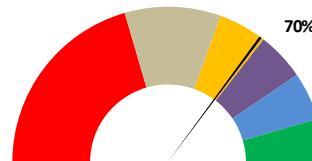


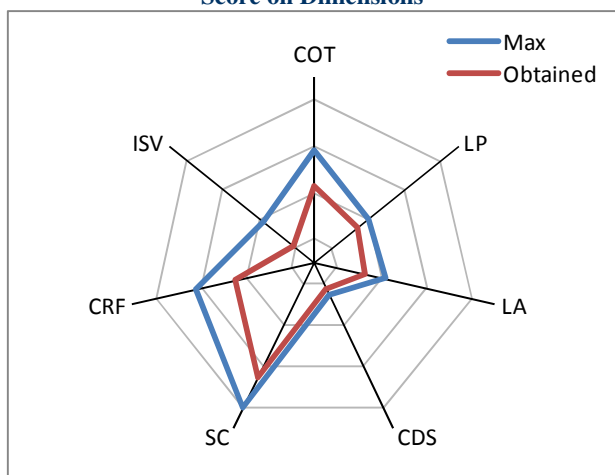
Assessment done by: Deepak Alok and Rahul Bist

**Mimoza Enterprises Finance Pvt Ltd
(MIMO Finance or MIMO)**
Oct 2012



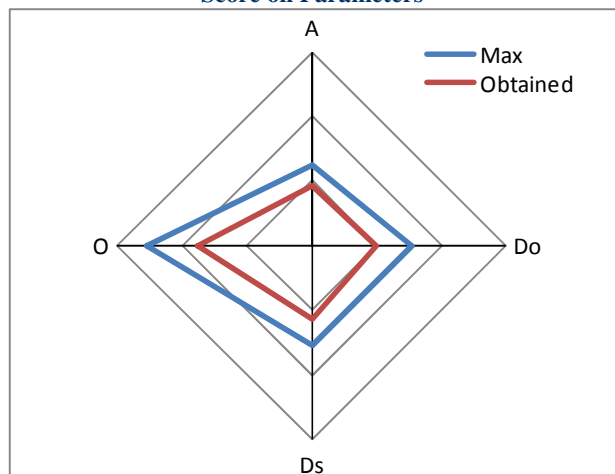
**Composite COCA Score: 70%, Reasonable level
of adherence**

Score on Dimensions



COT=Client Origination and Training, LP=Loan Pricing, LA = Loan Appraisal, CDS=Client Data Security, SC=Staff Conduct, CRF=Client Relationship and Feedback, ISV=Integrating Social Values into Operations

Score on Parameters



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

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Rationale

MIMO receives a reasonable composite score on account of its reasonable to good performance on most COCA indicators. MIMO maintains transparency on pricing and its processes for avoiding client over-indebtedness are strong. MIMO has well trained staffs on client behavior aspects. On RBI compliance, MIMO is currently not complying with the cap on margin. MIMO's interest margin is currently 2.16% higher than the prescribed cap of 12%, which is a regulatory risk. Management has explained that this is due to low cost of funds as company has not received commercial loans in last 12 months. According to MIMO this is a temporary non-compliance and will be corrected once lending from commercial sources resume. Except margin cap, MIMO was found to be compliant on all other RBI guidelines. Further, there is scope for improvement on client feedback system, internal audit and MIS. Governance related practices also need improvement.

Highlights

- MIMO has trained its staffs on soft skills and in professionally dealing with clients.
- MIMO has strong checks for avoiding client over indebtedness which is ensured through records of credit bureau.
- MIMO has started water & sanitation loan product which has been well received by the clients and MIMO wants to expand it further.

Areas of improvement

- MIMO needs strong internal audit and risk management system. Scope of internal audit needs to be augmented with inclusion of checks on staff conduct, grievance redressal and client awareness.
- MIS of MIMO needs improvement with tools for tracking client's socio-economic performance and for better information management.
- Policies related to enforcement of joint liability and visiting clients at odd hours need to be documented.
- Board can be strengthened by including more independent members. Greater involvement of all board members in board functioning is desirable.

Code of Conduct Assessment Compliance Assessment Tool









This tool requires scores to be assigned on the seven Code of Conduct dimensions – **Client Origination, Loan Pricing, Loan Appraisal, Client Data Security, Staff Conduct, Client Relationship and Feedback and Integrating Social Values into Operations**, across the four parameters – **Approval, Documentation, Dissemination and Observance**. The seven dimensions have been drawn from a review of the norms prescribed for MFIs including industry's code of conduct, fair practices' code of RBI and CGAP's client protection principles (Smart Campaign). The COCA tool also specifically assesses the MFI for compliance against the RBI's guidelines and scores it as well. The scores on the COCA indicators are then scaled down in proportion to the score received in Regulatory Compliance. The methodology followed for this assessment is presented in Annexure 2 and the framework of the tool is presented in Annexure 3.






Disclosure

M2i has not been engaged in any assignment of advisory, capacity building or of consulting nature with MIMO Finance in the last one year. Further, none of M2i's staffs or their relatives are represented in the Board of Directors of MIMO Finance or related institutions.

M2i has provided analytics support for Market Demand Assessment of water and sanitation credit products to 'Partners in Prosperity (PnP)' a not-for-profit organization, closely related to MIMO. PnP was also promoted by the same promoters as MIMO Finance.






