

# **PRAYAS JAN VIKAS BHANDOL (PJVB)**

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## *Code of Conduct Assessment Report Final Report*

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May 17<sup>th</sup> , 2013



***ICRA Management Consulting Services Limited***

# *Prayas Jan Vikas Bhandol: Assessment on Compliance to Code of Conduct Framework*

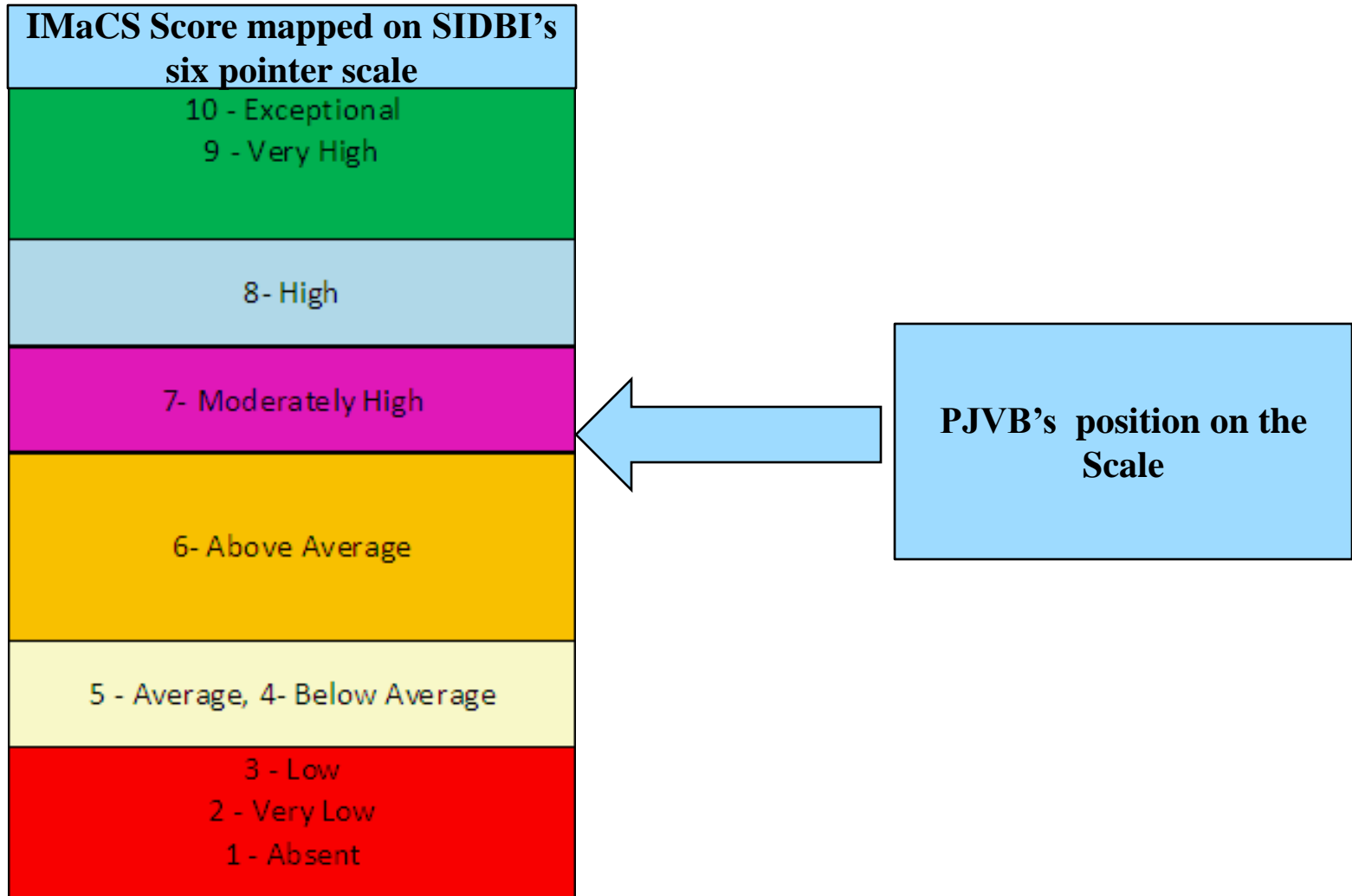
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**OVERALL SCORE: 6.8**

