

Madura Micro Finance Limited (MMFL)

Code of Conduct Assessment

December 2011

Legal form: NBFC

Head Office: Chennai

Year of incorporation: 2005

Visit dates: 17-22 October 2011

Achievement	%	Grade
Integrity, transparency and strategy	71.2%	$\alpha-$
Compliance to regulations	69.3%	$\beta+$
Client Protection	62.9%	$\beta+$
Client Education & Awareness	68.5%	$\beta+$
Overall COC	66.5%	$\beta+$

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Mission and Philosophy

“We provide microfinance coupled with knowledge and information services that raise human capacity and organizational capability and create open access to markets resulting in more productive loans.”

Values

- Everything we do is for the good of society
- Don't make the poor pay for inefficiency
- Finding a solution begins with understanding a problem
- Continuous lending
- Connect and share as widely as possible
- Transparency in Accounts and Finance
- Respect for others' ideas
- Do it well, but do it for less
- Think beyond break through

Introduction

Assessment Tool

- ▶ This assessment uses a scoring tool derived from the MFIN and Sa-Dhan’s Code of Conduct for member MFIs and the RBI guidelines for NBFC MFIs.
- ▶ Though, now the different codes of conduct (Sa-Dhan, MFIN) have been harmonised to have a unified code, at the writing stage of the report, there were two codes. The assessment tool, however, has been designed to cover both the Sa-Dhan and the MFIN codes, as well as the RBI guidelines.

Method

- ▶ The assessment is based on a 5 day visit by an M-CRIL team of 3 analysts to the MFI’s head office in Chennai, and to 12 branches across Tamil Nadu. 2 groups were visited in each branch. (Refer slide 6 for details)

Perspective on the MFI

- ▶ MMFL performs well in many of the aspects of CoC owing to its client-centric culture. However, it is yet to frame and document policies to formalise these practices.
- ▶ Level of cooperation with assessment team:

HO	HIGH	Branches	HIGH	Follow-up	HIGH
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Assessment tool: Weight, Scores and Grades

Sections	Weights	Max Score
Integrity, Governance and Strategy	25.0%	250
Integrity	10.0%	100
Governance	7.5%	75
Strategy-Competition	7.5%	75
Compliance with regulatory guidelines	15.0%	150
Client protection principles	50.0%	500
Prevention of over-indebtedness	10.0%	100
Transparency	10.0%	100
Fair and Respectful Treatment of Client	10.0%	100
Privacy of client data	2.5%	25
Effective complaint resolution	7.5%	75
Monitoring and audit of client protection issues	10.0%	100
Client education and financial literacy	10.0%	100
Client Education	3.0%	30
Client Awareness	7.0%	70
Total	100.0%	1,000

Grades	Range of score
$\alpha+$	91%-100%
α	81%-90%
$\alpha-$	71%-80%
$\beta+$	61%-70%
β	51%-60%
$\beta-$	41%-50%
$\gamma+$	31%-40%
γ	0-30%