Section 1: Scores¹ and facts

Code of Conduct dimensions ²	Maximum	Obtained	%
 Client Origination and Targeting	24	16.5	68.8%
 Loan Pricing	15	12.1	80.7%
 Loan Appraisal	16	11.5	71.6%
 Client Data Security	8	6.4	80.2%
 Staff Conduct	35	27.5	78.6%
 Client Relationship and Feedback	26	17.2	66.3%
 Integrating Social Values into Operations	14	5.5	39.3%
 Total	138	96.7	70.1%
RBI's Directions	12	11	91.6%

Compliance parameters	Maximum	Obtained	%
 Approval	25	18.3	73.3%
 Documentation	31	20.2	65.1%
 Dissemination	31	22.9	73.9%
 Observance	51	35.3	69.2%
 Total	138	96.7	70.1%

MFI's profile – 30 September 2012

Name of the MFI	Mimoza Enterprises Finance Pvt Ltd (MIMO Finance)
Legal form	Non Banking Financial Company (NBFC)
Operational Head	Mr Amitabh S Brar
Year of starting microfinance	2006
Branches	35
Operational area	Uttarakhand, Uttar Pradesh, Haryana, Rajasthan, Madhya Pradesh
Total number of staff involved in microfinance	174
Visit of the Assessment team	25 th September - 10 th October 2012
Correspondence address	35/2/9 Kishangarh Vasant Kunj New Delhi - 70 Tel: +91-11-2676 7400

¹The scores have been colour coded as follows:  = Less than 41% (Very Weak);  = 41-60% (Weak);  = 61-70% (Reasonable);  = 71-80% (Good);  = 81-90% (Very Good); = >90% (Excellent).

²Scores have been reduced by a factor of 0.92 to reflect overall achievement on regulatory compliance.

Microfinance Methodology

MIMO follows the Grameen's Joint Liability Group (JLG) methodology. It has five member groups and three to eight groups form a centre. Loan disbursements are done in the branches but collections take place in the centre meetings. The centre meetings are bi-weekly (Saharanpur branch is an exception to this methodology, where MIMO is experimenting with monthly repayments and collections are brought by clients in the branch after the centre meeting). The JLG loans are given for income generating purposes and the eligibility for loan amount in each cycle is gradually stepped-up.

In addition to JLG loans, MIMO also has individual loans for business purposes. These are called 'Meso loans'. As of 30 September 2012, overall portfolio of Meso loans was 10.1% of the total loan portfolio of MIMO. The company has decided to reduce its loan portfolio under Meso product and no fresh disbursements are currently being made under the product.

MIMO is also a member of High Mark Credit Information Services and all loans of MIMO are checked for their credit history through credit bureau before approval.

Details of the loan products - 30 September 2012

Product	Description	Loan size*	APR	EIR	% in portfolio
JLG loan	These loans are given to JLG members for one year (25 bi-weekly installments). Interest charged is 26% p.a. on reducing balance basis and 1% processing fee is charged upfront. Loan insurance (loan outstanding is covered in case of client's or spouse's death) is compulsory and the premium amount is charged on actual basis. Insurance premium is Rs27, 32 and 40 per person for loan amounts of Rs10,000, 12,000 and 15,000 respectively.	Rs10,000, Rs12,000 Rs15,000	28.3% 28.2% 28.8%	32.2% 32.1% 32.9%	89.9%
Meso loan	These are individual loans given to people for business purposes. The loans are given for 12, 18 or 24 months and repayments are monthly. Interest charged is 25% p.a. on reducing balance basis and processing fee is 3%. Post dated cheques are taken as security but the loans are not secured with physical collateral.	Rs25,000 to Rs100,000	31.2%	36.0%	10.1%

Notes:

1. APR has been calculated by taking the actual cash flow for each loan including principal, interest and processing fee.
2. EIR has been calculated through compounding interest on monthly rests. EIR has been calculated as: $EIR = (1+r)^n - 1$, where $r = APR/12$ and $n=12$ (for 12 months to annualize).

Key facts and figures			
Parameters	31-Mar-11	31-Mar-12	30-Sep-12
Total JLGs	18,105	7,468	3,704
Total active borrowers	89,314	35,289	17,755
Branches	63	44	35
States	6	5	5
Number of districts	33	26	25
Total staff	432	245	174
Number of loans disbursed for the FY ending	85,509	36,294	7,510
Amount of loan disbursed for the FY ending (Rs mn)	938.2	440.2	103.8
Loan portfolio outstanding (Rs mn)	510.4	220.7	137.6
PAR ₆₀	1.6%	4.1%	3.6%
PAR ₃₀	2.2%	4.8%	4.0%
Yield on portfolio	38.12%	29.71%	24.96%
OSS	105.0%	93.0%	43.3%
Return on assets (ROA)	0.85%	-1.53%	-22.54%
Return on equity (ROE)	5.36%	-8.14%	-79.78%