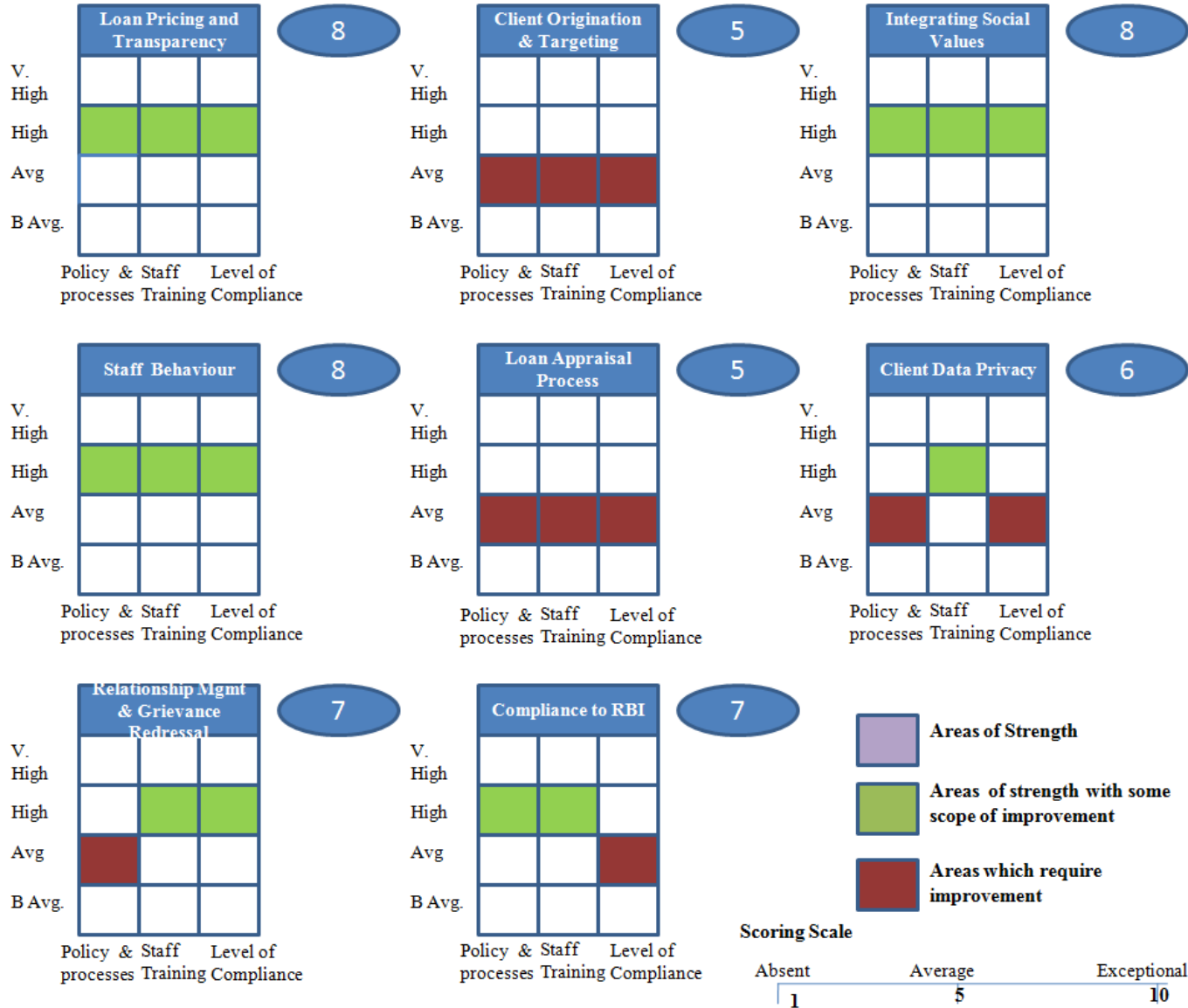
**DEFINITION: MODERATELY HIGH LEVEL OF ADHERENCE**

PJVB has put in place an operational manual that has a reasonably well detailed coverage of the company's new and improved lending process. PJVB has also been fairly successful in disseminating company's processes, policies and philosophy at the field level. However, we observe a scope of improvement across various areas of lending operations at the company including client origination & targeting, loan appraisal and grievance redressal mechanism.

# *Prayas Jan Vikas Bhandol : Mapping the IMaCS Score on Code of Conduct Assessment to SIDBI's Standardised Scale*



# PJVB: Parameters Wise Code of Conduct Score



## *Areas of Strengths at PJVB.....1*

- ❑ PJVB is a relatively new MFIs with small operations based out of several under-banked districts of Gujarat. Recently, the company has introduced several all-round initiatives across the organisation to strengthen its operational performance and improve compliance to industry best practices.
- ❑ The company has put in place an operational manual which contains reasonably detailed mapping of the origination, credit and other internal processes of the company with various improvements introduced to its existing process. Further, the company has conducted an organisation wide training program to apprise its staff on the new manual. Each staff member has been instructed to refer the manual on a regular basis and adhere to the prescribed guidelines.
- ❑ The company offers a three day Compulsory Group Training (CGT) followed by a Group Recognition Test (GRT). The process and contents of the CGT in terms of the JLG concept, effective interest rates, signatures and other key loan terms and conditions have been well documented in the operations manual .
- ❑ The company follows a practice of quoting a single effective interest rate in all its oral and written communication . All borrowers at the centres visited confirmed that the company has informed them on the effective interest rates at several points of the group formation and lending process.

## *Areas of Strengths at PJVB.....2*

- ❑ The clients at the centres visited were unanimous that the staff in the field are courteous and polite and they feel comfortable approaching the CCs for any queries/feedback/suggestions. The clients were also found to be aware of the phones numbers of the UM/CCs/Area Managers and MD of the MFI on the loan register.
- ❑ Even as a the MFI follows a policy of counseling to pay at the centres with a large team of 3-5 staff members, we did not find any evidence of coercive recovery measures by the MFI to recover their dues. The company's staff code of conduct clearly instructs against deployment of pressure tactics and visiting clients residence at odd hours. The staff code of conduct has been displayed at all its branches and the company's UMs/CCs were found to be well-versed with the company's mission, vision and philosophy.
- ❑ The company operates a social programme as an independent social wing which undertakes various social activities such as HIV/AIDS programs, Health / nutrition programs, financial management training to women ,drinking water supply and sanitation.

