

Mr. Nagendra Mali,
CMD,
Navachetana Microfin Services Private Limited
#1596, 1st Floor, 11th A Main,
36th Cross, 4th T Block, Jayanagar
Bengaluru- 560041

April 06, 2017

Dear Sir,

Comprehensive Micro Financing Institution (MFI) Grading

Please refer to your request for Comprehensive MFI Grading of your organization.

1. Our Rating Committee has assigned a grading of '**M3C4**' (**M Three C Four**) to your organization. This signifies above average capacity of the MFI to manage its operations in a sustainable manner and weak performance on code of conduct dimensions.
2. The rationale for the grading is enclosed as an **Annexure - I**.
3. Comprehensive MFI grading provides an opinion of CARE on MFI's capacity to carry out its micro finance operations in a sustainable manner and its adherence to Industry code of conduct. It does not constitute a recommendation to buy, hold or sell any financial instrument issued by the organization or to make loans/ donations/ grants to the said organization.

Thanking you,

Yours faithfully,



[Bhisham Golani]
Deputy Manager
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CREDIT ANALYSIS & RESEARCH LTD.

Annexure-I Comprehensive MFI Grading

Navachetana Microfin Services Private Limited (NMSPL)

Comprehensive Grade Assigned: M3C4

Date assigned: April 06, 2017

Scale	C1	C2	C3	C4	C5
M1					
M2					
M3				M3C4	
M4					
M5					
M6					
M7					
M8					

Navachetana Microfin Services Private Limited (NMSPL) has been assigned a comprehensive MFI grade of **M3C4**. This signifies above average capacity of the MFI to manage its operations in a sustainable manner and weak performance on code of conduct dimensions.

Grading Rationale

Microfinance Grading	NMSPL has been assigned “ M3 ” as its performance grade which signifies ‘above average’ capacity of the organization to carry out its activities in a sustainable manner’. The organization has sound management, good portfolio quality, standard operating processes and management information system but it has a relatively small size of operations. Its loan portfolio is also concentrated in a limited geographical area.
Code of Conduct Assessment Grade	NMSPL has been assigned “ C4 ” as its Code of Conduct Assessment Grade which signifies ‘weak’ performance on COCA dimensions.

*Comprehensive MFI Grading provides opinion of the Rating Agency on MFI's capacity to carry out its microfinance operations in a sustainable manner and its adherence to Industry code of conduct. MFI Grading has been done on the dimensions of **Transparency, Scale of Operations, Operational Setup and Sustainability**. Assessment on Code of Conduct has been done on the indicators pertaining to **Transparency, Client Protection, Governance, Recruitment, Client Education, Feedback & Grievance Redressal and Data Sharing**. Some of these indicators have been categorized as Higher Order indicators consisting of indicators on **Integrity and Ethical Behaviour and Sensitive Indicators**.*

Conflict of Interest Declaration

CARE (including its holding company and wholly owned subsidiaries) has not been involved in any assignment of advisory nature for a period of 12 months preceding the date of the comprehensive grading. None of the employees or the Board members of CARE have been a member of the Board of Directors of the MFI during for a period of 12 months preceding the date of the comprehensive grading.

Disclaimer

CARE's microfinance (MFI) grading is a one-time assessment and the grading is not kept under periodic surveillance. CARE's analysis draws heavily from the information provided by the microfinance institution as well as information obtained from sources believed by CARE to be accurate and reliable. However, CARE does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. It does not imply that CARE performs an audit function to detect fraud. In case of NGO MFIs, gradings apply only to their microfinance programs. CARE's MFI grading is not a recommendation to buy, sell or hold any financial instrument issued by the MFI or to make loans/ donations/ grants to the MFI. It is not an assessment of the debt servicing ability of the MFI. The grading assigned by CARE cannot be used by the MFI in any form for mobilizing deposits/savings/thrift from its members or general public. CARE's MFI grading also does not indicate compliance/violation of various statutory requirements. CARE shall not be liable for any losses incurred by users from any use of the microfinance grading.