Source: Data as provided by MIMO

MIMO Board of Directors – 30 September 2012	
Name	Profile
Mr Amitabh S Brar	Mr. Brar has over twelve years experience including ten years in microfinance operations management and social performance assessment. His last assignment was as Investment Director at Caspian Advisors, where his primary focus was on portfolio management. His experience spans across industries including Shorebank International, MISFA - Afghanistan, EDA Rural Systems and CGAP. He has a Masters Degree in Corporate Finance from the London Business School.
Mr Manab Chakraborty	Mr. Chakraborty has worked in over 30 countries as an UN civil servant, consultant to international agencies, and national governments. He holds postgraduate degrees in business management; environmental economics; and agriculture and rural development.
Mr Swaminathan A Aiyar	Mr. Aiyar is an economist, a columnist and TV commentator in India. He has been the editor of India's two financial dailies, <i>The Economic Times</i> and <i>Financial Express</i> , and was also the India correspondent of <i>The Economist</i> for two decades. He has frequently been a consultant to the World Bank and Asian Development Bank. Mr. Swaminathan holds a Master's degree in economics from the Magdalen College, Oxford, UK.
Mr R Venkatram Reddypally	Mr Reddypally has 14 years of experience in the microfinance industry including last five years at Caspian Advisors which is fund manager for Bellwether Microfinance Fund. As Director, Investments at Caspian Mr Reddypally manages the portfolio companies by providing strategic inputs and also leads the Social Performance Reporting Initiative. Prior to joining Caspian he worked with ICICI Bank where his last position was Chief Manager, Micro Finance. Between November 1999 and June 2005, Mr Reddypally worked with BASIX, one of India's premier microfinance institutions, where he started as a Field Executive and finally served as an Area Manager from July 2004 to June 2005. He holds a B.Sc. in Agricultural Science from the AP Agriculture University.
Mr Anal Jain	Mr. Jain has over 25 years experience in top management positions in major international and Indian IT firms. Among his key accomplishments are - leading Wipro Infotech's marketing to the IT Industry's leading status, building and leading IBM's business in India after their re-entry into the country, and starting and leading Sun Microsystems business in India. He was earlier Managing Director of MicroVentures, Mentor at NASSCOM, Charter Member of TiE, and Board Member of Entrepreneurship Development Foundation. Mr. Anal holds B. Tech in Electrical Engineering from IIT Kharagpur and a Masters degree in Electrical Engineering from Brooklyn Poly, New York, USA.

MIMO Equity Structure (30 September 2012)		
	Shareholders	% stake in the company
1	Bellwether Microfinance Fund Pvt Ltd	33%
2	Bellwether Microfinance Trust	29%
3	Manab Chakraborty	11%
4	Murali Srinivas	6%
5	ESOP Trust	17%
5	Other individual shareholders	4%
	Total	100%

Section 2: Status of Regulatory Compliance

2.1 Compliance with regulations

MIMO is currently not complying with RBI's guideline on cap on margin of 12% for NBFC-MFIs with loan portfolio of less than Rs1billion. However, the management of MIMO has explained the reasons for non-compliance and has termed it a temporary situation. Except margin cap, MIMO was found to be compliant on all other RBI guidelines.

MIMO's compliance with RBI's guidelines for NBFC-MFIs is presented below.

Capital requirement

As per the audited financial statement of MIMO of 31st March 2012, it had a paid-up share capital of Rs59.9mn and Reserves and Surplus of another Rs19.6mn. The chartered accountant has certified MIMO Finance having total Net Owned Fund of Rs74.1 million as of 31st March 2012. This is more than the required Rs50.0mn of Net Owned Fund (NOF) prescribed by RBI for NBFC-MFIs.

Proportion of qualifying assets and income generation loans

On the basis of financial statement of 31st March 2012, the statutory auditor has certified that MIMO had qualifying assets greater than 85% of its total assets excluding cash and bank balances. It has also certified that over 75% of its total loans have been given for income generation purposes. This is in compliance with the RBI guidelines for NBFC-MFIs on qualifying assets and income generating loans.

The Meso loans are outside the qualifying asset criteria as the loan amount offered under the product goes beyond Rs50,000. The proportion of Meso loans is less than 15% of the total loan portfolio of MIMO Finance as of 30 September 2012.

M2i during its assessment has also verified the conditions for qualifying assets, the observations are presented below:

- Loan size verification

The maximum loan size offered by MIMO under JLG loans is Rs15,000. This is well within the limits specified by the RBI (Rs35,000 in the first cycle and Rs50,000 in the second cycle). Thus it complies with the guidelines. Physical verification of over 100 loan documents corroborated this.

- Collateral verification

MIMO does not take any collateral on group loans, this is in accordance with RBI's guidelines. M2i's check of loan documents and direct verification with clients did not reveal any deviation on this guideline.

- Loan duration verification

Currently, maximum loan size of MIMO for group loan is Rs15,000 for which the loan tenure is 1 year. MIMO currently does not have any loan with tenure more than 12 months.

- Household income

MIMO takes self-declaration from the client on their household income. In a check of randomly selected 100 loan documents across 8 branches it was observed that all members had declared their income within the RBI stipulated annual households income limit of Rs60,000 in rural areas and Rs120,000 in urban areas.

Multiple lending and Indebtedness

As per the existing policy of the organization, total indebtedness of a client under microfinance loans cannot be more than Rs50,000. Further, as a policy MIMO does not extend loan to any client who has existing borrowing outstanding from two other institutions. MIMO verifies the indebtedness of its clients, through credit bureau, twice before disbursement. First check is done before the group formation and the second check is done two days before disbursement. Thus, MIMO is complying with RBI's guidelines on avoidance of over indebtedness. M2i did not find any of these guidelines breached in any of the 100 random loan documents checked and 119 clients visited.

Pricing of credit

MIMO charges interest rate of 26% per annum on reducing balance basis. In addition clients are charged 1% processing fee upfront. Loan insurance is charged on actual premium paid basis. All these prices are revealed to clients during compulsory group trainings, are mentioned on loan card of clients and are also mentioned on demand promissory note. Clients are issued receipts for all payments. All clients visited by M2i had been issued receipts for all transactions and no charges in excess to the ones mentioned above had been taken.

