

Comprehensive MFI Grading

Prayas (Organization for Sustainable Development)

Comprehensive Grade Assigned: M5C3

Date assigned: 31st March 2017

| Scale | C1 | C2 | C3 | C4 | C5 |
|-------|----|----|-------------|----|----|
| M1 | | | | | |
| M2 | | | | | |
| M3 | | | | | |
| M4 | | | | | |
| M5 | | | M5C3 | | |
| M6 | | | | | |
| M7 | | | | | |
| M8 | | | | | |

Prayas (Organization for Sustainable Development) has been assigned a comprehensive MFI grade of **M5C3**. This signifies inadequate capacity of the MFI to manage its operations in a sustainable manner and average performance on code of conduct dimensions.

Grading Rationale

| | |
|---|---|
| Microfinance Grading | Prayas (Organization for Sustainable Development) (Prayas) has been assigned “ M5 ” as its performance grade which signifies ‘inadequate’ 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 | Prayas has been assigned “ C3 ” as its Code of Conduct Assessment Grade which signifies ‘average’ 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)

| Date | Rating Agency | Comprehensive Rating Grade |
|-------------|---------------|----------------------------|
| August 2014 | IMaCS (ICRA) | COCA – 68% |
| May 2013 | IMaCS (ICRA) | COCA – 68% |

Historical Rating Grades (MFI Grading)

| Date | Rating Agency | Comprehensive Rating Grade |
|---------------|---------------|----------------------------|
| March 2016 | CARE | MFI 3 (Equivalent to M5) |
| February 2015 | CARE | MFI 3 (Equivalent to M5) |

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

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|-----------|--|
| 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 (December, 2016) | |
|--------------------------------------|---|
| Name of the MFI | Prayas (Organization for Sustainable Development) |
| Legal form | Trust |
| Operational Head | Mr. Bhadresh K. Raval (Managing Trustee) |
| Year of starting microfinance | 2006 |
| Branches (Month YYYY) | 22 (December 31, 2016) |
| Active borrowers | 24,909 (December 31, 2016) |
| Total staff | 102 (December 31, 2016) |
| Operational area | Gujarat and Madhya Pradesh |
| Visit of the Assessment team | 21 th to 25 st March, 2017 |
| Correspondence address | Satyam-1/308/318, Amba Business Park, Above HDFC bank, Trimandir Campus, Adalaj, Dist: Gandhinagar-382421 |

| Details of Loan Products (December 31, 2016) | | | | |
|--|---|-----------------|----------------------|---|
| Product | Description | Loan size (Rs) | Interest Rate (p.a.) | APR (Interest Rate and Processing fees) |
| Joint Liability Group | Loan given for agriculture, animal husbandry, trade and production related activities | 5,000 to 30,000 | 26% | 27% (Processing fee of 1%) |
| Self Help Group | Loan given for agriculture, animal husbandry, trade and production related activities | 5,000 to 30,000 | 26% | 27% (Processing fee of 1%) |
| Water & Sanitation | Loan given for water and sanitation related activities | 10,000 | 21% | 22% (Processing fee of 1%) |

Ownership/Equity Structure: Not applicable since Prayas is a Trust

Profile of Board of Trustees

| Board of Trustees (December 31, 2016) | | | |
|---------------------------------------|---|--------------------|--|
| Sr No | Name | Education | Brief profile |
| 1 | Dr. Dineshnarain Haridayanarain Awasthi | PhD in Social Work | He is the former Director of Entrepreneurship Development of India. He has teaching experience of more than three decades in prominent educational institutes like EDI, IIM L etc. |