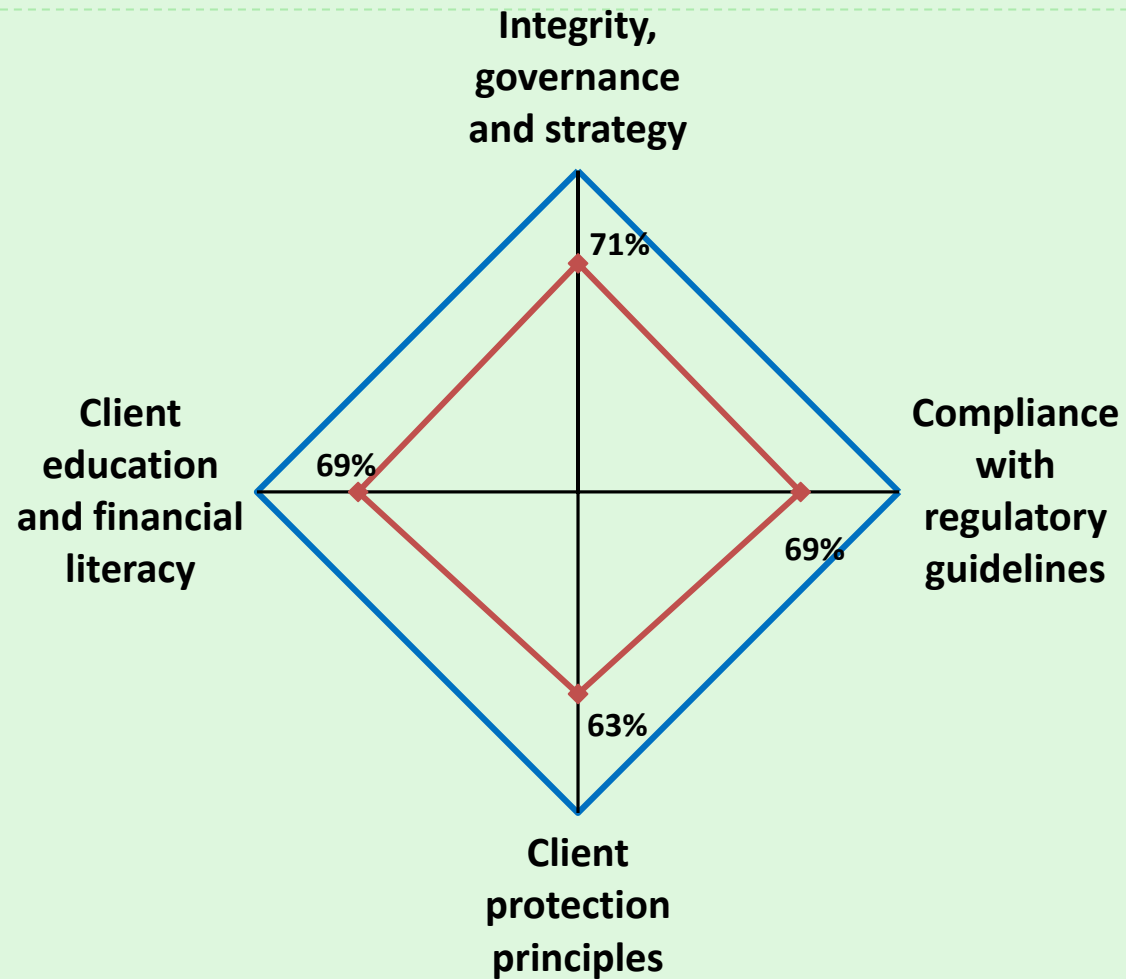
Assessment tool: Rationale

- ▶ The various aspects in MFIN and Sa-dhan codes of conduct have been reclassified by M-CRIL under three broad heads (Integrity, Governance & Strategy, Client Protection principles and Client education) as per their logic and fit.
- ▶ Further, considering the importance of RBI guidelines, the same have been assessed under a separate head - Compliance with regulatory guidelines.
- ▶ Client protection, being one of the most important aspects, has been given the maximum weight of 50%. Integrity and Governance follows with 25% weight, and compliance with RBI guidelines with 15% weight. Efforts for client education, along with client awareness (as reflected through client interactions) is given a 10% overall weight.
- ▶ Level of internalisation of the codes of conduct by the MFI has been analysed for Approval, Documentation, Dissemination and Observance (ADDO) under each category, wherever applicable.
- ▶ Wherever relevant, 40% weight has been given to policies adopted by the MFI and 60% for the practices.

Methodology

- ▶ **Preliminary analysis of MFI's information, review of available reports and financial statements**
- ▶ **Visit to Head Office of MFI**
 - ❑ Discussions with the CEO – broad strategic issues and mission orientation, commitment towards CoC
 - ❑ Discussions with the senior management (Operations, Human Resource & Training, Internal Audit) to understand MFI's objectives, market strategies, methodology, products and services, integration of CoC in policies and procedures
 - ❑ Review of manuals, various report formats, reports and Board minutes
- ▶ **Visit to branches – 12 branches across different operating regions of the MFI**
 - ❑ Discussion with Branch Manager and all branch staff on different aspects of CoC, MFI's policies and procedures
 - ❑ Documentation review – client basic profile forms, loan application forms, internal audit reports, complaints register if any and CoC displays
- ▶ **Visit to centre meetings – 2 group meetings for each branch, overall 24 group meetings**
 - ❑ Assess relationship between MFI staff and clients
 - ❑ Check for implementation of client protection principles
 - ❑ Spot check of passbooks, receipts, repayment cards, maintenance of documents
 - ❑ Feedback on products – suitability to client needs, application of terms & conditions
- ▶ **Data Analysis and Report writing**
- ▶ **Internal Review at M-CRIL**
- ▶ **Report draft sent to SIDBI**

Code of Conduct Performance



Strengths

- ✓ Board has formally adopted MFIN COC, and receives report on compliance with RBI guidelines
- ✓ Detailed training and socialisation before inducting clients to the microfinance programme. Training methodology suitable for clients with low literacy.
- ✓ Focus on Client Education – detailed discussions on social issues in the second group meeting of every month
- ✓ All the disbursements are to be verified with the credit bureau to comply with the indebtedness norms.
- ✓ All the clients visited were satisfied with the behaviour of MMFL staff.

Issues

- Yet to document and institutionalise many aspects of the Code of Conduct.
- Violation of guidelines: A few instances of blank cheques being collected by the MFI, and of blank documents being signed by clients.
- Though savings are not directly collected by the MFI, Fixed Deposits in banks (lien marked to Madura) are mandatory for the groups for second cycle loans onwards.
- Clients lack awareness on prepayment terms (25% clients aware), and insurance coverage (25% aware)
- Yet to form detailed guidelines for robust assessment of clients' repayment capacity, other than the indebtedness check through the credit bureau.
- Monitoring and audit systems need to incorporate checking and reporting on COC parameters.
- Field staff mostly unaware of the lending criteria on indebtedness.