However, MIMO has not complied with the RBI guideline on cap on margin. The interest yield on the microfinance qualified portfolio of MIMO for the period April-September 2012 (annualized) was 25.23% while the average cost of fund for the same period was 11.07%. Thus the interest margin comes to 14.16% and breaches the margin cap of 12% stipulated by RBI for MFIs with loan portfolio less than Rs1 billion by 2.16%. In FY2011-12 also MIMO had interest margin greater than 12%.

Management's response on non-compliance with margin cap

Management of MIMO has explained that the violation of margin cap is a temporary situation and will get addressed in the near future. The management explained that the margin cap violation must be looked in the light of the following facts:

- MIMO's margin on interest rate is higher than 12% not because it is charging high interest rate but because of low cost of funds. MIMO's interest rate of 26% on diminishing balance basis is in line with the industry standards.
- MIMO's overall cost of funds are low because of a one off subsidized funding from NABARD of Rs5 crore on which the average interest cost is 4%. MIMO is not likely to get this kind of low cost funds in future and hence the funding cost will increase and margins will reduce.
- Since MIMO's portfolio has shrunk significantly in the last two years, this subsidized fund of Rs5 crore has become significant proportion of the total borrowings (41.7% of the total borrowing outstanding as of September 2012), significantly lowering the overall cost of funds.
- As MIMO is now trying for more commercial funds, the interest margin will get reduced in the coming year.

Capital adequacy

The statutory auditor has certified the CRAR of MIMO Finance to be 32.03% as of 31st March 2012 which complies with the required CRAR of 15% for NBFC-MFIs. MIMO does not have any exposure in Andhra Pradesh.

Diversification

MIMO has loan portfolio in 26 districts of 5 states (Uttarakhand, Uttar Pradesh, Haryana, Rajasthan, Madhya Pradesh).

Customer Protection Initiatives

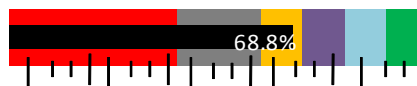
MIMO has formally adopted the industry Code of conduct and the RBI guidelines. In the Board meeting held on 20th February 2012 Board resolved to comply with all guidelines issued by RBI in its notification of 2nd December 2011.

Membership with SRO and credit bureau

MIMO is a member of Sa-Dhan as well as MFIN. MIMO has also become member of High Mark Credit Information Services Limited and shares client data with them.

Section 3: Observations

3.1 Client Origination and Targeting (COT)



MIMO's process of client origination is reasonable. The organization ensures the identity of the clients by taking KYC documents in each cycle and through multiple house visits. MIMO discourages involvement of any external agents in its group origination process and has also trained its staffs in this regard.

Approval (A)	Documentation (D)
<ul style="list-style-type: none"> ✓ MIMO has a policy of ensuring identity of clients through KYC documents and physical house verification in every cycle of loan. ✓ All these policies have been approved by the Board. ✗ Board has not approved any policy capping maximum incentive of staffs for client origination. 	<ul style="list-style-type: none"> ✓ The policies regarding client origination are well documented in manuals.
Dissemination (D)	Observance (O)
<ul style="list-style-type: none"> ✓ MIMO has provided trainings to all its staffs on processes related to client origination. All branches had Operation Manual having policies on client origination and staffs were aware of the policies. 	<ul style="list-style-type: none"> ✓ No evidence of use of any external agent or payment of unfair money for client origination was observed. ✓ Staff are aware of risks of involvement of agents in client origination as there have been such incidents in past. ✓ MIMO uses a housing index for identifying its clients. ✗ There is no upper limit on incentives for staffs for forming new groups.

MIMO started its operations in areas with lower concentration of MFIs. MIMO was the first MFI to start operations in most areas of Uttarakand, Haryana and Rajasthan. Prior to starting operations in a branch area, MIMO undertakes detailed survey of the operational area. Among other things, detailed profile of the competition in the areas is prepared as part of the survey. The branch area surveys are reviewed by the senior management team. The organisation generally avoids areas which are served by many MFIs, although there is no formal policy regarding this. The target clients for MIMO are 'poor' and 'lower middle class', MIMO identifies its target clients through a housing index.

MIMO follows RBI's guidelines on indebtedness of the clients according to which

- Not more than two MFIs will lend to a client and
- Total exposure of the client will not be more than Rs50,000.

Required trainings to the staff members have been provided to ensure that this condition is complied with. These conditions are also checked through the credit bureau records for all the loan applications. In fact clients are screened through credit bureau checks for indebtedness right at the time of group formation even before compulsory group training (CGT) is initiated. Clients have also been informed about conditions on indebtedness through structured communication exercises.

MIMO disburses loans at branches in presence of audit staff and random loan utilization checks and house visits are conducted by audit team.

Between 2008 and 2010, MIMO faced major problems relating to unauthorised agents, influential center leaders and staff collusions in many branches in Haryana and Uttarakhand resulted in significant credit losses. After this, the organisation restructured its operations significantly and contained the influence of the unauthorised agents and influential center leaders. At present, staffs have been sensitized to the negative influence of unauthorised agents. Several steps have been taken to contain the influence of the center leaders which include:

1. Discouraging center leaders from other MFIs to become center leaders of MIMO
2. Changing center leaders and group leaders at least once annually
3. Changing place of center meetings at least once annually
4. Compulsory house visits of clients by Field Executive and Branch Manager

At the Branch level the organisation maintains good communication with the other MFIs and is regularly in touch with them. Before entering any new village they inform other MFIs and wherever possible take feedback. There are instances where the list of problem clients have been shared with the staff members in other MFIs. However, currently MIMO provides incentives to its staffs for new group formation and this incentive does not have any upper limit, this may encourage staffs to form high number of groups.