## *Areas of Weaknesses/Further improvement at PJVB.....1*

- ❑ The MFI has introduced a structured Area selection process which is based on a filled Area Information Sheet and a survey by an external agency. However, as the organisation grows, the process of area selection needs to be made more objective and structured.
- ❑ The company has also hired the services of an external audit agency to conduct an annual process audit. However, the scope of audit and the frequency of audit couple with complete reliance on an external agency may not be completely effective as an audit tool. The company conducts a three level 100% LUC as conducted by the UMs/CCs. However, the checks are conducted by operational staff and not cross-examined by a neutral audit team.
- ❑ The company has an explicit policy of not lending to a client which already has loans from other MFI. However, even as PJVB is a member of two credit bureaus, the MFI has not started the process of verifying client credit history with the bureaus and hence lacks the means to verify or check the level of indebtedness in its clients.
- ❑ The MFI collects detailed information related to income, expenses and living condition of borrowers at the time of group formation and in application forms as required to develop a structured Poverty Index. However, as of now the MFI doesn't calculate a consolidated PPI score to aid in customer selection.

## *Areas of Weaknesses/Further improvement at PJVB.....2*

- ❑ The lending process of the company is based on a successful completion of GRT and an assessment of available cash surplus of the borrower after accounting for household income and expenses. However, the lending process offers scope of improvement in terms of conducting checks with credit bureaus, a centralised credit verification mechanism, tracking of members attendance and past credit history with a strong MIS to capture and track critical borrower information. The company is a member of two credit bureaus Hi-Mark and Equifax and plans to initiate the process of verifying applicants credit history with these bureaus, going forward.
- ❑ We observed that the contact numbers of UMs/CCs and MD are noted on loan cards and members are aware that they can reach out to these people in case of any grievances/complaints/feedback. The MFI also follows a practice of branch visits for disbursements and open forums which allows for customer interaction with the branch managers and other senior staff. There is, however, a need to put in place a multi-point grievance redressal system such as a toll-free complaints registration number, maintaining and tracking complaints registers and boxes along with a structured process for receiving, tracking and resolving the complaints received within a specified time frame.
- ❑ The staff was found to be aware of the policy that the client data should not be shared with anyone outside, without prior approval from the Head Office. However, the company doesn't follow a practice of taking prior approval from borrowers before sharing the information and doesn't specify any penalties for breach of client data privacy.



# *Prayas Jan Vikas Bhandol : Company's Background and Lending Model*

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- ❑ PRAYAS is registered on the 11th of November 1997 under the Trust Registration Act 1950 and the Society Act 1860.
- ❑ It was founded by Mr. Bhadresh Rawal, who has an academic background in agriculture. Mr. Bhadresh has worked for more than eight years in the development fields of AKRSP (I) and KRIBHCO Indo-British Rainfed Project (KRIBP) funded by ODA.
- ❑ Prayas aims to empower the poor with both social and financial interventions. The microfinance programme of Prayas is called 'Prayas Jan Vikas Bhandol' and Social programmes is carried out under 'Social Development Wing'.
- ❑ The main areas of interventions are community based natural resource management, capacity building of village communities (with the focus on women), savings and credit program, income generation activities of SHG members, strengthening local self-governance, taking up issues of basic rights and water and sanitation.
- ❑ They lend in the underbanked and socially backward areas for income generation purposes. The funding is done after understanding the utilisation and repayment capacity of the women in the areas. The schemes are run under the SHG model.

## *Key Financial Parameters: March 2011 to March 2013*

<b>Key Financial Parameters</b>	<b>As on Mar'13</b>	<b>As on Sep'12</b>	<b>As on Mar'12</b>	<b>As on Mar'11</b>
No: of Registered members	20,421	18,246	16,340	8,192
No. of Groups	3,731	3,746	3,366	2,314
Total Number of Branches	12	11	11	10
No. of Active Clients	14,812	13,025	10,492	8,194
Cumulative Loan Disbursements (Rs in cr.)	50.09	38.21	31.25	19.11
Loan disbursement (Rs.in cr)	17.52	6.93	12.42	8.94
Outstanding Loans (Rs in cr.)	11.32	7.91	7.25	4.24

# Product Offerings of PJVB

S.No	Purpose of the loan	Loan Amount	Effective Interest Rate (EIR)	Processing Fee
1	General purpose loan; preferable be used in generation of livelihood. To be given in a JLG of 5 women only	1 <sup>st</sup> cycle 5000, 7000, 10000 2 <sup>nd</sup> cycle and onwards 5,000, 7000, 10000, 12000, 1500	26% reducing per annum for 12 months.	1% upfront non refundable

# 1. Client Origination and Targeting: Policy Articulation and Documentation.....1

Policies	Best Practices	PJVB's Policies and Observations	
Area Selection	Detailed process documented in the manual	Med	Good coverage on process of area selection with an explicit guideline to target areas where financial inclusion is low. However, the process of area selection needs to be made more objective and structured going forward.
	Presence in under-banked areas	High	Presence in several under-banked districts of Gujarat.
	Explicit Policy of avoiding over-indebtedness in clients.	Med	MFI has a explicit policy of not lending if the borrower already has a loan from other MFIs. However the MFI is not a member of the credit bureau , which limits its ability to check the real status of indebtedness in clients
Borrower Selection	Guidelines of members to form groups well articulated and groups to be formed by borrowers themselves	Med	Guidelines are well specified. However, there can be a means of introducing specific in terms definition of family members.
	CGT process well documented with a strong focus on educating clients on the concept of JLG	High	CGT guidelines and coverage has been well documented. The company also conducts a 1 day CGT session for borrowers at the beginning of the second loan cycle.
	Poverty Assessment Framework defined	Low	MFI collects information related to income, expenses and living condition of borrowers at the time of group formation and in application forms. There is, however no structured/quantitative poverty assessment framework to provide a customer selection score.