| | | | |
|---|-----------------------|------------------------|---|
| 2 | Mr. Bhadresh K. Rawal | B.Sc.(Agri) & MBA(HR) | He is the founder of PRAYAS. Having worked with KRIBH, he has over 8 years of experience in MFI sector. He has worked for PRAYAS since its initial phase and helped to set up the organization. He is actively involved in activities organized by Dada Bhagwan Foundation. |
| 3 | Mr. Ramkrishna Mistry | M.COM | He is presently working as a Senior Resource Person in JANVIKAS. Apart from that he has experience as a faculty in EDI. |
| 4 | Mr. Rajesh Singh | MBA | He has wide experience in Banking, SME Finance, Corporate Credit and Micro-finance, Fund Syndication and also has wide experience in social sector. |
| 5 | Ms Shilpa Pandya | PGD in social security | She is currently working as a consultant of Shaisav, Bhavnagar and has wide experience of social sector |
| 6 | Mr. Ashish Mandol | PGD Rural Development | He is currently a Director, ASA, Bhopal and also has wide experience in social sector |
| 7 | Ms. Purvi Bhavsar | PGD Rural Development | Co- founder and the Jt. Managing Director, PAHAL Financial services and has wide experience of Banking sector |

| Key Performance Ratios | | |
|--|-------------|-------------|
| | March, 2015 | March, 2016 |
| Portfolio at Risk (>30 days) | 0.33% | 0.03% |
| Capital to Risk Weighted Capital Adequacy Ratio (CRAR) | 32.83% | 17.50% |
| Operating Expense Ratio (OER) | 10.51% | 11.79% |
| Funding Expense Ratio (FER) | 9.26% | 12.21% |
| Return on Assets (RoA) | 4.98% | 1.64% |
| Return on Equity (RoE) | 17.03% | 8.07% |
| Active borrowers per loan / credit officer | 410 | 505 |
| Active borrowers per branch | 1,013 | 1,034 |

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* | Non-compliance* |
| 3 | Income of borrower not to exceed Rs 100,000 in the rural areas and Rs 160,000 in the urban and semi-urban areas | In compliance |
| 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 | In compliance |

| | | |
|---|---|----------------------|
| | 100,000 (excl medical and education loans) | |
| 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 |

** Prays is not complying with RBI guidelines with respect to Net worth as it is not registered with RBI as NBFC-MFI. However, it is following rest of the guidelines as per the compliance.*

Section 1: Microfinance Grading

Transparency

- Prayas is registered as on November 11th, 1997 under the Bombay Trust Act 1950 and also registered as a Society under the Society Act 1860. Prayas is not regulated under the NBFC-MFI guidelines by RBI due to its legal status.
- Prayas Jan Vikas Bhandol (PJVB) is the microfinance arm of Prayas which is focused towards micro-credit business and follows the Joint Liability Group (JLG) model for risk mitigation.
- Long track record of over 10 years in microfinance sector.
- Started and headed by Mr. Badrash K. Rawal who is the founder and Managing Trustee of the board of trustees. He has over 12 years of experience in micro finance sector and has been working for Prayas since its initial phase and played an instrumental role to set up the organization. He is also actively involved in activities organized by Dada Bhagwan Foundation.
- Prayas has total 7 members in board of Trustee, who have extensive experience in micro finance industry. Dr. Dinesh Awasthi is the Chairperson of Trust and was the former director of Entrepreneurship Development of India (EDI). There are other 6 members having a wide experience in the same sector.
- The Board meets on a quarterly basis. The Board is supported by senior management people who look after several functions of the organization. The Board is periodically apprised about the decisions taken by these senior management and internal audit team.
- Operational, Finance, Credit and HR policies/manuals are well established, documented and communicated to all staff members.
- Prayas has one individual internal auditor who conduct audit on an ongoing basis and non-compliance is acted upon. Internal auditor prepares formal documented reports that are further reviewed by Board of Trustees.
- Transparency in lending process is adequate with the lending norms and repayment schedule and interest rate charged explained to the borrowers as well as printed on loan cards.
- Prayas has M/s. Shah & Shah (Membership No.: 135639) as the statutory auditor and the Auditor's Report for FY2015-16 has no qualifications and the auditor Ms. Tejas C. Shah has given as favourable feedback on the accounting practices and

systems followed by the organization.

- Overall disclosures are moderate.