Caselet: Operations in Panipat District

In 2009 MIMO tried to expand aggressively in Panipat district. In a short span of time the organisation opened 8 branches. In August 2009, there was a massive flood in the area, due to which the collections stopped for about a month and the loans had to be rescheduled for some of the centers. When normalcy returned, MIMO tried to revive its operations but were faced with repayment problems. Closer investigation revealed influence of unauthorised agents and influential center leaders resulting from aggressive targeting. In many instances loans were issued to fake clients. By March 2011, the organisation decided to scale back the operations and restructure it. It closed and merged all the branches, MIMO now has only one branch in Panipat district. In the process, MIMO suffered credit loss to the tune of Rs18 lakh.

By June 2012, the organisation was successful in streamlining its operations in Panipat district and there was no default in the new loans.

3.2 Loan Pricing (LP)



MIMO's score on loan pricing is good on account of the transparency it maintains on pricing. MIMO charges interest rate on reducing balance basis. It also does not charge any penalty for late payment or for pre-closure.

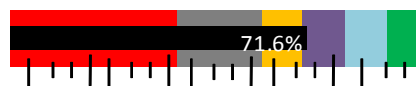
Approval (A)	Documentation (D)
<ul style="list-style-type: none"> ✓ Board has approved the pricing of 26% pa on reducing balance basis along with 1% upfront processing fee. ✓ Board is active on pricing issue and regularly discusses it. 	<ul style="list-style-type: none"> ✓ The rate of interest is clearly documented in operational manual and other documents like loan card, demand promissory note and client declaration.
Dissemination (D)	Observance (O)
<ul style="list-style-type: none"> ✓ The pricing on all products are clearly communicated to all staffs through circulars and weekly staff meetings. ✓ The pricing is documented in the Operation Manual. In all branches updated manual with the current pricing were found. The staffs have also been trained on pricing. 	<ul style="list-style-type: none"> ✓ All staffs across the organization were found to be aware of the interest rate and processing fee. ✗ However, majority of the clients could not tell the interest rate, although they were aware of the total installment amount and interest amount.

MIMO charges interest on reducing balance basis. Loan insurance is compulsory and premium is charged on actual basis. Processing fee is 1% which is charged upfront. There are no prepayment penalties or any extra charges on overdue loans. In case of prepayment, interest for the unexpired period is not charged. Thus, MIMO's pricing is in accordance with the RBI's guidelines.

The loan installment along with break-up of principal and interest is mentioned on the loan cards given to the clients. It was observed that while clients were aware of their installment amount and total interest amount to be paid, most of them were not aware of the annual interest rate charged in per cent terms.

It is apparent that interest rates are not being communicated to the clients with sufficient emphasis. It was observed that interest rate was not printed but hand written on the loan card. In one of the groups visited in Dehradun, interest rate had been mentioned on flat basis (14% was mentioned) on the loan card although it was being charged on reducing balance basis.

Further, in the internal audit reports at branch level, clients' awareness of loan conditions and pricing were not being verified.



3.3 Loan Appraisal (LA)

The score of MIMO on Loan Appraisal is good. MIMO has good processes to ensure that clients are not over-indebted. It carries out credit bureau check twice, once at the time of client registration and then just before disbursement. MIMO also looks at income and expense details of clients during appraisal.

Approval (A)	Documentation (D)
<ul style="list-style-type: none"> ✓ MIMO has an approved policy on avoiding over indebtedness of clients. It does not lend to any client having loans from two sources or to exceed the overall loan outstanding of any client beyond Rs50,000. 	<ul style="list-style-type: none"> ✓ MIMO has well documented policy on avoiding over indebtedness and also commitment towards assessing repayment capacity.
Dissemination (D)	Observance (O)
<ul style="list-style-type: none"> ✓ MIMO’s staffs have been trained on RBI guidelines and code of conduct to avoid over indebtedness as well as on checking all loan files through credit bureau. 	<ul style="list-style-type: none"> ✓ Staffs were well aware of the loan indebtedness criteria. ✓ All loan files had been checked through credit bureau and no case of over-indebtedness (>Rs50,000) of clients was observed. MIMO loan sizes are also small, highest being Rs15,000. ✗ However, household cash flow analysis of the clients, done during loan appraisal, was found to be weak.

MIMO has a good loan appraisal process for the amount of loans that it disburses. At the time of group formation, members are screened for their borrowing status through credit bureau check. Only clients which qualify screening are selected for the four-day Compulsory Group Training (CGT) which is conducted by the Field Executive. CGT is followed by the Group Recognition Test (GRT) which is done by the Branch Manager. In GRT understanding of the client about the various processes and policies of MIMO are checked. House verification is done by Field Executive as well as by Branch Manager for 100% clients and KYC documents are verified at the time of GRT and loan disbursement.

MIMO collects information pertaining to income, expenses and indebtedness from the clients for the purpose of loan appraisal. However, loan forms observed by the assessment team suggest that in many cases information pertaining to income and expenses are put in a mechanical manner and this information is not used for the purpose of loan decision-making. Loans are recommended by Branch Manager for disbursement and final approval is given by the risk team based on credit assessment of the customer and repayment record of the branch.

Currently, repayment capacities of clients are not verified by internal audit and hence client stresses due to over-indebtedness are not getting checked.

3.4 Client Data Security (CDS)



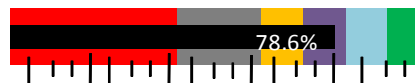
MIMO's performance on CDS is good on account of strong policies for keeping the client data secured.