# 1. Client Origination and Targeting: Policy Articulation and Documentation.....2

Policies	Best Practices	PJVB's Policies and Observations	
Policy on outsourced agents	Explicit Policy of not using outsourced agents	High	The company has an explicit policy against use of agents documented in manuals. Further, we found no evidence of use of outsourced agents.
	Strong Internal Audits and Checks	Med	The MFI doesn't have an independent internal audit department with an independent head. The MFI has hired an external agency to conduct a process audit, which submits a regular report to the MD and Head Operations. The Audit process fairly new and documented in a draft manual, though requires more strengthening and clarity.
	Annual Rotation of Centre Leaders	Med	The company OM has a policy of rotating the centre leader with every loan cycle.
Policy on incentive structure	Incentive Structure not linked to disbursements and recovery.	High	Compensation structure of CCs are largely fixed with no variable incentives linked to disbursements and recovery.
	Incentive structure to be linked to borrower retention and process compliance	Med	The company doesn't have a variable incentive structure and hence, does not include parameters for borrower retention and process compliance. However, Member attrition rate stands at 0.44%. Annualised, which reflects high borrower comfort with the MFI.

# 1. Client Origination and Targeting: Level of Dissemination and Observed Compliance

## Level of Dissemination

- Adequate training to the staff at the time of joining the organisation
- Each Member has a hard copy of the Operating Manual in Hindi (a widely used language) which can be accessed by all staff members.
- CCs were found to be reasonably articulate with the MFI's policies related to origination, targeting, group formation, conducting CGTs and GRTs even as the operating manual was introduced a few months back. The staff has been provided training and instructions to follow the policies prescribed in the manuals.
- The company has a policy of managing 2000-2500 members per centre with 4 CCs which translates into 600 borrowers per CC. This corresponds well with the industry benchmark of 500-700 borrowers per field officer.

## Level of Observed Compliance

- Members confirmed that a 3 days CGT was conducted at the time of group formation and that they were apprised of product features, rates and fees, repayment schedule and SHG concept. Further, they confirmed that there was no discrepancy in the information provided in the CGT vis-a-vis the actual transactions
- Members visit branch office for collecting disbursements which provides a direct source of connecting with the company's branch managers.
- Collection has been 100% in all four branches visited, in the recent past. Loan cycle has not exceeded Rs.15,000 in any of the branches visited. Except for the loan that has been disbursed under the Yes Bank agreement.

## 2. Loan Pricing and Transparency : Policy Articulation and Documentation.....1

Policies	Best Practices	PJVB's Policies and Observations	
Board's policy and involvement in pricing	Loan pricing policy specified and fixed by board	High	Board takes decision on pricing and conveys the same to operational staff
	ROE and margin caps specified	Med	There are no explicit ROE and margin caps specified by the Board. However, the MFI meets RBI prescribed limits on Yields and Margins
	Documentation of CGT process with CGT Manuals printed in vernacular	Med	CGT guidelines and process is well documented and printed in Hindi and English. However, the manual is dated Feb 2013 and complete results of on the ground implementation is yet to be seen.
Client Coaching and Communication	Structured training program with coverage on JLG, effective interest rates and other terms	High	The process of conducting CGT and GRT is well documented with adequate focus on disclosing the terms of JLGs, effective interest rates and other terms to the group members.
	Refresher training programs and regular coaching of clients	Med	Stronger emphasis on coaching and re-orientation trainings on the concept of effective interest rates to clients required in selected pockets. The company manuals prescribe a CGT for second loan cycle which provides a refresher training for borrowers.
	Multi-point communication of effective interest rates, processing fees, pre-payment terms common to the clients	Med	Loan terms and concept of group guarantee is conveyed to the clients at the time of group formation, during CGT and Group Recognition Test. However, stronger emphasis on a regular communication of loan terms in cluster collection meetings needs to be emphasised and included in the process manual.

## 2. Loan Pricing and Transparency : Policy Articulation and Documentation.....2

Policies	Best Practices	PJVB's Policies and Observations	
Transparency in disclosure of loan terms	All terms and conditions mentioned in the pass books and pass-books updated on a regular basis	High	All terms and conditions are found to be updated in the pass-books on a regular basis
	Clear Communication of Effective interest rates with no concept of quoting flat rates	High	The company conveys a single IRR of 26% to its borrowers in all its oral and written communication
	Pass books contains information in vernacular language	High	Loan pass-books are in vernacular
	No collateral or margin money accepted	High	No collateral security or margin money on the loan
	No hidden costs related to distribution of third party financial products distribution	High	No hidden charges related to third party financial products
	No prepayment penalty	High	No charges on pre-closure by the member.