Institutional Profile

Main Performance Indicators	Mar-11	Sep-11
Active borrowers (Lakhs)	2.91	2.47
Portfolio Outstanding (Rs cr)	178.4	155.5
Number of states	1	1
Number of districts	29	29
Number of villages/slums	3,853	3,811
Number of branches/Clusters	58	55
Number of groups/centres	20,925	17,756
Total Microfinance staff	1,210	1,377
Number of loans disbursed	11,709	3,686
Amount of loan disbursed (Rs cr)	191.03	65.23
PAR 60	0.80%	2.30%
Yield on Portfolio	24.0%	N.A*
Operating Self-Sufficiency	138.4%	N.A*

*Provisional financial statements for September 2011 was not available

Shareholding Pattern	Sep-11
Promoter	48.1%
Individual investors	18.4%
Elever Unitus Corporation	21.7%
Employee Welfare trust	9.1%
Employees (MCFI & MMFL)*	2.7%

*MCFI – Micro-Credit Foundation of India; MMFL – Madura Micro Finance Limited

Microfinance policies

- MMFL has majority of its portfolio in the group loan product. The MFI lends to women in joint liability groups of 15-20 members for its group loans.
- Once a new area is selected, the Mentors and the Member Welfare Associates (MWA) organise meetings to introduce the company and its services. Interested members are motivated to form groups.
- Mentors conduct one day Basic Awareness Training (BAT) for the newly formed groups. Company policies, terms and conditions of the loan and insurance, basic book keeping, and general guidelines to manage their businesses are explained. Audio-visual tools and games are used to emphasise the topics, considering the low literacy level of the clients.
- The information given in the membership form is verified by the Mentors by visiting members at their houses.
- Loans are disbursed at the Centre offices, in the form of account payee cheques to the groups.
- Fortnightly group meetings with monthly repayments. The second meeting of every month is used to educate clients on their loan status and on various social awareness issues. Dedicated materials are circulated to the MWAs on the month's topic.
- MMFL newsletters and in-house classifieds are circulated to the groups to support their business activities. The MFI is piloting a fee-based certificate programme for its clients – Mini MBA – which will help the clients manage their businesses better.

Financial products

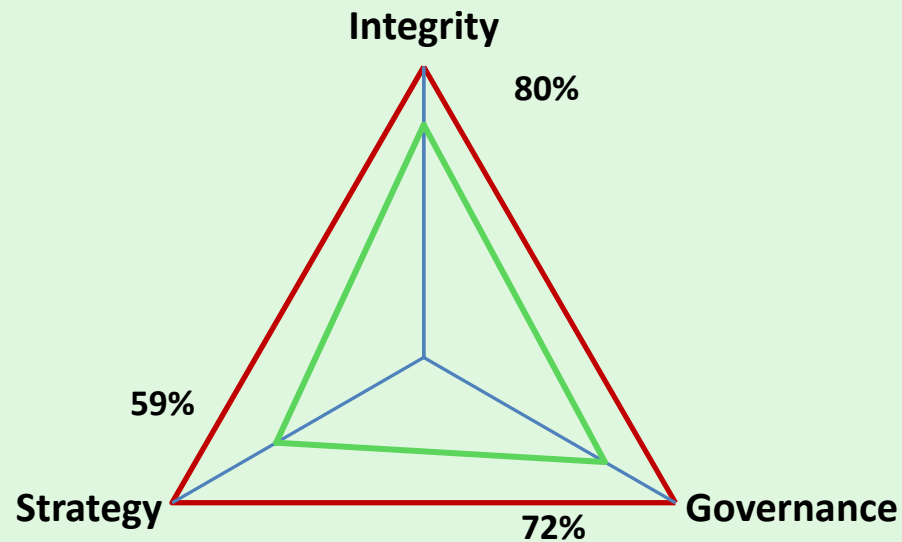
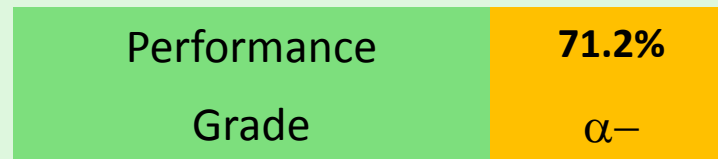
Loan type	Pre linkage Loan (PLL)	Activity term loan (ATL)	Top-up loan	Milch Animal loan*	Housing loan for new construction*	Housing loan for repairs*
Lending method	Group	Group	Group	Individual	Individual	Individual
Loan size (Rs)	5,000	15,000-25,000	5,000	35,000	1,00,000	50,000
Guarantor	Group	Group	Group	Personal guarantee	Personal guarantee	Personal guarantee
Processing fee (incl. tax)	1.1% of loan			2% of the loan		
Interest rate (declining per annum)	25.8%	25.8%	25.8%	25.8%	22.8%	24.6%
Loan Term	10 months	Up to 42 mths	Flexible	44 months	72 months	60 months
Repayment	Monthly					
Insurance charge	Nil	Rs 400 for 4 years	NA	Rs1200-Rs1500	Insurance scheme is being finalised	

*The MFI does not intend to consider the Individual loans as a qualifying asset (as per RBI)

▶ Savings

- During the first year of association with the MFI, Rs100 is collected as monthly savings from each member and kept in a savings bank account in the group's name.
- It is compulsory to convert the group savings to fixed deposits before the group could avail themselves of the second cycle loan.
- The group passes resolution that it would be used in cases of loan default. From second year, the savings per member is reduced to just Rs10 per client per month.