Historical Rating Grades (COCA)

Year	Name of the Agency	Average Score	Grade
Nov-15	ACCESS ASSIST	3.04	A (2 nd on 6 point scale)

Historical Rating Grades (MFI Grading)

Year	Rating Agency	Comprehensive Rating Grade
FY14	CARE	MFI 3+ (4 th on a scale of 1-8)
FY15	CARE	MFI 3+ (4 th on a scale of 1-8)
FY16	CARE	MFI 3+ (4 th on a scale of 1-8)
FY17	CARE	MFI 2 (3 rd on a scale of 1-8)

Historical Rating (Bank Loan Ratings)

Date	Name of the Agency	Rating assigned	
		Long Term	Short Term
January, 2014	CARE	CARE BB	-
March, 2015	CARE	CARE BB+	-
February, 2016	CARE	CARE BB+	-
September 2016	Brickworks	CARE BB+	-
October 2016	CARE	CARE BB+	-

Microfinance Grading Symbols and Definitions

Grading Scale	Definitions
M1	MFIs with this grade are considered to have highest capacity to manage their microfinance operations in a sustainable manner.
M2	MFIs with this grade are considered to have high capacity to manage their microfinance operations in a sustainable manner.
M3	MFIs with this grade are considered to have above average capacity to manage their microfinance operations in a sustainable manner.
M4	MFIs with this grade are considered to have average capacity to manage their microfinance operations in a sustainable manner.
M5	MFIs with this grade are considered to have inadequate capacity to manage their microfinance operations in a sustainable manner.
M6	MFIs with this grade are considered to have low capacity to manage their microfinance operations in a sustainable manner.
M7	MFIs with this grade are considered to have very low capacity to manage their microfinance operations in a sustainable manner.
M8	MFIs with this grade are considered to have lowest capacity to manage their microfinance operations in a sustainable manner.

Code of Conduct Assessment scale and definitions

C1	MFIs with this grade have excellent performance on Code of Conduct dimensions
C2	MFIs with this grade have good performance on Code of Conduct dimensions
C3	MFIs with this grade have average performance on Code of Conduct dimensions
C4	MFIs with this grade have weak performance on Code of Conduct dimensions
C5	MFIs with this grade have weakest performance on Code of Conduct dimensions

MFI's profile (June 30, 2016)	
Name of the MFI	Navachetana Microfin Services Private Limited
Legal form	NBFC – MFI#
Operational Head	Mr. Maruti F.B. (Director-Operations)
Year of starting microfinance	2004
Branches (Month YYYY)	43
Active borrowers	54,252
Total staff	364
Operational area	15 (12 Districts of Karnataka and 3 districts of Maharashtra)
Visit of the Assessment team	24 & 27 March 2017
Correspondence address	Hitaishi, Shirur Group, P B Road, Haveri – 581110

#MFI status awarded on October 13, 2015

Details of Loan Products (March, 2016)				
Product	Description	Loan size (Rs)	Interest Rate (p.a.)	APR (Interest Rate and Processing fees)
Income Generation loan	JLG loans	15000 to 46000	26%	27%
Emergency loan	Individual loan	2000	26%	27%
Health loan		500 to 2350	26%	27%
Medical loan		3000 to 5000	24%	25%
Festival loan		Upto 3000	24%	25%
Education loan		Upto 5000	24%	25%
Appliances loan		1000 to 15000	20%	21%
Home repairs loan		Upto 25000	24%	25%
Home construction loan		Upto 200000	24%	25%
Water loan		Upto 5000	24%	25%
Sanitation loan		Upto 10000	24%	25%

Ownership/Equity Structure

Shareholding Pattern (March 31, 2016)	
Shareholder	% Shareholding
Promoters & promoters group	3.06
Navajeevan Mutual Benefit Trust	89.57
Navachetana Enterprises Haveri Private Limited	6.65
Individuals	0.46
Navachetana Employees welfare Trust	0.26
Total	100