Approval (A)	Documentation (D)
<ul style="list-style-type: none"> ✓ MIMO's policy requiring client data security has been approved by Board. 	<ul style="list-style-type: none"> ✓ MIMO has documented its policy of client data security.
Dissemination (D)	Observance (O)
<ul style="list-style-type: none"> ✓ There is awareness among the staffs regarding client data security and how client data should be stored. 	<ul style="list-style-type: none"> ✓ The client data is stored on a web-based MIS, thus data storage is centralized at Head Office level. The rights to accessing and modifying data are well defined and restricted. ✓ Physical documents are stored securely at the Regional Offices where there is only authorised access to these documents.

MIMO has clear policies for protection of client data and preventing unauthorized access to client records. Most of the information pertaining to clients are maintained in the MIS software used by the organisation. This software is online and data is stored at a central place. Branch staffs are provided data entry and viewing rights of clients in their branches to ensure their efficient day to day functioning. However, branch staffs cannot view data for other branches and cannot modify any data. Designated protocols are required to be followed for editing. Required back-ups are taken to ensure business continuity.

Hard copies of the loan documents and the KYC documents are kept securely in the Regional Offices. These files are barred from unauthorised access.

3.5 Staff Conduct (SC)



MIMO has performed good on staff conduct. This is on account of MIMO having trained its staffs on soft skills in dealing with clients. The staffs were well aware on behavioral aspects while dealing with clients. The observed clients also did not report of any staff misconduct. However, there is need to document certain policies related to enforcing joint liability and visiting clients at odd hours.

Approval (A)	Documentation (D)
<p>✓ MIMO has adopted the industry code and RBI fair practices code for staff behavior which includes policies regarding expected staff conduct with clients.</p>	<p>✓ MIMO has documented acceptable staff behavior with clients and has a staff code of conduct.</p> <p>✗ Policies on applying joint liability and visiting clients at odd hours are not documented.</p>
Dissemination (D)	Observance (O)
<p>✓ Staffs have been trained on good behavior with clients and on other soft skills.</p>	<p>✓ Staffs were found to be aware of behavioral issues with clients. Staffs were following these staff conduct policies.</p> <p>✓ Visited clients did not report any incidence of staff misconduct or coercion.</p> <p>✗ Staffs were not aware about not visiting clients at odd hours or the extent to which the joint liability had to be enforced.</p>

MIMO has formulated a staff code of conduct. Important aspects of this code of conduct are mentioned below

- Staff are always required to talk to the clients in polite manner
- Staff are not supposed to use indecent language or violent behaviour while collecting loans
- Staff are required to disclose all terms and conditions of the loans in transparent manner

In observed clients no case related to client coercion or misconduct was reported by clients. According to HR policy of MIMO, most of the offences related to staff misconduct, coercion, violating client privacy, misrepresentation etc have been categorized as degree 4 offences calling for dismissal or termination of the employee.

Some of the training modules reviewed by the assessment team emphasise on good staff conduct towards the clients. The client behavior aspects are covered in weekly staff meetings.

But structured trainings have not been conducted by the organisation during the past one year mainly on account of rapid decline in the portfolio size and staff strength.

The operational manual of the organisation suggests the process of enforcement of joint liability. The process, however, does not adequately cover the process of minimising conflict during the process of enforcement of joint liability. Staffs generally do not allow the center meeting to dissolve till the amount comes back. There is also no policy for preventing staffs from visiting clients at odd hours.

Absence of clear direction on enforcement of joint liability might lead to conflicts resulting in poor client relationships as well as stress for clients. Further, the internal audit also does not explicitly check behaviour of the staffs towards the clients.

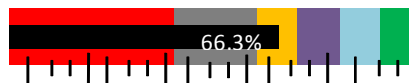
Staff visiting client at odd hours

In Saharanpur branch in August 2011, in centre ‘Shagufta ka Ghar’ members did not pay the amount on the scheduled meeting date. The field staff insisted for repayment through joint liability and did not let the meeting dissolve. But the members did not pay and instead informed that the centre leader had collected the repayment amount from them in advance and then did not come for the meeting. The staffs of MIMO then made an attempt to contact the centre leader who tried to avoid them. The staffs therefore waited until night. The field staffs and middle management team of MIMO then visited the Centre leader’s house at night and collected the amount from her at 9.00pm. Subsequently, no fresh disbursement was made to the centre. However, according to MIMO staff no coercion or force was used in recovery and the centre leader returned the money amicably.

The staffs showed their willingness to visit clients at odd even in future if situation so demanded.

It was reported to the assessment team that in the past, some of the staffs were found to have criminal backgrounds and some staffs had committed frauds too. MIMO has taken steps to control this problem. The organization has laid-off several staffs with dubious backgrounds and behavior. It has now also made criminal background check compulsory for all new recruits.

3.6 Client Relationship and Feedback (CRF)



MIMO has received reasonable score on client feedback. MIMO offers a toll-free helpline to clients for feedback or reporting any grievances. However, currently there is no dedicated staff for handling client grievances and no analysis of grievances is done.

Approval (A)	Documentation (D)
✓ The Board has approved the policy for grievance redressal.	✓ MIMO has documented the policy for grievance redressal. The policy defines process of taking client feedback and resolving grievance.
Dissemination (D)	Observance (O)
✓ MIMO staffs are well aware of the toll-free number and actively communicate it to clients too.	✓ The toll-free number is managed from the Head Office. Currently, there is no dedicated person to handle toll-free line and no analysis of complaints or queries is done. ✗ The grievance redressals are not verified through internal audit.