Integrity, Governance & Strategy



Integrity

Indicator	Performance	Score	Max	Scoring Rationale
i MFI has formally incorporated the Codes of Conduct and regulations in its policies, manuals and documents.	53.3%	8	15	The various aspects of CoC were yet to be incorporated into the manuals and documents at the time of rating visit.
ii MFI's Code of Conduct has been translated in vernacular language and is displayed prominently in all offices.	100.0%	15	15	All the clusters and centres have been given the MFIN code of conduct in vernacular. Most of the visited offices had it displayed.
iii Training and orientation to staff on MFI's mission and CoC pertaining to them.	80.0%	12	15	Many aspects of the CoC were already part of the staff training. Training manuals and modules are yet to be modified on the other specific aspects.
iv Awareness level of staff on the spirits and tenets of the code of conducts.	80.0%	12	15	Very few field staff were aware of the code of conduct of the MFI. However, most of them were aware of the spirit of different aspects in CoC.
v MFI has appropriate staff incentive structure to avoid irresponsible lending	80.0%	12	15	The staff incentive considers portfolio quality, along with the number of clients served.
vi MFI's policy documents and manuals specify against caste and religion based discrimination	80.0%	8	10	No direct mention. However, no evidence of discrimination within the organisation
vii MFI makes available its financial statements and other key data on a regular basis (at least annually) in public domain (organization's notice board, website).	86.7%	13	15	MFI reports annually to MIX. As an NBFC, it also reports annually to the Registrar of Companies and MFIN. The financial statements are not displayed on the company's website.
Total	80.0%	80	100	

Governance

Indicator	Performance	Score	Max	Scoring Rationale
i Board has formally adopted a CoC and ensures integration into policies and decision making.	60.0%	6	10	The Board has formally adopted the MFIN code of conduct. Yet to follow-up on its integration into policies.
ii Presence of independent directors in the Board	100.0%	10	10	There are 3 independent directors on the Board, which constitute more than one-third of the members.
iii Board's involvement in checking compliance with the regulations	73.3%	11	15	MFI had submitted report on compliance with RBI guidelines to the Board. Some of the aspects are yet to be incorporated.
iv Board's involvement in checking adherence to code of conduct	33.3%	5	15	MFIN COC has been formally accepted. They are yet to present follow-up details on implementation.
v Relevant experience of Board members	86.7%	13	15	MMFL's Board members are experts in Microfinance, development, HR, IT and Banking.
vi Board committees and their independence	90.0%	9	10	MMFL has 4 committees to the Board - Audit, Nomination, Asset Liability Management and Risk Management committees; they meet regularly.
Total	72.0%	54	75	

Strategy - competition

Indicator	Performance	Score	Max	Scoring Rationale
i Expansion strategy - the MFI chooses to go to underserved areas	46.7%	7	15	Though the MFI is the first lender in many of its operational area, it does not have a specific strategy to expand to underserved areas. Some of the recent expansions were into areas with high competition (eg, Coimbatore).
ii The MFI regularly interacts with other MFIs working in the area to avoid excessive duplication and over-indebtedness of clients	53.3%	8	15	MMFL is a member of Tamil Nadu chapter of MFIN. Interactions with other MFIs are limited to the HO level. No evidence of sharing information at the branch level.
iii HR manual of the MFI specify how to proceed while recruiting staff from other MFIs	66.7%	10	15	The MFI is yet to develop a detailed HR Manual. The latest HR policies state that reference checks must be conducted before recruitment.
iv Whenever the MFI comes across Incidents of High Default, it informs other MFIs of the same	50.0%	5	10	No such policy yet. However, MFI is open to discussions and common efforts through the different networks.
v In case of any Incidents of High Default is faced by any other MFI, the MFI has an agreement to participate in a joint recovery drive and restrain lending in that area till things are streamlined	80.0%	8	10	No such incidents yet. However, management , being a signatory to MFIN, seems open to such agreements.
vi There is policy to terminate employees who have lied about their background of working with other MFIs	60.0%	6	10	As mentioned before, background check has been made compulsory for all new recruitments in the recent past.
Total	58.7%	44	75	

Levels of internalization

Levels of internalization			
<u>Integrity</u>	Approval	Good	Weak
	Documentation		
	Dissemination	Good	
	Observance	Moderate	
<u>Governance</u>	Approval	Good	In process
	Documentation	Moderate	
	Dissemination		
	Observance	Moderate	
<u>Strategy - competition</u>	Approval	Moderate	In process
	Documentation		
	Dissemination	Moderate	
	Observance	Moderate	

Rationale

- ▶ Independence and involvement of the Board
 - ▶ Experienced Board members
 - ▶ Presence of 3 independent directors
 - ▶ Reasonable involvement of the Board in operational decisions
- ▶ Adoption and dissemination of CoC
 - ▶ Board has formally adopted the Code of Conduct for MMFL
 - ▶ The MFIN CoC is displayed at all cluster offices in vernacular
 - ▶ However, the training modules are yet to be updated on specific codes of conduct.
 - ▶ Low staff awareness on specific aspects of MFIN CoC; however, the organisation culture has instilled many of the aspects in spirit through trainings and other forums.
- ▶ Networking, expansion and responsible lending
 - ▶ MMFL is a member of Tamil Nadu division of MFIN; yet to form agreements or strategies with other MFIs to tackle issues of over-indebtedness and mass overdue.
 - ▶ The only measure to check irresponsible lending is factoring in the portfolio quality for field staff's incentive calculation
 - ▶ No specific strategy to expand to underserved areas
 - ▶ A few of the recent expansions have been to high competition areas