Profile of Board of Directors

Board of Directors (December 31, 2016)			
Sr No	Name	Education	Brief profile
1	Mr Nagendra Virupakshappa Mali	B.Sc. and PG in Journalism	He is the founder director of both Navachetana Foundation (NCF) and Navachetana Microfin Services Private Limited (NMSPL). He has more than a decade experience and exposure to NGO activities.
2	Mr R.P.Vohra	BSc	He is a retired banker and had joined NMFSL since October 2013 as Vice-President Finance
3	Mr Maruti.F.B	MA, PGDCA	Since 2004, he has been associated with Navachetana Group and has more than 8 years of experience in microfinance.
4	Ms Chandrakala N Mali	BA	She has worked as a Teacher in Karnataka Public School for nearly two years, and serves on the Board of Chetana Financial Services Pvt. Ltd, a NBFC, which is into financing of Vehicles and Micro Enterprises.
5	Mr T.Vishwanath Rai	MBA, PGDM in Industrial Relations	He is a retired banker and post retirement he joined Muthoot Finance as a Regional Manager.

Key Performance Ratios		
	March, 2015	March, 2016
Portfolio at Risk (>30 days)	0.95	0.74
Capital to Risk Weighted Capital Adequacy Ratio (CRAR)	25.40	19.32
Operating Expense Ratio (OER)	5.84	5.40
Funding Expense Ratio (FER)	12.17	11.29
Write-offs to average portfolio	0.70	0.61
Return on Assets (RoA)	0.42	0.56
Return on Equity (RoE)	2.54	4.20
Active borrowers per loan / credit officer	459	294
Active borrowers per branch	2068	1062

Compliance with RBI's Directions for MFIs

Sr No	RBI's Direction	Status
1	85% of total assets to be in the nature of qualifying assets	In compliance
2	Net worth to be in excess of Rs 5 Crore	In compliance
3	Income of borrower not to exceed Rs 100,000 in the	In compliance

	rural areas and Rs 160,000 in the urban and semi-urban areas	
4	Loans size not to exceed Rs 60,000 in first cycle and Rs 100,000 in subsequent cycles	In compliance
5	Total indebtedness of the borrower not to exceed Rs 100,000	In compliance
6	Tenure of loans not to be less than 24 months for loan amount in excess of Rs 30,000, with prepayment without penalty	In compliance
7	Pricing guidelines are to be followed	In compliance
8	Transparency in interest rates to be maintained	In compliance
9	Not more than two MFIs lend to the same client	In compliance

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Section 1: Microfinance Grading

Transparency
<ul style="list-style-type: none"> ○ Registered as Non-Banking Finance Company (NBFC-MFI). Legal form is subjected to greater regulatory norms and reporting. ○ Credit policies are well established and documented and communicated. ○ Transparency in lending process is adequate. ○ Transparency in usage of funds is adequate. ○ Overall disclosures are moderate. ○ Has separate internal audit team
Operational Setup
<ul style="list-style-type: none"> ○ Created separate departments with clear demarcated roles and responsibilities. ○ Adequate loan appraisal & monitoring systems. ○ Adequate system for tracking over-dues. ○ MIS is adequate for current level of operations. ○ Risk Management System needs to evolve further. ○ Attrition rate is moderate in FY16 at 7.9% ○ Training systems are adequate, but needs to establish separate training department with specialized team
Scale of Operations
<ul style="list-style-type: none"> ○ Small client base. As on March 31, 2016 has 43,551 active borrowers increased from 41,351 active borrowers as on March 31, 2015. It further increased to 54,252 active borrowers as on June 30, 2016. ○ In terms of gross loan portfolio, NMSPL ranks amongst small size MFIs in India. ○ As on March 31, 2016 the portfolio outstanding increased to Rs.95.20 crore from Rs.51.90 crore as on March 31, 2015. As on June 30, 2016 the portfolio outstanding further increased to Rs.101.72 crore. ○ NMSPL operates in twelve districts of Karnataka and three district of Maharashtra. ○ Concentrated presence in Karnataka (~88.4%) and small presence in Maharashtra (11.6%) as on March 31, 2016. ○ The company has a moderate track record in microfinance activity.
Sustainability
<ul style="list-style-type: none"> ○ Legal form allows equity infusion from investors.