MIMO has formulated a grievance redressal policy for addressing client grievances. A toll-free number has been provided to the clients. Clients can call on this number and register their grievances. MIMO has made efforts to ensure that the toll-free numbers are adequately disseminated. The grievance redressal number has been mentioned on the loan cards of the clients.

The responsibility for handling the grievances is currently given to some people on ad-hoc basis. MIMO does have processes to follow up on the grievances that are registered and the complaints are followed up by the relevant staffs. However, grievance redressal is currently not covered under internal audit.

On the field it was observed that the staffs of MIMO proactively inform the clients about the toll-free number. Most of the clients met by the assessment team were aware of the toll-free number, although, only a few clients reported actually calling on the number to register their grievances. Some of the clients complained of them not being able to connect to the toll-free number.

Case let: toll-free number

During the field visit to the Bapoli branch, the assessment team from M2i suggested clients to test the functioning of the grievance redressal mechanism by calling on the given number. Between 9.30 AM to 11.00 AM, the clients in the two groups tried to call on the toll free number at least 10 times but the call was unable to connect.

However, from another location in Haridwar, clients did connect to the toll-free number and were given appropriate responses.

In the past, the organisation also actively solicited feedback from the clients by calling them on their mobile numbers. Due to poor response from the mobile numbers, MIMO has now stopped that practice.

3.7 Integrating Social Values into Operations (ISV)



MIMO's score on ISV is weak. This is on account of the issues related to the functioning of Board and absence of systematic process for tracking socio-economic progress of the clients.

Approval (A)	Documentation (D)
<ul style="list-style-type: none"> ✓ MIMO has an approved vision of providing sustainable financial services to the poor. ✗ MIMO Board has only one independent member and there is no audit committee. ✗ Most Board members have not been involved in decision making. 	<ul style="list-style-type: none"> ✓ MIMO's vision, mission and values are well-documented and displayed in all its branches. ✓ The policy for identifying the target clients is also documented. ✗ There is no policy regarding tracking socio-economic progress of clients or on social performance management.
Dissemination (D)	Observance (O)
<ul style="list-style-type: none"> ✓ MIMO's staffs are aware of the target clients who are mainly from low income category. ✓ The staffs are made aware of these through various trainings and staff meetings. ✓ Staffs have not been trained in tracking clients' socio-economic progress. 	<ul style="list-style-type: none"> ✓ MIMO has started a financial product for meeting water requirements of the people, which has been very well received by the community. ✗ The company has currently no system to track socio-economic progress of clients.

MIMO had 5 member Board of Directors as of 30th September 2012; except one Board member all the other members are either executives or shareholders. Review of the past minutes of the Board meetings show that many meetings were done without participation of majority of Board members. In as many as 6 of the total 11 Board meetings conducted in 2011-12, only two Board members were present who were also the promoters of the company. In 2012-13 so far 7 Board meetings have been conducted and in four of those meetings only 2 members were present. There is also no Board level Audit committee currently in MIMO.

In addition to income generation loan, MIMO has started a water loan on a very limited scale. MIMO has received very positive response on the product. Looking at the response on the product, MIMO plans to continue with the product and even expand it relative to the overall portfolio growth. The loan outstanding under the product was only 0.3% of the total portfolio of MIMO as of 30 September 2012. Total disbursement under it was Rs720,000 to 60 clients.

MIMO also carries out other non-financial social activities such as health camps, financial literacy camps etc. on annual basis but there is no social performance management policy or framework to guide these interventions.

Currently, MIMO does not have any tool to systematically track the socio-economic progress of its clients and staffs have not been trained in this regard. But MIMO is planning to track its clients through Progress Out of Poverty Index (PPI) in the future. MIMO in past has compiled some client case studies and has also got a social assessment done in May 2010.

Annexure 1: Matrix of Score Obtained³

Indicators	A		Do		Ds		O		Total	
	Max	Obt	Max	Obt	Max	Obt	Max	Obt	Max	Obt
Client origination and targeting	5	3.67	5	3.67	5	3.67	9	5.50	24	16.5
Loan Pricing	3	2.75	1	0.92	2	1.83	9	6.60	15	12.1
Loan Appraisal	4	3.67	4	1.83	3	2.75	5	3.21	16	11.5
Client Data Security	1	0.92	3	1.83	2	1.83	2	1.83	8	6.4
Staff Conduct	7	5.50	7	5.50	10	7.33	11	9.17	35	27.5
Client Relationship and Feedback	2	1.83	8	5.50	6	3.67	10	6.23	26	17.2
Integrating Social Values into Operations	3	0.00	3	0.92	3	1.83	5	2.75	14	5.5
Total	25	18.33	31	20.17	31	22.92	51	35.29	138	96.7

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

Note: Scores have been reduced by a factor of 0.92 to reflect overall achievement on regulatory compliance.

³ ADDO © Prime M2i Consulting Private Limited

Annexure 2: Tool Development, Methodology and List of Branches Visited

The code of conduct compliance assessment tool was developed as a response to the need expressed in a meeting of stakeholders in Indian microfinance by the Small Industries Development Bank of India (SIDBI) and the World Bank in December 2009. The code of conduct dimensions were identified by reviewing the various norms for ethical finance. These included RBI’s fair practices guidelines for Non Banking Financial Companies, industry code of conduct (Sadhan-MFIN) and CGAP’s client protection principles. The most important challenge for M2i was to create objective indicators which could comprehensively measure the seven dimensions. A total of 138 indicators⁴ were developed across these dimensions, so that subjectivity in measurement could be minimized. The numbers of indicators for each dimension are presented below.