Compliance with regulations

Performance	69.3%
Grade	$\beta+$

Compliance with Regulations

Indicator	Performance	Score	Max	Scoring Rationale
i Not less than 85% of total assets of MFI (other than cash, balances with banks and FIs, Govt. Securities and money market instruments) are in nature of qualifying assets.	60.0%	6	10	Total assets on 31 Mar2011 (excl. cash, bank, investments) were Rs 181.8 crores, of which MF loans constitute 98%. However, it cannot be ensured if the entire portfolio meet RBI requirements for labelling as qualifying asset.
ii Aggregate amount of loan extended for income generating activity is >75% of the total loans given	70.0%	7	10	The company lends to clients primarily for income generation purposes; however, it does not have robust loan utilisation checks to verify the stated purpose.
iii Borrowers house hold income not to exceed Rs 60,000 in rural areas and Rs 120,000 in non-rural areas	30.0%	3	10	Data is captured in the family survey form; yet to be incorporated into the MIS. Many of the sampled forms had household income higher than Rs1,20,000
iv Loan amount not to exceed Rs35,000 in first cycle and Rs 50,000 in subsequent cycles	100.0%	10	10	The MFI does not disburse more than Rs 5000 in its first cycle. The maximum loan amount is Rs25,000 for subsequent cycles, for group loan products.
v Total indebtedness of the borrower does not exceed Rs 50,000	80.0%	8	10	Checks with High Mark before all new disbursements.
vi Tenure of loan is not <24 months when loan amount exceeds Rs15,000, with right to borrower of prepayment without penalty.	100.0%	10	10	Loan tenure of different products are according to the regulations. Members can prepay their loans without any penalty.
vii The loan is without collateral	20.0%	2	10	The MFI has a lien on the member-deposits put in the banks as Fixed Deposit (from second cycle loan onwards), which is equivalent to taking collateral. Instances of blank cheques being sought by the MFI.

Compliance with Regulations...continued

Indicator	Perform Score	Max	Scoring Rationale	
viii Loan is repayable by weekly, fortnightly or monthly instalments, at the choice of the borrower	0.0%	0	10	Presently, clients do not have choice. It is compulsorily monthly.
ix Margin cap of 12%	100.0%	10	10	As per MFI, its margin is less than 12% over the cost of funds
x Interest cap on individual loans of 26% per annum, to be calculated on a reducing balance basis	100.0%	10	10	The MFI's interest rate was less than 26%, even before the regulations.
xi Pricing of loan can only have 3 components: (i) processing fee (ii) interest; (iii) insurance premium	100.0%	10	10	Loans are priced only for the interest, processing fee and insurance premium.
xii Processing fee does not exceed 1% of gross loan amount	100.0%	10	10	Though individual loans carry a 2% processing fee, MMFL does not plan to include them as qualifying assets (as per RBI guidelines), and the portfolio share is less than 15%.
xiii No penalty for delayed payment	40.0%	4	10	The new disbursements since July do not have penalty, however, the loans prior to that still have penalty of Rs10/month for each overdue member.
xiv No security deposit / margin are to be taken	40.0%	4	10	Though the MFI says that loan is not linked to deposit as it is kept in the group's name in a scheduled bank, groups without savings are not eligible for loans.
xv Insurance commission is received as per IRDA guidelines	100.0%	10	10	Complied by the MFI
Total	69.3%	104	150	

Rationale

- ▶ Policy on indebtedness check, to verify with the credit bureau - High Mark - before every disbursement.
- ▶ Limited loan size and extended tenure to avoid over-indebtedness, even before the regulatory guidelines.
- ▶ The MFI has never charged an interest rate higher than 26% per annum on reducing balance from clients.
- ▶ No robust loan utilisation checks to verify the usage of loans for the stated income generation purpose.
- ▶ The income levels of the clients are yet to be incorporated into the MIS, and assessed if they fall into the limits prescribed by the RBI
- ▶ Clients do not have the option to chose the loan repayment frequency – weekly, fortnightly or monthly
- ▶ Some instances of blank cheques being collected by the MFI from the groups as guarantee for their group loans.
- ▶ Though the MFI does not directly accept savings, the Fixed Deposit is mandatory for the groups to be eligible for their second cycle loans. Also, in case of dropout members, the other members contribute and pay for their share in the FD, in some of the branches. Practice differs from one region to the other.