## *2. Loan Pricing and Disclosure: Level of Dissemination and Observed Compliance*

<b>Level of Dissemination</b>	<b>Level of Observed Compliance</b>
<ul style="list-style-type: none"><li>• Staff adequately trained and understands the importance of transparent communication with respect to interest rates and other fees.</li><li>• Customers acknowledge the multi-point disclosure of loan terms by the MFI staff at the time of group formation, CGT and Group Recognition Test.</li><li>• Staff and the members were actively involved in the meetings.</li><li>• We observed that at a few centres the field staff does not reiterate the key loan terms and the concept of group collateral. The company doesn't follow a practice of recitation of pledge (capturing the spirit of joint liability and responsibility) at the start of the centre meetings. There is a need to improve awareness and focus of the staff on continuously educating the borrowers.</li></ul>	<ul style="list-style-type: none"><li>• CCs at all visited branches followed the rules of centre meetings as prescribed in the manuals</li><li>• All loan cards/pass-books were found to contain information in local language and were updated.</li><li>• Effective rate of interest, + processing fee, insurance coverage fee are mentioned in the loan pass book / loan card. We did not find the use of flat rate in any of the oral and written communication of the MFI to its borrowers. Clients are aware of the fees and charges.</li><li>• Members were aware of the concept of SHG and processing fees of 1%, insurance of Rs.102 per member. This is term insurance of Rs.15,000 from Metlife. The scheme covers the member and her husband.</li><li>• At the centres visited, majority of customers could recall the monthly EMI and also the effective interest rates. However, a few clients were not able to recall the effective interest rates on the loans.</li></ul>

### 3. Loan Appraisal Process: Policy Articulation and Documentation.....1

Policies	Best Practices	PJVB's Policies and Observations	
Loan Appraisal Process	Elaborate lending process in manuals	High	Sufficient coverage of the lending process in the operations manual
	KYC Policy	High	Adequate focus on adhering to KYC policy and mandatory guideline of borrowers identity card before a lending decision. The focus on adhering to KYC guidelines has risen in the recent past.
	Formal Credit Appraisal framework with credit scoring or Income to Installment Ratio	Med	The MFI calculates the cash inflow and outflow of the household to estimate the cash surplus for making a loan decision. And limits the loans up to 30% of the available cash surplus. Going forward, the MFI needs to install a stronger MIS to capture and track the key credit appraisal criteria
Checks on over-indebtedness of clients	Declaration on total borrowings of the member's household in the application form	High	Sufficient coverage on members borrowing and economic status in loan application form
	Credit Bureau Checks	Low	Prayas is a member of two credit bureaus. However, it has not initiated the process of verifying borrowers information with the credit bureau records. Going forward, the MFI intends to start the process of verifying borrowers information with the credit bureaus.
	Mandatory House visits and reference checks of borrowers	High	Unit Managers and CCs are compulsorily required to visit the members houses at the time of conducting GRT/loan appraisal and later for a LUC.

### 3. Loan Appraisal Process: Policy Articulation and Documentation.....2

Policies	Best Practices	PJVB's Policies and Observations	
Credit Risk Management	Process to ensure adequate attendance in client meetings	Low	Has recently introduced a policy that prescribes mandatory attendance checking and tracking of the borrowers. The MFI plans to consider the same for taking a decision on future loan cycles.
	Strong MIS to track a customers credit history with the company, IIRs ,attendance, Loan purpose etc. Factors considered for future loan eligibility	Low	Prayas doesn't have a strong MIS system to track the credit history of the borrower and other borrower specific information. The MFI has recently taken up a software to upload client information during the credit appraisal. However, the software may need further up-gradation and integration at a company level.
	Centralised credit centres for conducting credit checks in addition to field checks	Med	All loans are approved by the Operation Head at the HO .The loans are processed post evaluation by the UMs/ Cos and a district level risk officer. However, a centralised credit centre for conducting verification on the credit information and/or a well developed credit committee involving the group members may further strengthen the process.
Loan Utilisation Checks	Loan Utilisation Declaration in the application form	High	Sufficient coverage in loan form
	Policy on 100% LUC Checks and implications of non compliance specified	Med	It is mandatory for UMs/ CCs/AMs to do LUC for all borrowers and fill the LUC form at three times during the loan cycle, the first being within one month of the loan disbursal. However, implications for borrowers for compliance to declared Loan Utilisation has not been specified in the manual.
	Strong Audits on LUCs	Med	The company prescribes three visits to the clients during the entire loan cycle and fill a LUC form and client contact form. Further, the external audit team also conducts a LUC on a sample basis.

### *3. Loan Appraisal Process: Level of Dissemination and Observed Compliance*

#### **Level of Dissemination**

- The CCs understand the loan appraisal process of the company thoroughly. Each FO had a personal copy of the operations manual in Hindi at the branches.
- The training programme for new recruits starts with a structured class room training and on the job training associated with senior CCs for six months
- The company has started conducting regular audits through an external agency once a quarter at all branches which does a complete check on the loan appraisal process, centre meetings, attendance and LUCs and adherence of the staff to the operations manual. However, the audit process, being relatively new and outsourced to an external agency might require further strengthening to be able to be completely effective.

#### **Level of Observed Compliance**

- Documentation related to filling of Application Form, KYC, CGTs and GRTs were largely complied with.
- The MFI has introduced a process of regular attendance checking, but we observed during our visits that the same has not been implemented at all the centres .
- The clients we interacted with at the clusters visited, confirmed that the UMs and CCs visited the members houses at the time of conducting GRT and later for a LUC.
- We observed a that the lending process across centres differ on smaller sub-processes and offers scope of further standarisation. For instance, a few centres request for clicking a photograph at the time of making disbursements, while a few do not follow the process.