Dimension	Nos. of Indicators
Client origination and targeting	24
Loan Pricing	15
Loan Appraisal	16
Client Data Security	8
Staff Conduct	35
Client Relationship and Feedback	26
Integrating Social Values into Operations	14
Total	138

In order to make the measurement comprehensive and objective, a method of scoring was developed so that:

1. Measurements on the indicators are taken on the dimensions across the four parameters within an MFI – Approval, Documentation, Dissemination and Observance
2. Indicators are mapped to underlying characteristics which can be objectively measured. This is illustrated in the box below.

Illustration

One of the indicators developed to measure the dissemination of guidelines related to staff conduct is:

Has the MFI provided training to its operational staff on their conduct with clients, particularly relating to:

- A. Conducting client meetings
- B. Collecting repayments
- C. Recovering overdue loans

The basis of scoring this indicator is the proportion of operational staff interviewed who have received training on these specific aspects. In case all the staff members have received trainings on each of these aspects then the score is 1 on each of these indicators, totaling to 3. If only 50% of the operational staff members interviewed have received training on these specific aspects then the score totals to 1.5 (0.5+0.5+0.5).

⁴ Integrating Social Values into Operations with 14 indicators was added to tool in September 2012.

The Code of conduct assessment tool was tested on four MFIs during its portfolio audit and best practices validation engagements. M2i formally presented the code of conduct assessment tool at a microfinance lender's forum meeting held in Mumbai at SIDBI's office in June 2010.

With RBI issuing various specific guidelines for MFIs, M2i started scoring MFI's compliance to regulatory guidelines from 2012 onwards. The scores obtained by MFI on various COCA dimensions are scaled down in proportion to the score obtained in regulatory compliance.

Methodology

The code of conduct exercise is spread over four to eight days. The first day is spent at the head office. The assessment team visits the branches over the next three to eight days. Depending upon the size and the operational area of the MFI, three to fifteen branches and between 120 and 200 clients are sampled for primary survey.

Key Aspects

- Duration of the exercise: Four to eight days
- Nos. of branches to be visited: Eight to Fifteen
- Nos. of MFI clients to be interviewed: 120-200

This exercise requires:

1. Discussions with key staff members and the senior management at the head office. particularly the senior operational management team as well as the human resources team. These discussions focus on key issues of the code of conduct identified above.
2. Review of policy documents and manuals at the head office. These are reviewed in order to assess the policy as well as documentation regarding important aspects of the code of conduct. The last audited financial statements will also be required.
3. Sampling of branches at the head office. The assessment team samples branches for review. The branches are chosen in across different states in case the MFI operates in more than one state. Care is exercised to include older branches as well as branches that are distant from the head office or the regional office. The sampling of the branches is performed at the head office of the MFI.
4. Discussions with the branch staff at the branch office. Discussions with branch managers and the field staff is carried out to assess their understanding of the key code of conduct principles.
5. Sampling of respondents in the selected branches. A judgmental sampling is performed on the MFI's clients by the assessment team to draw respondents from the interest group, in order to maximize the likelihood that instances of non-adherence can be detected.
6. Interview with the clients. Information from the clients is collected ideally during the group meetings. If this is not possible, visits are made to the clients' locations for collecting information.
7. Review of loan files at the branch office. This review focuses on loan appraisal performed before disbursing loans as well as the documents collected from the clients.

As part of this assessment, we visited. The details of the project offices (branch) visited are provided below.

Sr No	Branch	State	No of clients interviewed
1	Bapoli	Haryana	27
2	Ladwa	Haryana	0
3	Dehradun	Uttarakhand	12
4	Haridwar	Uttarakhand	17
5	Saharanpur	Uttar Pradesh	19
6	Chhutmalpur	Uttar Pradesh	14
7	Ajmer	Rajasthan	15
8	Gulabpura	Rajasthan	15
Total			119

Annexure 3: Code of Conduct Assessment – Framework

Code of conduct dimensions

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

better understand clients’ needs and grievances. MFIs need to have formal mechanisms to get feedback and complaints from the clients. Customer complaints need to be taken seriously, investigated and resolved in a timely manner. The responsibilities relating to receiving client grievance and feedback and acting upon them need to be clearly identified and allocated.

- Integrating Social Values into Operations: It is necessary to have high standards of governance and to have client focused social mission. It is also necessary to measure the socio-economic changes that MFIs’ efforts are bringing in the lives of its clients and to compare it against the mission.

Compliance

In order to fully integrate operations with the principles presented above, MFIs need to adopt a comprehensive approach involving the board, the management as well as other staff members and clients. This tool measures the adherence to these principles on four parameters – Approval, Documentation, Dissemination, Observance (ADDO). This ADDO framework has been developed by M2i and is summarized below:

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

Weights

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

Weight Matrix	Approval	Documentation	Dissemination	Observance	Totals
Client Origination	4%	4%	4%	7%	19%
Loan Pricing	2%	1%	1%	7%	11%
Loan Appraisal	3%	3%	2%	4%	12%
Client Data Security	1%	2%	1%	1%	5%
Staff Conduct	5%	5%	7%	8%	25%
Client Relationship and Feedback	1%	6%	4%	7%	18%
Integrating Social Values into Operations	2%	2%	2%	4%	10%
Totals	18%	23%	21%	38%	100%

Regulatory compliance (ReC)

Since it is mandatory for MFIs to comply with the guidelines given by the regulator, the MFIs are assessed for their compliance with these regulations. The level of compliance of an MFI to regulations is scored and this is factored-in in COCA by scaling down the scores on various COCA dimensions in proportion to the score obtained on ReC.