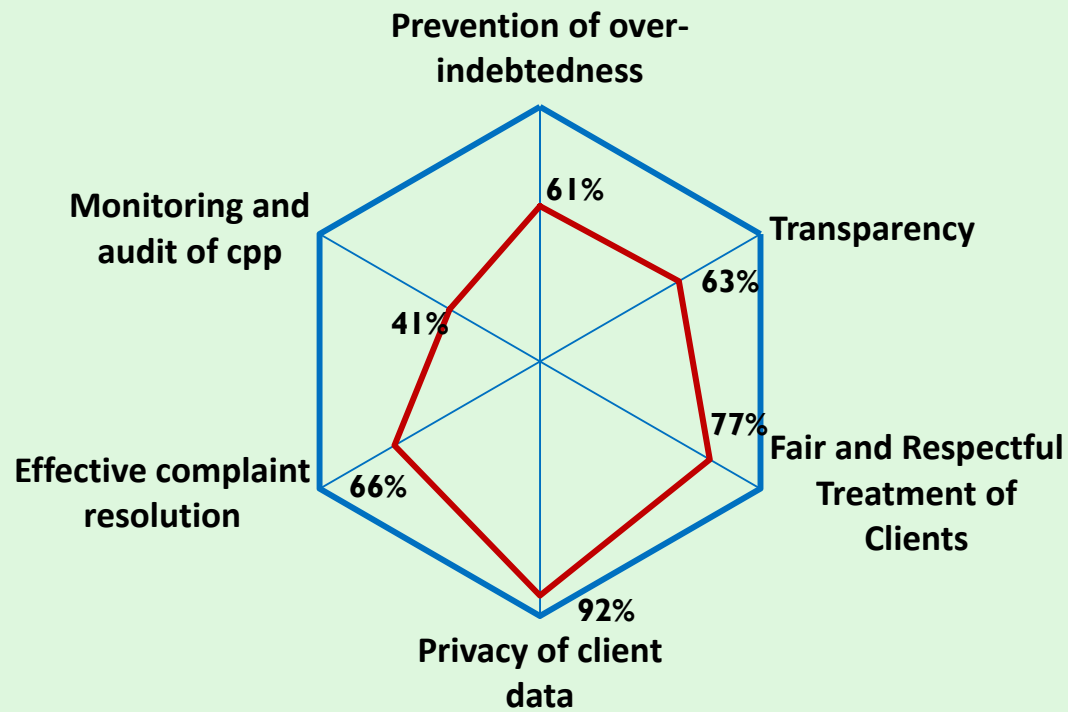
Client protection

Performance

62.9%

Grade

$\beta+$



Client Protection – Prevention of over-indebtedness

Indicator	Performance	Score	Max	Scoring Rationale
i The operating manual presents how the loan officers will assess the repayment capacity of the clients	40.0%	4	10	MFIs operational guidelines do not mention assessment of repayment capacity in detail.
ii The format of loan application form enable cash flow analysis and analysis of indebtedness	60.0%	9	15	The income and expenses are captured in the loan application form; There is also space to capture the indebtedness status of the client, but not in much detail. Most of the forms had the details filled very mechanically – same income and expense for all the members in the groups, etc.
iii The MFI has provided training to its operational staff on how to assess the repayment capacity of the clients	60.0%	9	15	Staff are trained to assess the repayment capacity of clients through household assets and income sources. Not much focus is given to assessment of repayment capacity through cash-flow analysis, and indebtedness levels.
iv The MFI has adopted the lending limits (Not more than 3rd lender and total loan o/s not >Rs50,000 for any client). Has it been communicated to the branches?	80.0%	12	15	The branches have received MFIN code of conduct in vernacular. It is also <u>being</u> discussed in the recent monitoring meetings with the supervisors.
v The staff are aware of the lending limits of the MFI	40.0%	6	15	Most of the staff in the visited branches were not aware of the criteria.
vi The sampled MFI branches have records that show assessment of client's repayment capacity	40.0%	6	15	The indebtedness level of clients were not captured in majority of the forms checked. Cash flow, though captured, is not analysed to assess the repayment capacity
vii The MFI contributes data to Credit Bureau	100.0%	15	15	MFI has recently started contributing data to High Mark
Total	61.0%	61	100	

Client Protection – Transparency

Indicator	Performance	Score	Max	Scoring Rationale
i All terms and conditions including interest rate (EIR), processing fees etc related to services provided by the MFI are laid out in written form (in vernacular) in agreement/application form/passbook and provided to the clients.	65.0%	13	20	The loan agreement/ application form is in English. Though the major terms have been translated into Tamil, the English agreement contains many legal statements and conditions binding the client which they signs without proper understanding.
ii The loan card/sanction letter/passbook contain insurance charges and coverage in vernacular language.	0.0%	0	20	Insurance charge or coverage is not mentioned in any of the documents given to the clients.
iii The MFI provide receipts/ acknowledgements of the amounts collected from the clients.	85.0%	17	20	The deductions are mentioned in the loan agreement. However, the client does not have any proof of insurance premium paid, as receipts are not issued. Passbooks are updated on receipt of each repayment.
iv The MFI provide repayment schedule or similar documents which tells about the amount (no of instalments) paid and outstanding after each instalment.	65.0%	13	20	The repayment schedule is in English, and only one copy is given to the groups. The members are supposed to take copies of it; it was not done by most of the visited groups. The loan passbooks do not mention the outstanding loan balances with each repayment.
v % of cases where repayment schedule/passbook was found to be updated.	100.0%	20	20	All the members in the visited groups had their passbooks updated.
Total	63.0%	63	100	