## 4. Staff Behaviour: Policy Articulation and Documentation.....1

Policies	Best Practices	PJVB's Policies and Observations	
Focus on client as reflected in company's values and policies	Mission and Vision reflects the company's social mission	High	<p>Vision: PRAYAS envisions a society where people have better social and economic opportunities, accessibility to financial services and awareness of rights and duties</p> <p>Mission: Unite 150,000 socio-economically deprived people by 2017 and empower them through economic and social interventions</p>
Staff communication to clients	Standard Code of Behavior towards the clients captured in the manuals	High	Operational manual stresses on a polite and courteous behavior to the clients at various points of the process and the HR manual details a Code of Conduct for Staff.
	Clear penalties prescribed for breach of behavior specified in the manuals	Med	The OM and the HR manual prescribes the breach of behavior penalties. However, the conditions of breach and corresponding penalties need to be more specific and strengthened/supported with a more structured and formal grievance redressal mechanism.
	Keeping staff attrition rate under check to ensure better and continuous compliance to guidelines	High	The current staff attrition rate of the MFI around 5% which compares well with the industry benchmarks.

## 4. Staff Behaviour: Policy Articulation and Documentation.....2

Policies	Best Practices	PJVB's Policies and Observations	
Policies for partial collection centres	Recovery policy for partial collection centres is client friendly	Med	MFI follows a JLG approach, where if one member defaults or is unable to pay, the rest of the members will have to contribute. The OM, however, doesn't prescribe a clear process to follow in case one of the members default. The Code of Conduct emphasizes on being polite and not use any coercive mechanisms on the group and members to pay.
	Rules and timings for visit to clients house for recovery specified and captured in manuals	High	CCs are advised to interact with clients during centre meetings and avoid going to member's house or place of work only in certain exceptional cases. The manuals specify timings of the visits and restrict visits after dark.
	Restructuring Policy for genuinely distressed borrowers	High	Restructuring policy for genuine borrowers specified at the HO level and prescribes relief to the clients in distressing situation. Insurance scheme is meant to offer immediate relief in case of the death of the borrower or guarantor

## 4. Staff Behaviour Policy: Level of Dissemination and Observed Compliance

### Level of Dissemination

- CCs understand the code of behaviour towards the customers and the training programme places appropriate focus on coaching the staff with an appropriate behaviour towards the clients. The prescribed Code of Conduct for the staff is displayed in all the branches .
- However, CCs at the centre visited were not aware of HR manual and have not read the manuals.
- FOs were observed to be courteous and polite during all centre meetings, greeted the client members and explained all required details to the customers.
- Code of Conduct, staff behaviour have been included as parameters in the audit report conducted by external agencies to ensure on the ground compliance

### Level of Observed Compliance

- All customers were unanimous at the clusters visited acknowledged that Prayas 's CCs are courteous and polite in all interaction and they are comfortable approaching them for loans, queries and/or difficulties. In general, the groups we met were comfortable discussing / sharing a situation with their respective FOs.
- Further, at the centres visited, there was no feedback from the borrowers on any kind of pressure tactics applied for recovery or any odd time visits to client residence.

# 5. Privacy of Client Data: Policy Articulation, Documentation, Dissemination and Observed Compliance

Best Practices	PJVB's Policies and Observations	
Policy on maintaining client data privacy included	High	Operating Manual includes a policy on maintaining client data privacy.
Policy prescribing conditions of sharing client data	Low	Operating Manuals doesn't prescribe the conditions under which client data shall be shared.
Penalties for breach of client data privacy specified	Low	OM doesn't specify sharing of client data as a punishable offence and doesn't prescribe any penalties.
Adequate storage of client documents with limited access	Med	A few Branches were found to have cupboards with locking facility to store the documents. However, this was not observed uniformly across all centres.
MIS rights limited and access rights defined	High	MIS access rights are login based, limited and defined based on the role/position of employees

Level of Dissemination
<ul style="list-style-type: none"> <li>•The staff was found to be aware of the policy that the client data should not be share with anyone outside, without prior approval from the Head Office.</li> <li>•However, the MFI doesn't have a policy of getting client signature for approval for sharing client data with an insurance company or any external agency.</li> </ul>

Level of Observed Compliance
<ul style="list-style-type: none"> <li>• No instance of breach of confidential data of the clients</li> <li>• We observed that the client documents are kept secured in a locked cupboard at some branches. However, at a few branches the documents were not arranged or kept securely in a cupboard thus compromising on the security of client documents and data privacy.</li> </ul>





## 6. Integrating Social Values into Operations: Policy Articulation, Documentation, Dissemination and Observed Compliance

Best Practices	PJVB's Policies and Observations	
Social Vision, Mission and Core Values	High	<ul style="list-style-type: none"> <li>Prayas's mission and vision appropriately reflects the essence of a MFI of empowering poor with a series of social and financial interventions</li> </ul>
Corporate Social Responsibility Program	Med	<ul style="list-style-type: none"> <li>Prayas also has a social wing which undertakes various social activities such as HIV/AIDS programs, Health / nutrition programs, financial management training to women ,drinking water supply and sanitation</li> </ul>
Social performance targets monitoring and reporting	Low	<ul style="list-style-type: none"> <li>The MFI has not put in place a structured social performance target and assessment programme with appropriate reporting and monitoring</li> </ul>

