware about any other MFIs operating in the area
24	Loan from Any other MFIs' / Bank / Moneylender / others
25	If Yes,
26	Name of the MFIs' / Bank / Moneylender / others
27	Amount Taken and Interest Rate
28	Is the group formed by the persons living in nearby vicinity?
29	Knows the house / name of each group member?
30	What are the responsibilities of the group?
31	Attendance of members
32	Saving habit among the group members?
33	Dominant nature of group leader?
34	Familiar with the branch manager / staff?
35	How are the interaction / behaviour of the MFI staff?
36	Process / Awareness of feedback / Complaints mechanism?
37	Have made any complaints in past?
38	Any Request / demand
39	Others if any,

\*\*\*\*\*The End\*\*\*\*\*