Client Protection – Fair & Respectful treatment of clients

Indicator	Perf.	Score	Max	Scoring Rationale
i Operational manual and other documents specify respectful treatment of clients	75.0%	6	8	Operational manual does not directly refer to treatment of clients by staff. Other policy documents have indirect reference to respectful treatment of clients.
ii Staff are trained specifically on respectful treatment of clients	90.0%	9	10	Trainings emphasise respectful interactions with the clients.
iii Operations Manual has guidelines on step-by-step procedures and time frames on dealing with default	80.0%	8	10	Broad guidelines on dealing with overdue loans is given in the manual. However, the approach/behaviour to clients is not emphasised in writing.
iv Staff are aware of step by step method of dealing with default	80.0%	8	10	Staff are reasonably aware of the procedure in dealing with overdue cases.
v Acceptable and unacceptable debt collection practices are clearly spelt out in a code of ethics, book of staff rules which also contain inappropriate timings and occasions	60.0%	6	10	Appropriate collection practices are not detailed in the operations manual. The code of conduct for staff, on which they are trained on, covers it.
vi Discussions with a sample of borrowers reveal respectful treatment of clients	100.0%	20	20	The clients in all the visited groups were happy with the MFI staff's behaviour
vii No documents other than what are required as per KYC norms are collected from the clients	100.0%	8	8	Copies of identity cards and address proof documents are only kept by the MFI
viii There is no evidence of blank signed cheques of clients being collected	37.5%	3	8	Some of the visited branches collect signed blank cheques from the groups before disbursement.
ix There is no evidence of blank signed stamp papers or agreements being collected	25.0%	2	8	Many instances of clients' signature on blank forms. A few cases of client signature on incomplete stamp papers. The staff say that they have difficulty filling the English forms.
x MFI emphasizes on using social collateral for loan recovery while lending through groups	87.5%	7	8	It is part of staff training and also emphasised through circulars and other policy documents
Total	77.0%	77	100	

Client Protection – Effective complaint resolution

Indicator	Perf.	Score	Max	Scoring Rationale
i MFI has a formal mechanism to address client grievances	85%	11	13	Phone numbers of Cluster Managers and sometimes the Regional Managers are written on the back of the passbook. Also, there's a dedicated phone line at the HO to deal with client complaints.
ii Mechanism of grievance redressal is part of the training given to the clients	85%	11	13	The grievance procedure is explained to the clients in the initial training. However, the grievance cell at HO is not much emphasised in many of the branches visited.
iii Details of this mechanism are mentioned in the loan card/other communication	83%	10	12	Phone numbers are given in the loan card. Detailed mechanism is not mentioned.
iv There are dedicated staff in the MFI for feedback and grievance redressal	71%	5	7	The staff deal with the client grievances along with their other responsibilities
v Level of client awareness about the grievance redressal process	50%	7.5	15	50% of the interviewed clients were aware of the grievance mechanism of the MFI
vi MFI conducts regular client satisfaction studies	50%	2	4	No formal client satisfaction study has been conducted yet. However, informal feedback is conveyed to management through staff meetings and field visits.
vii Monitors client exit rate and conduct regular exit surveys to understand reasons for leaving MFI program.	0%	0	4	Exit surveys are not conducted, reasons for clients leaving are not analysed.
viii Quality of documentation - grievances and actions taken	43%	3	7	Client complaints or queries are not documented at any levels. However, as per the MFI, the client complaints are resolved within reasonable time.
Total	66.0%	50	75	

Client Protection – Privacy of client data

Indicator	Perf.	Score	Max	Scoring Rationale
i The MFI has clear policy on sharing of client data	83.3%	5	6	Though policy states that the information collected can be shared with credit bureaus and other agencies, MMFL is yet to formulate a detailed policy on what to share with whom.
ii The operational manual defines access-rights (within the MFI) to client data collected by the MFI	100.0%	6	6	Access rights are defined within the organisation to access the client data.
iii The clients are informed or clients' consent is sought before information regarding them is shared.	83.3%	5	6	The loan agreement (in English) states that the client data can be shared with credit bureaus or other similar agencies.
iv There is no evidence that client's data have been used for purposes other than regular operations or by unauthorized personnel	100.0%	7	7	No evidence that the data has been used for any other purposes other than what is stated.
Total	92.0%	23	25	

Monitoring and audit of client protection issues

Indicator	Perf.	Score	Max	Scoring Rationale
i The internal audit checks the accuracy of client information reported by the field staff	55%	11	20	Internal audit does reasonable checks on the client information reported in the forms
ii The internal audit verifies the client awareness on MFI policies	0%	0	20	Client awareness check is not part of Internal Audit
iii The internal audit takes client feedback on staff behaviour	50%	10	20	Client feedback is not formally reported in the audit report
iv The monitoring staff check that the field staff are not abusive towards clients	75%	15	20	Monitoring staff conducts group visits and take client feedback on the MFI and the staff
v Comments on client protection issues were found in majority of audit reports checked	25%	5	20	Sample audit reports verified, did not have many client protection issues reported.
Total	41.0%	41	100	