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- Capital adequacy ratio at reasonable levels. CAR of 25.06% as on June 30, 2016.
- Moderate asset quality in FY16 with PAR>30 days and PAR> 90 days at 0.74% and 0.65% respectively. NMSPL has been able to maintain OSS level above 100% over the years and also in FY16 and Q1FY17.
- Second line of leadership in NMSPL is adequate for current level of operations.
- Moderate resource base.
- Operating expense ratio is high, however has been moderating over the years.
- Has presence in areas with high penetration of MFIs.
- **Industry Outlook**

Post the AP crisis and regulatory intervention by RBI, the microfinance sector has seen strong growth in loan portfolio on account of improving funding profile, control over operating expenses, improving margins and moderate leverage levels.

RBI has revised the lending norms for the MFI sector, post Andhra Pradesh (AP) crisis in 2010 and Malegam Committee Report on NBFC-MFI in 2011. The sector has evolved with the advent of credit bureaus in the sector and subsequent control over asset quality. MFI sector saw 30+ days past due (DPD) of around 0.33% as on March 31, 2016. As on the same date, aggregate gross loan outstanding for the sector was Rs.53,233 crore, registering 84% Y-o-Y growth from Rs. 28,940 crore as on March 31, 2015. (Source: MFIN)

Impact of Demonetization -

Post demonetization of high value currency notes, many of the MFIs have faced collection issues as they generally operate in cash. For the first 2 weeks following the announcement of demonetization, the collection ratio reportedly declined to 80%. Subsequent increase in supply of new currencies by RBI led to increase in collections in the fourth week of November. But the collections have come down subsequently due to the dispensation provided by RBI (earlier by 60 days and later increased to 90 days) to financial institutions in terms of recognizing NPAs. This was misrepresented to the borrowers by influential people (as some kind of loan waiver), and thus resulted in fall in collection efficiency in few states like Uttar Pradesh, Maharashtra and Madhya Pradesh.

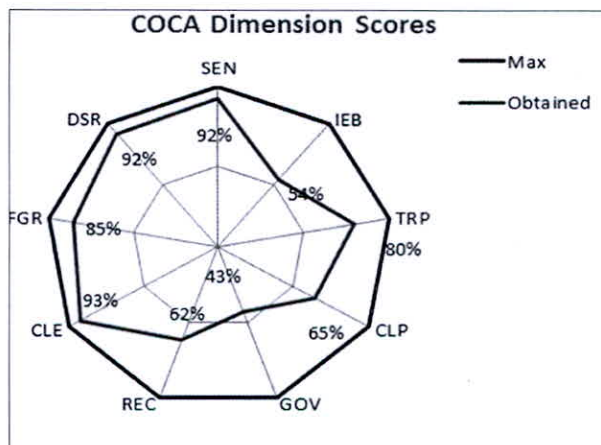
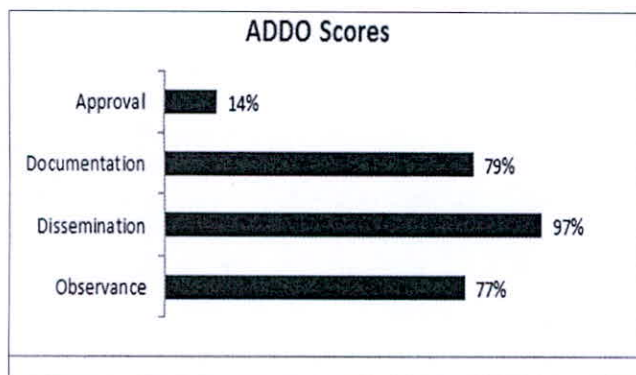
Post demonetization, MFIs are increasingly looking for cashless disbursement and

collection through Jan-Dhan accounts and by leveraging technology. With 8 NBFC-MFIs converting into Small Finance Banks (SFBs) by March 2017, the competitive environment is bound to undergo a major shift within the microfinance industry as a whole. As these entities are expected to remain focused on microfinance, cashless disbursement and collection of loans is bound to increase in the future.