Operational Setup

- The Trust has a well-defined organizational structure in place with several committees for various functions. These include Operational/Area Management Committee, Risk Management Committee, Staff Welfare Committee, System Audit Committee, Grievance Redressal Committee.
- Mostly Credit decision is taken by the Branch Manager with assistance of MIS officer at Head office.
- There is emphasis on training of the staff with periodic trainings imparted by the senior management to the staff members on various products, interaction with borrowers and other operational parameters.
- Adequate loan appraisal & monitoring systems at the current level of operations.
- Selection criteria with respect to educational qualifications and experience are in place. Generally, Prayas does not hire people from outside at the operational level (i.e. Branch Manager and above) rather it promotes experienced Cluster Coordinator (works as loan/filed officer) to Branch Manager Level.
- Prayas has adequate system for tracking over-dues in place and risk management systems.
- Adequate management information system (MIS) is in place with software which enables tracking of loans as well as details of the borrowers and facilitates.

Scale of Operations

- As on March 31, 2016 Prayas covered 21,707 active borrowers [P.Y.: 17,219]
- As on March 31, 2016, it has total asset under management (AUM) of Rs.20.84 crore [P.Y.: Rs.15.97 crore] making it one of the small size MFIs in India.
- Operates in Two states i.e. Gujarat and Madhya Pradesh. Prayas operates mainly in the rural areas covering 10 districts, 6 in Gujarat and 4 in Madhya Pradesh viz. Dahod, Kutch, Morbi, Surendra Nagar, Ahmedabad and Jhabua, Alirajpur, Dhar, Badawani. It has 22 branches out of which 16 are in Gujarat and 6 in Madhya Pradesh.

Sustainability

- Prayas has a moderate resource base which marginally improved over the years with lending from banks and financial institutions. Currently, Prayas has access to medium term funds from two banks viz. IDBI Bank and State Bank of India. Also,

it has access to medium term funds from financial institutions like SIDBI, NABARD, Ananya Finance for Inclusive Growth Pvt. Ltd., IGS-Basix, Sewa Energy, Gruh Finance, Habitat, Milaap, MAS Financial services Limited. It has also got sanctioned overdraft limit against fixed deposit from HDFC bank.

- Overall gearing stood at high level of 5.36 times as on March 31, 2016 [P.Y.: 2.12 times]. Its Capital Adequacy Ratio (CAR) stood low at 17.50% as on March 31, 2016 [P.Y.: 32.83%].
- Prayas has maintained good asset quality with low PAR. Its PAR stood at 0.03% as on March 31, 2016 [P.Y.: 0.33%].
- Prayas reported net profit of Rs.0.23 crore on total income of Rs.3.74 crore for financial year ending March 31, 2016 (FY16) as compared to net profit of Rs.0.45 crore on total income of Rs. 2.74 crore for FY15.
- Prayas lends in rural areas nearer to the cities of Gujarat and Madhya Pradesh which have lot of growing population providing a huge opportunity to grow its lending portfolio. Prayas intends to penetrate the existing market over the next couple of years.
- Has presence in areas with moderate level of penetration of MFIs with a diversified products offering under the one umbrella. Prayas also operates some social programme as an independent social wing which undertakes various social activities such as Health/nutrition programs, drinking water and sanitation, which helps loyalty to Trust.

○ **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.