Levels of internalization

Levels of internalization			
Prevention of over-indebtedness	Approval	Good	
	Documentation		Moderate
	Dissemination		Moderate
	Observance		Moderate
Transparency	Approval	Good	
	Documentation		Moderate
	Dissemination		Moderate
	Observance		Moderate
Fair and respectful treatment of clients	Approval	Good	
	Documentation	Good	
	Dissemination	Good	
	Observance		Moderate
Effective complaint resolution	Approval	Good	
	Documentation		Moderate
	Dissemination		Moderate
	Observance		Moderate
Privacy of client data	Approval	Good	
	Documentation	Good	
	Dissemination		Moderate
	Observance	Good	
Monitoring and audit of client protection issues	Approval		Moderate
	Documentation		Weak
	Dissemination		Weak
	Observance		Weak

Rationale

- ▶ **Assessment of repayment capacity**
 - ▶ MFI does not give detailed guidelines to staff on how to assess the repayment capacity of clients on the basis of their cash-flows
 - ▶ Low staff awareness on the lending criteria (not more than 3 lenders and Rs50,000 outstanding)
- ▶ **Communication to the clients**
 - ▶ Detailed one day training given to the clients at the time of association with the MFI. The training methodology is suitable for illiterate clients
 - ▶ The terms on pre-closure is not covered in detail in the trainings.
 - ▶ Repayment schedule is in English, and only one copy for a group
 - ▶ Phone numbers of the Custer Managers and the Regional Managers are written behind the individual passbooks.
- ▶ **Acknowledgement for client payments and documentation**
 - ▶ All the visited clients had their passbooks updated
 - ▶ Receipts are not issued for the insurance premium paid by the clients; the premium amount is not specifically mentioned in the application form.
 - ▶ The client agreement is in English; neither the staff nor the clients are aware of the contents (though major terms are given in vernacular)
 - ▶ Many instances of signature of clients on blank agreement forms (for additional loans), and on incomplete forms on stamp.
- ▶ Clients visited were all satisfied with the MMFL staff's behaviour
- ▶ Monitoring and Audit systems need to incorporate checking and reporting on client protection issues.
- ▶ Good product design– the installment amount does not vary between PLL and ATL, though the loan amounts are higher for ATL, because of longer repayment tenure.

Client education and awareness

Performance	68.5%
Grade	$\beta+$

Client Education

Indicator	Perf.	Score	Max	Scoring Rationale
i The clients are given training on loan terms and conditions before associating with the MFI	100.0%	6	6	One day Basic Awareness Training (BAT) is imparted to the clients by the Mentors. Loan terms and conditions are discussed.
ii The clients are given training on financial literacy	50.0%	3	6	The loan repayment and outstanding status, and general awareness issues are discussed in the second meeting of every month.
iii Staff members are trained on how to give training to the clients	100.0%	6	6	Mentors are given special trainings on how to conduct BAT.
iv The training methodology is suitable for the target clients	100.0%	6	6	Games and Audio-visual tools are used to emphasise the concepts discussed
v Clients are informed about the interest rate, processing fees and other charges on loans during the pre-loan training	66.7%	4	6	Interest rate, processing charge and the insurance premium are discussed during the trainings. However, terms and conditions for pre-closure are not covered in detail.
Total	83.3%	25	30	

Client Awareness

Indicator	Perf.	Score	Max
ii % of clients aware of Name and address of the MFI	83.3%	5	6
ii % of clients aware of details of various products and services of the MFI	37.5%	1.5	4
iii % of clients aware of Instalment Amount	78.6%	5.5	7
iv % of clients aware of Repayment period	92.9%	6.5	7
v % of clients aware about nominal interest rate.	50.0%	3.5	7
vi % of clients aware of prepayment conditions and charges.	25.0%	1.5	6
vii % of clients aware of processing fees	58.3%	3.5	6
viii % of clients aware of insurance charges	57.1%	4	7
ix %of clients aware of insurance cover	35.7%	2.5	7
x % of clients aware of group liability.	100.0%	6	6
xi % of clients aware of breakup of instalment amount	57.1%	4	7
Total	62.1%	43.5	70

Rationale

- ▶ One day comprehensive training given to clients before the first loan disbursement. It covers aspects of financial literacy and managing member businesses, along with terms and conditions of the loan.
- ▶ Audio-visual tools used to reach out to the less educated clients.
- ▶ Specific social and awareness issues are identified for the second meeting of every month. Printed materials are circulated to the MWAs to discuss in these meetings.
- ▶ Detailed trainings given to staff on how to train the clients
- ▶ Low client awareness on prepayment terms and insurance details – the premium, and the risks covered
- ▶ Moderate awareness on nominal interest rate and instalment amount (instalment amount varies from month to month as interest is charged on reducing balance)
- ▶ Effective interest rate is not communicated to the clients

Abbreviations

APR	Annual percentage rate
BAT	Basic awareness training
CEO	Chief Executive Officer
COC	Code of Conduct
EIR	Effective Interest Rate
HO	Head Office
KYC	Know Your Customer
M-CRIL	Micro-Credit Ratings International Limited
MFI	Micro-finance Institution
MFIN	Association of Micro-finance Institutions
MIS	Management information systems
MMFL	Madura Micro Finance Limited
MWA	Member Welfare Associate
PAR	Portfolio at risk
RBI	Reserve Bank of India