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Section 2: Code of Conduct Assessment



SEN: Sensitive Indicators; IEB: Integrity and Ethical Behaviour; TRP=Transparency; CLP=Client Protection; GOV=Governance; REC=Recruitment; CLE=Client Education; FGR=Feedback and Grievance Redressal; DSR=Data Security

Code of Conduct Assessment Summary

NMSPL was found to have a weak governance structure with Board having no independent directors and a moderate organizational structure with standard operating processes in place. The staff was found to be trained and ethical while dealing with clients and there is good amount of transparency in the operations.

MFI Strengths and weaknesses pertaining to Code of Conduct

Strengths	Weaknesses
<ul style="list-style-type: none"> • Good governance with reputed members in the management committee. • Standardized operating procedures in place with documented policies with respect to loan sanctions, conduct of the staff, field operations, credit appraisal and systems. • Strong human resource profile through training. 	<ul style="list-style-type: none"> • No representation of independent directors in the board. • Internal audit is conducted on ongoing basis; however, there is no formal report presented by the internal auditor to the board. • Public disclosures of data are moderate. • No written policy regarding constitution of board and 1/3 of board members to be independent persons. • Management not placing the code of conduct compliance report of board • Audit committee has not met till date since its inception in November 2015.

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Significant observations

Higher Order Indicators	
Integrity and Ethical Behaviour	<ul style="list-style-type: none"> • NMSPL doesn't have a policy which specifies an upper limit related to monthly enrollment targets, and no of clients managed. • NMSPL doesn't places regular reports on Code of Conduct Compliance before the board. • There is no documented HR policy, which mentions that the shortfall in collections will not be recovered from employees. • NMSPL's board doesn't review the recruitment policy annually. • Standard operating process is in place with strong degree of adherence and the staff is appropriately trained to abide by the code of conduct. • Fair degree of transparency observed while dealing with borrowers and the staff was found ethical and the management treats borrowers and staff members with dignity.
Sensitive Indicators	<ul style="list-style-type: none"> • The clients surveyed were well aware of the loan products, interest rates and charges for loan. • The borrowers had no grievances with respect to conduct, punctuality and behavior of the loan officers. • NMSPL is in compliance with the all RBI's guidelines for NBFC-MFIs. • The borrowers are provided sanction letters, which mention terms and conditions of the loan along with the annualized interest rates. • In some cases, the borrowers have not received accurate receipts for all the transactions. • The difference in the effective interest rate between two loan products is more than 4%

Building Blocks	
Transparency	<ul style="list-style-type: none"> • The policies of the company are in place and documented in its operational manual and HR manual. • The details of loan products are displayed in the branches and are in local languages and loan cards given to borrowers have interest & principal amount, fees and insurance printed on them and further, the loan officers have explained them to borrowers.

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	<ul style="list-style-type: none"> • The borrowers are provided sanction letters; which mentions terms and conditions of the loan along with the annualized interest rates. • Details related to latest RBI's guidelines are available at the branches. • The company has continuous training programmes for its staff at various levels which is imparted by the senior management team. The training mainly covers operational aspects like details of loan products and conduct with borrowers. • The company has fair amount of disclosures in the public domain with key operational parameters on its web site; however the detailed financial statements and annual report for the last financial year is not available on the web site. • No internal audit reports and management reports have been presented to the board, as the same is discussed during the monthly management meeting of the company. • The code of conduct compliance report of the MFI is not available on the public domain • NMSPL's financials for the previous and current year are not available on the public domain.
<p>Client Protection</p>	<ul style="list-style-type: none"> • The products and charges (interest and fees) were in compliance with the RBI guidelines. • Insurance is provided from IRDA approved insurance agency. • The loan cards given to the clients have documented repayment schedule and interest rates printed on them. • The company works on a monthly schedule with fixed days for promotion, accepting new applications, credit appraisal and disbursement and collection. • The field staff is trained to assess the income and indebtedness of clients and also have documented criteria in the operational manual. • The operational manual of the company provides guidelines for conducting meetings with the borrowers and their conduct. The staff is also trained on the same issues. • The field staff is trained for not using any coercive or abusive language or provide any threat in case non-payment by the borrowers. The sample of borrowers surveyed did not have negative comments about the field staff.