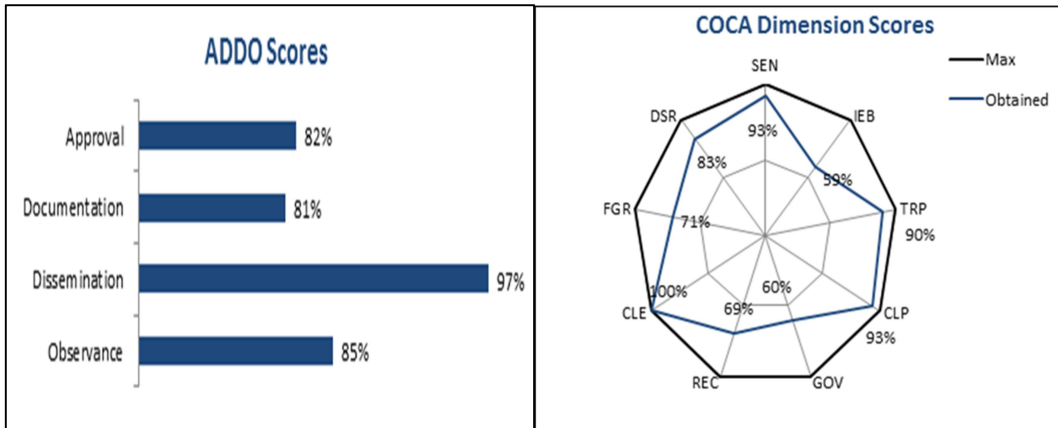
RBI has revised the lending norms for the MFI sector, post Andhra Pradesh (AP) crisis in 2010 and Malegam Committee Report on NBFC-MFI in 2011. The sector has evolved with the advent of credit bureaus in the sector and subsequent control over asset quality. MFI sector saw 30+ days past due (DPD) of around 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.

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

Prayas is found to have an average governance structure with Trust having majority independent trustees and moderate organization structure with standard operating processes in majority of areas of its operations. There are fair amount of practices being followed by the Trust but the same are not properly documented and reviewed by the Board of Trustees. Prayas has been fairly successful in disseminating company's processes, policies and philosophy at the field level. The staff was found to be trained and ethical while dealing with clients and there is good amount of transparency in the operations supported by client education and client protection.

MFI Strengths and weaknesses pertaining to Code of Conduct

| Strengths | Weaknesses |
|---|---|
| <ul style="list-style-type: none"> Standardized operating procedures in place with documented policies with respect to loan sanctions, conduct of the staff, field operations, credit appraisal and systems. Adequate transparency in the operations with much focused on client education and its protection Strong human resource profile through training. Separate internal auditor with regular audit checks Operates some social programme which undertakes various social activities related to health, water and sanitation etc. | <ul style="list-style-type: none"> Not governed under NBFC-MFI guidelines by RBI due to its legal status and accordingly, it has not maintained minimum net-worth base of Rs.5 crore Public disclosure of data is moderate. Moderate level of governance with lack of internal audit committee and compliance team No dedicated grievance redressal officer/client feedback officer No policy on compliance with Code of Conduct |

Significant observations

| Higher Order Indicators | |
|--|--|
| Integrity and Ethical Behaviour | <ul style="list-style-type: none"> • Standard operating process and policies are 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. • There is lack of documented policies in place; however the same are being followed at field level. • Emphasis is on empowerment of rural dwellers through periodic financial literacy trainings and social capital is built through community meetings. • Very low proportion of clients interviewed who were aware about the existence of grievance redressal mechanism of the Industry Associations. • MFI policy does not specify the upper limit of incentives related to monthly client enrollment / clients managed. |
| 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. • Prayas is well under the limits specified by the RBI's latest guidelines for qualifying assets and tenor of loans, even though it is not RBI registered NBFC-MFI. • The borrowers are not provided sanction letters; however the loan forms/loan cards mention terms and conditions of the loan along with the annualized interest rates. • Prayas provides insurance from IRDA approved insurance entities. |

| Building Blocks | |
|------------------------|--|
| Transparency | <ul style="list-style-type: none"> • The policies of Prayas are in place and documented in its operational manual, Finance manual and HR manual. However, there are certain grey areas requiring improvement. • 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 |