Level of Dissemination
<ul style="list-style-type: none"> <li>The staff is found to understand the company's vision and mission and the understanding reflects well in their field behaviour and conduct with the client members</li> </ul>

Level of Observed Compliance
<ul style="list-style-type: none"> <li>Prayas focus on providing social services along with micro credit are well reflected in the ground level operations.</li> </ul>

## 7. Grievance Redressal Mechanism and Client Relationship Management : Policy Articulation and Documentation

Best Practices	PJVB's Policies and Observations	
Grievance Redressal Policy and Process – Involvement of board and top management	Med	OM lays down a brief process of grievance redressal mechanism and has a grievance redressal manager to overview the process of complaints resolution. However the company doesn't have a senior level committee to oversee the grievance redressal mechanism
Multi-point Grievance Redressal Mechanism Toll free 24 hour phone number for registering grievances Phone numbers of branch manager and centre managers noted on centre registers Complaint boxes at branches Clients visit branches during the loan tenure	Med	<ul style="list-style-type: none"> <li>• The company's grievance redressal mechanism is elementary with lack of complaint boxes and a toll-free number for the customers to file complaints/queries.</li> <li>• The phone numbers of the CCs/Area/Unit Managers and the HO and MD's contact no are mentioned in the loan cards and clients are informed of contacting on these numbers in case of queries/suggestions/complaints.</li> <li>• Further the clients visit the branch office for disbursements. The company manuals contains an provision of conducting open forums with the clients</li> </ul>
Specific timeframe for complaints resolution and responsibilities prescribed and documented	Low	The manuals prescribes a period of 5 days to resolve the complaints filed with HO. However, the manual doesn't specify responsibilities and process of complaint resolution in detail, especially when complaints are received at the unit level.
Penalty action specified for certain breaches and customer complaints	Med	The HR manual prescribes certain penalties for breach of code of conduct.

## *7. Grievance Redressal Mechanism and Client Relationship Management : Level of Dissemination and Observed Compliance*

### **Level of Dissemination**

- The staff at the centres visited were not found to be aware of a formal grievance redressal mechanism. They, however, admitted that driven by the customer oriented culture, they do try to resolve the complaints on best effort basis.
- None of the clusters visited possessed a copy of the HR manual or have been trained on the grievance redressal mechanism.
- Some of the common complaints received have been delay in conducting meetings or loan amount being sanctioned lower than requirement.

### **Level of Observed Compliance**

- Members at the centres visited were found to be comfortable with approaching any staff member of Prayas for their clarifications and feedback.
- A significant majority of the borrowers were found to be aware of the phone numbers which can be accessed to voice their grievances/queries/suggestions.

## 8. Compliance to RBI Guidelines for MFIs.....1

Conditions	RBI Policy Announcement	PJVB Policy	Compliance
Income limits for eligible borrowers from MFIs	Rural: Rs 60,000 Non Rural: Rs 1,20,000	Rural: Rs 60,000 Non Rural: Rs 1,20,000	Income & expenditure is captured in LAF & in system and it is well within the limit prescribed
Loan Size (Maximum)	First Cycle: Rs 35,000 Later: Rs 50,000	Currently the maximum first cycle loan size is Rs.5,000 and maximum loan size is Rs.15,000	Satisfactory. All client groups and individuals were found to be lent within the slabs. Clients at a few centres have expressed a need for higher loans.
Indebtedness of the borrower	Limited to Rs 50,000	Prayas takes a declaration of the amount of indebtedness by the client in the loan application form and the same is captured in the loan appraisal software.	The company has a policy of not being second lender to any borrower having loan from other formal institutions. However there have been instances where they have funded people unknowingly, more so as they are not a member of a credit bureau

## 8. Compliance to RBI Guidelines for MFIs.....2

Conditions	RBI Policy Announcement	PJVB Policy	Compliance
Tenure	24 months for amounts in excess of Rs 15,000	No loan product more than Rs 15000 with a tenor of 12 months	Compliant
Loan Used criterion	Minimum 75% of MFI portfolio for income generation	As a policy, loans are given only for income generation purpose.	The company takes a declaration on the end use of the loan and conducts a three point LUC for its validation
Repayment Frequency	Weekly, fortnightly or monthly at the choice of the borrower	Monthly repayment	The company offers only monthly repayment loans to its clients. However, the same is communicated to the clients at the time of group formation.
Pricing Cap	Interest rate, 26% Margin Cap, 10% for large MFIs (Assets of more than Rs 100 crore) and 12% for small MFIs. Processing fee, 1% (not included in interest cap or margin cap)	Effective Interest Rate at 26%. Processing 1% of the loan amount.	Compliant

## 8. Compliance to RBI Guidelines for MFIs.....3

Conditions	RBI Policy Announcement	PJVB Policy	Compliance
Collateral & group mechanisms	No collateral, individuals as wells as SHGs and JLGs	The company doesn't accept any collateral and operates on a Self Help Group model.	Satisfactory. No collateral or deposits have been demanded or accepted from the clients
Various penalties related to delayed payment and penalties	No delayed payment and prepayment penalties and no security deposits	No prepayment penalty charged	Satisfactory: Clients are aware of the same
Registration as NBFC MFI.	Fresh applications to be submitted by 31 October 2012	PJVB is registered as a trust	Not applicable
Minimum Capital	Rs 3.0 crore by March 2013 and Rs 5.0 crore by March 2014	PJVB is registered as a trust	Not applicable

•In terms of areas of gaps, the company's policies offer only monthly repayment option products to clients, though with prior intimation to the clients.