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	<ul style="list-style-type: none"> • The clients are informed about sharing of their data with credit bureaus and other agencies. • NMSPL doesn't have a policy related to maintaining privacy and security of client data. • In its quarterly meeting the board, doesn't review the proportion of qualifying loan assets to total assets. • The board doesn't review NMSPL's performance based on loan sizes, loan tenures, loan purpose, income of borrowers, KYC's norms, indebtedness of borrowers, and turnaround time for loan sanction & disbursement. • Though NMSPL has an operational manual, which covers guidelines for employee interaction with clients regarding informing client about interest rate and other costs, conducting client meeting, collecting repayments, and recovering overdue loans, however the same is not reviewed by the board annually. • There is no Board policy that any non-credit product offered (with the exception of credit linked insurance), will be voluntary for the client and would not be a precondition for loan. Also NMSPL's doesn't conduct the audit to check the adherence of same by the employees. • Over the past year, the Board has not assessed NMSPL's credit appraisal guidelines with respect to credit risk of the NMSPL.
<p>Governance</p>	<ul style="list-style-type: none"> • NMSPL doesn't have a written policy regarding constitution of the board including the fact that the board members should have good and sound reputation and 1/3rd of the members are independent persons. Currently board doesn't have any independent directors in its board. • The board comprises of 5 members, and all the members of the board, are executive directors. All the members of the board have good and sound reputation. • The board has not approved a policy for debt restructuring for clients facing repayment stress • The board chairperson is the executive of the company. • The company's audit committee, which is a board level sub-committee, has not met till date since its formation in November 2015. • Internal audit is done on continuing basis,

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	<p>however, there is no formal documented report submitted by the internal auditor to the Board/Sub committees.</p> <ul style="list-style-type: none"> • NMSPL doesn't place the code of conduct compliance report before the board. • Since the company didn't have CEO during the last financial year, the disclosure about the salary of the same was not required to be made. • The statutory auditor M/s. B. S. Chandrashekhar & Co. has given a favorable feedback on the accounting practices and systems followed by the organization.
<p>Recruitment</p>	<ul style="list-style-type: none"> • NMSPL performs reference checks on its new recruits. • Though the company doesn't have defined and documented process for responding to reference check request, it has been responding to the various reference check requests from other MFI's • There have been instances where the staff member has been assigned same area, where he was serving at the previous employer before the period of one year. • HR policies are in place with criteria for selection and growth opportunities in place. • The company has proper notice period for employees who have and does reference check for new recruits.
<p>Client Education</p>	<ul style="list-style-type: none"> • NMSPL has documented process for raising clients' awareness of the options, choices and responsibilities regarding financial products and services • Though NMSPL responds on reference check request, it doesn't have a defined and documented process for responding to reference check requests. • NMSPL doesn't have a documented policy that when it recruits staff from another MFI, the said staff will not be assigned to the same area he/she was serving at the previous employer for a period of one year. • Some instances were found where the employees of NMSPL were assigned the same area he was serving at the previous employer, within the period of one year. • The staff members have received the training on the communication to be provided to clients about

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	<p>the organizational policies and procedures.</p> <ul style="list-style-type: none"> • The internal audit checklist doesn't include the assessment of client awareness and understanding; however borrowers were found to be aware about the various terms conditions of loan such as annualized interest rate, loan term, processing fee, insurance charges, etc.
<p>Feedback and Grievance Redressal</p>	<ul style="list-style-type: none"> • The operational manual and training manual of employees, includes the details of the grievance redress and include the time frame for the grievance resolution as well as escalation mechanism. • Though the grievance redressal mechanism is not mentioned in the loan documents, the borrowers are given information about the same during the training given to them. • Grievance redressal mechanism is properly is in place and the surveyed borrowers were aware of such mechanisms. • NMSPL prepares monthly reports about the number, nature and resolution of grievances and feedback received for management review. • In its loan agreement copy, NMSPL doesn't make a declaration that it is responsible for the behavior of its staff.
<p>Data Sharing</p>	<ul style="list-style-type: none"> • Data is shared on a weekly basis with the credit bureaus like High Mark, CIBIL, Equifax, and Experian as well as SROs like MFIN on half yearly basis. • The brief snapshot of operational data is available on website. However, the audited financial statements for the last financial year are not available on the web site.