| | |
|---------------------------------|---|
| | <p>further, the loan officers have explained them to borrowers.</p> <ul style="list-style-type: none"> • The borrowers are not provided sanction letters; however the loan forms/loan cards mention terms and conditions of the loan along with the annualized interest rates. • Apart from microfinance loans, Prayas also provides loan for water & sanitation and housing related activities which are considered as non-qualifying loans. • Latest RBI guidelines related to NBFC-MFI are documented in circulars. • Details related to latest RBI's guidelines are also available at the branches. • Prayas conducts continuous training programs 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 Trust has fair amount of disclosures in the public domain with key financial and operational parameters on its web site; detailed financial statements and annual report are also available on the web site. • MFI has not developed acknowledgement and acceptance formats from its clients. |
| <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 through IRDS approved insurance agency. • The loan cards given to the clients have documented repayment schedule and the charges and interest rates printed on them. • The borrowers are given valid receipts for every payment made by them. • The Trust works on a monthly schedule with fixed days for promotion, accepting new applications, credit appraisal and disbursement and collection. The turn around time (TAT) is around 10-15 days from the date of loan application to disbursement. • 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 trust 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 |

| | |
|---|--|
| | <p>non-payment by the borrowers. The sample of borrowers surveyed did not have negative comments about the field staff.</p> <ul style="list-style-type: none"> • The clients were largely not informed about sharing of their data with credit bureaus and other agencies. |
| Governance | <ul style="list-style-type: none"> • Moderate level of governance with reputed people comprising the Board with the lack of presence of sub-committees to board • There are total of 7 Trustee members out of them Managing trustee is actually involved in day to day operations of the trust • Prayas has dedicated senior management team for all the operational, finance and HR related operation albeit with some over lapping of roles. • All detailed operational activities are reviewed and reported to director on quarterly basis. The highlights of these discussions are passed on to the rest of the board of Trustees. • The Trust has taken initiatives to better manage the cash during the current scenario of demonetization. It is also in talk with banks for opening bank accounts of all existing and new members. The Trust plans to have cashless transactions by FY18. • Internal audit is done on quarterly basis by an individual auditor and the formal documented reports are submitted to the Trustees, however it does not have an internal audit committee. • The compensation of the Secretary and Chief Functionary or the Chairperson is not disclosed in the audited reports. • The statutory auditor M/s. Shah & Shah has given favourable feedback on the accounting practices and systems followed by the organization. |
| Recruitment | <ul style="list-style-type: none"> • HR policies are in place with criteria for selection and growth opportunities in place. • It has proper notice period for employees and does reference check for new recruits; however there were no documentary evidence to verify the same. |
| Client Education | <ul style="list-style-type: none"> • Periodic financial literacy trainings are given to borrowers. • High emphasis on attendance of monthly collection meetings and yearly meetings are given and absenteeism is penalized by way of lower amount of loan disbursed in subsequent loan cycle. |
| Feedback and Grievance Redressal | <ul style="list-style-type: none"> • Grievance redressal mechanism is in place and the surveyed borrowers were aware of such mechanisms. • The Trust does not have a board level grievance redressal committee. |

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|---------------------|---|
| | <ul style="list-style-type: none"> Information about grievance redressal mechanism by industry associations was lacking in borrowers. |
| Data Sharing | <ul style="list-style-type: none"> Data is shared on a monthly basis with the credit bureaus like High Mark only however there was no documentary evidence for sharing of the same with other Credit Bureaus as well as SROs Latest audited financial and other operational data are available on website. Monthly operational data is also available on website. |

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>b) Operational Sustainability</p> <ul style="list-style-type: none"> • Succession planning • Competition • Resource arrangements • Vision |
|--|---|

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 | 26 |
| 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 | 251 |

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.

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

| Sr No | Branch | State | No of clients interviewed |
|--------------|---------------------------|----------------|---------------------------|
| 1 | Chandkheda (Ahmedabad) | Gujarat | 18 |
| 2 | Dehgam (Gandhinagar) | Gujarat | 19 |
| 3 | Surendra Nagar (S. Nagar) | Gujarat | 12 |
| 4 | Jhalod (Dahod) | Gujarat | 14 |
| 5 | Anjar (Kutch) | Gujarat | 18 |
| 6 | Rapar (Kutch) | Gujarat | 19 |
| 7 | Morbi (Morbi) | Gujarat | 17 |
| 8 | Badwani (Badwani) | Madhra Pradesh | 16 |
| Total | | | 133 |