## *Annexure II: Code of Conduct Assessment Framework*

**Objective: To assess the extent of adherence to common Code of Conduct by MFIs conducted on eight primary parameters that reflect the common Code of Conduct Assessment practices-**

- ❑ Client Origination and Targeting,
- ❑ Loan Pricing and Transparency,
- ❑ Loan Appraisal Process,
- ❑ Staff Behaviour,
- ❑ Privacy of Client Information,
- ❑ Integrating Social Values into Operations,
- ❑ Relationship Management and Grievance Redressal Mechanism
- ❑ Compliance Status of MFI vis-a-vis RBI guidelines

## *Annexure II : Code of Conduct Assessment Framework*

### ❑ **Evaluation of the 8 parameters done on three levels:**

1. Adequacy/robustness of company's documented policies, processes and systems addressing the key parameters
2. Training and orientation of MFIs staff to the organisational policies and processes and efforts to disseminate relevant information to the customers
3. Level of compliance to the prescribed policies and processes as prescribed for the key parameters

### ❑ **Assessment exercise process involved:**

- ❖ Evaluation of key documents of the MFI (annual reports, board meeting agenda, sample loan repayment cards etc, HR Policies, operating manual, training manuals, internal audit reports, portfolio audit reports)
- ❖ Discussion with senior management
- ❖ Discussion with branch managers and field officers
- ❖ Discussion with other market participants ( lenders, associations)

### ❑ **Key Limitation:** Absence of interaction with a defaulting member



## *Annexure II : Details of Branches visited for exercise and number of clients interviewed*

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S No.	Branch Name	State Name	Number of client groups interacted with	Number of clients interviewed
1	Gandhinagar	Gujarat	2	20
2	Surendra Nagar	Gujarat	6	19
3	Dahod	Gujarat	4	24

## *Annexure III:Description of Code of Conduct Parameters*

1. **Client Origination and Targeting:** Client Origination and Targeting is the beginning point of effective micro-finance operations as it ensures that finance is extended to the deserving and genuine clients for making improvements to their livelihood. We conducted an assessment of the board's policy and implementation on selection of geography, poverty assessment of target clientele, formation of client members group, excluding risk of over-leveraging and ensuring that appropriate products reach the target clientele.
2. **Loan Pricing and Transparency:** Exorbitant interest rates and lack of transparency in disclosing the effective cost of loans to the clients can lead to a threat of excessive debt burden for the client. We evaluated the policy decision taken by the board to limit excessive margins and ensure complete transparency in disclosure and communication to make clients understand the all-inclusive cost of the loans with respect to declining interest rates, processing fees, insurance charges, collateral deposits and pre-payment penalties.
3. **Loan Appraisal Process:** A robust loan appraisal process is essential to ensure that the client borrow within their repayment capacity, do not get over-leveraged and potentially cause stress to themselves and their group members. The company's policies on conducting verification on client's household income and repayment capacity, field verification to collaborate the information provided in the forms, checks to ascertain the existing leverage of the clients with credit bureaus and other sources and a mechanism to deploy loan utilisation checks are the key parameters to be assessed and evaluated.

## *Annexure III:Description of Code of Conduct Parameters*

4. **Staff Behaviour:** Another critical parameter is staff's conduct towards clients. It is extremely critical that the field officers and other staff of the MFI treat the customers with respect and humility so as to create an environment where the clients are at ease with sharing their concerns and suggestions. Further, in the past, coercive recovery mechanism of MFI staff have been an issue of concern. The assessment will focus on MFIs prescribed policies on granting grace period for repayment, norms for staff behaviour towards clients, execution of Joint Liability Group program, visit to client's houses and use of physical pressure/threats for recovery.
5. **Privacy of Client Information:** The Company should have a board level policy to ensure the privacy of individual client's data related to demographics, income, sex, race, age, education, home ownership etc and also define explicit access rights to the client information with restrictions on usage of the information by unauthorised parties that can cause potential stress to the clients.
6. **Integrating social values into operations:** MFIs even though profit making, are built on a social premise of serving the deprived sections of the society which do not have access to other formal means of finance. The focus of MFIs to build their operations on this social premise as reflected in its vision, mission and endeavours to making contributions to improving the availability of livelihood opportunities and skills/capabilities of clients to leverage on these opportunities has to be evaluated and given due weightage.

## *Annexure III:Description of Code of Conduct Parameters*

7. **Relationship management and grievance redressal mechanism:** MFIs approach towards clients should be to focus on developing long term relationship with the clients and provide them a positive environment which fosters open communication of clients concerns, suggestions and grievances to the MFI staff. There should be a formal grievance redressal system which ensures that an effective feedback channel is made available to clients, with clear roles, responsibilities and timelines prescribed for effective and quick resolution of the complaints.
8. **Compliance status of MFI vis-a-vis RBI guidelines:** RBI has issued guidelines to provide boundaries to MFIs operations in terms of defining the qualifying assets of MFIs to be treated as priority sector lending from banks, interest rate caps, margin caps, repayment options offered to clients, collateral and purpose of the taking the loans. All MFIs have to necessarily adhere to RBI guidelines to be able to qualify under priority sector lending from banks and are critical in ensuring compliance to a model code of conduct.