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Annexure: Methodologies

Microfinance Grading Methodology

CARE Ratings' MFI Grading Framework

CARE's MFI grading is a one-time assessment of a Micro Finance Institution's (MFI) operational and financial capability to undertake and sustain the targeted level of operations.

CARE evaluates an MFI under a four point framework:

- I. Transparency;**
- II. Operational setup;**
- III. Scale of operations and**
- IV. Sustainability.**

The various aspects covered under each parameter are given below:

<p>I. TRANSPARENCY</p> <ul style="list-style-type: none"> • Governance • Accounting Policies • Internal Control • Transparency in the usage of grants and funds • Transparency in the lending process 	<p>III. SCALE OF OPERATIONS</p> <ul style="list-style-type: none"> • Geographical spread of operations and outreach • Variety of loan Products • Efforts to increase outreach and coverage
<p>II. OPERATIONAL SETUP</p> <ul style="list-style-type: none"> • Promoter/Management Assessment • Organisational Structure • Systems and Procedures • Quality of Information System • Lending policy • Quality of Loan Monitoring process • Litigation • Risk Mitigating mechanisms 	<p>IV. SUSTAINABILITY</p> <p><i>a) Financial Sustainability</i></p> <ul style="list-style-type: none"> • Resource Profile • Cost Structure • Interest rate policies • Capital Adequacy • Asset quality • Earnings • Liquidity and Asset Liability Management <p><i>b) Operational Sustainability</i></p> <ul style="list-style-type: none"> • Succession planning • Competition • Resource arrangements • Vision

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COCA Methodology

The Code of Conduct Assessment (COCA) 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 (Sa-dhan and MFIN) and Smart Campaign's Client Protection Principles (CPP).

In 2016, need was felt to harmonize COCA to the most recent industry code of conduct and to standardize COCA tools of different rating/assessment agencies. This grading is based on the harmonized COCA tool. In the harmonized COCA tool, the dimensions were classified in three categories – highest order, higher order and building blocks. This grading is based on the harmonized COCA tool.

Highest Order	
Sensitive Indicators	
Higher Order	
Integrity & Ethical Behavior	
Building Blocks	
Governance	Client Protection, Recruitment
Transparency	Feedback/Grievance Redressal
Client Education	Data Sharing

Chart: COCA Indicators Framework

Number of indicators in each category is presented below

Higher Order Indicators	Number of Indicators
Integrity and Ethical Behaviour	32
Sensitive indicators	27
Building Blocks	Number of Indicators
Transparency	40
Client Protection	123
Governance	30
Recruitment	13
Client Education	14
Feedback & Grievance Redressal	25
Data Sharing	6
Total	250

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, eight to fifteen

branches and between 120 and 300 clients are sampled for primary survey (except in cases where number of branches in an MFI is less than eight).

Sampling guidelines

The following is taken as the guideline to determine the sample size for a COCA exercise

MFI Size	No. of branches to be visited	No. of borrowers to be visited
Small MFI (Less than 8 branches)	All branches	15 clients per branch covering minimum two centers.
Small / Mid size MFI (up to 2,50,000 borrowers)	8 – 10 branches (geographically distributed)	120-150 clients (15 clients per branch covering minimum two centers).
Large MFI (>2,50,000 borrowers)	12 – 15 branches (geographically distributed)	240-300 clients (20 clients per branch covering minimum two centers).

Code of Conduct Assessment 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.

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As part of this assessment, CARE team visited eight branches of the NMSPL. The details of the branches visited are provided below.

Sr No	Branch	State	No of clients interviewed
1	Belgaum	Karnataka	19
2	Gokak	Karnataka	27
3	Nippani	Karnataka	14
4	Chikkodi	Karnataka	16
5	Honnalli	Karnataka	28
6	Shimoga	Karnataka	22
7	Ichalkaranji	Maharashtra	17
8	Kagal	Maharashtra	35
Total			178

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