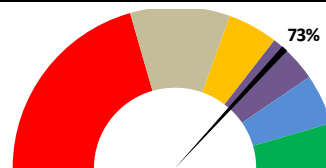
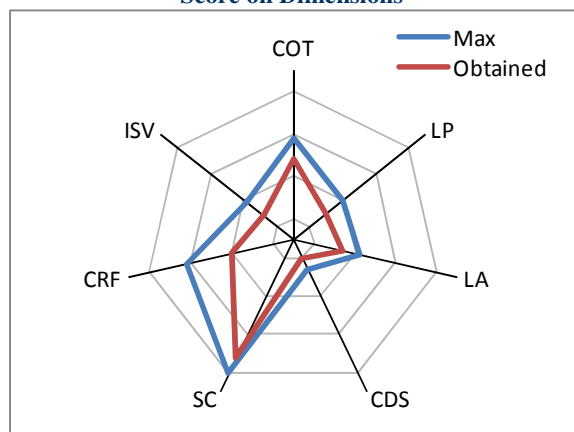


Sarala Women Welfare Society (Sarala),
Dec 2012



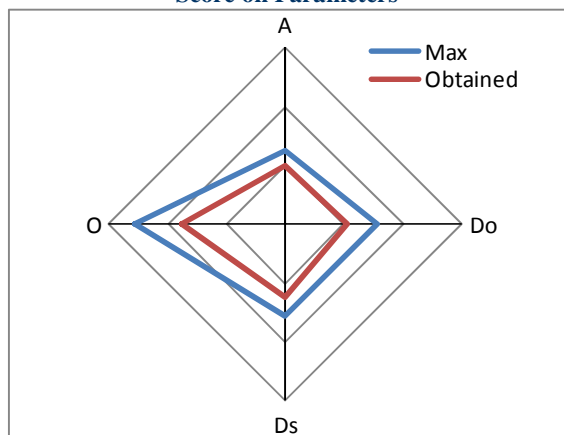
Composite COCA Score: 73%, Good level of adherence

Score on Dimensions



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

Score on Parameters



A= Approval, Do=Documentation, Ds=Dissemination, O=Observance
ADDO © Prime M2i Consulting Private Limited

Rationale

Sarala receives a “good” overall score on account of its very good staff conduct, ethical client origination process and other client friendly practices. However, there is significant scope of improvement in grievance handling process. Sarala is a not-for-profit organization and is indirectly impacted by RBI’s guidelines of May 2011, issued to commercial banks on priority sector lending. Sarala was not compliant on some of those guidelines until last financial year.

Highlights

- Sarala does not have joint-liability system. Other members of the group are not required to pay in case of default.
- Sarala has good practice of settling insurance claim immediately with its own funds without waiting for the arrival of claim from the insurance company.
- Sarala maintains buffer for emergencies and holidays in its total loan tenure and therefore does not require clients to pay in case of any emergency situation.
- Sarala has taken initiative to provide health care services to its members through a separate health care company.

Areas of improvement

- Sarala needs to have system to ensure that it complies with all regulatory guidelines. Board needs to proactively check the compliances.
- Grievance handling mechanism needs to be significantly improved and formalized.
- There is scope of improvement in the internal audit process.









Code of Conduct Assessment Compliance Assessment Tool






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

Disclosure

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







Section 1: Scores¹ and facts

Code of Conduct dimensions ²	Maximum	Obtained	%
 Client Origination and Targeting	24	19	79%
 Loan Pricing	15	10	67%
 Loan Appraisal	16	12	75%
 Client Data Security	8	5	63%
 Staff Conduct	35	31	89%
 Client Relationship and Feedback	26	15	58%
 Integrating Social Values into Operations	14	9	64%
 Total	138	101	73%
RBI's Directions	12	11	92%

Compliance parameters	Maximum	Obtained	%
 Approval	25	20	80%
 Documentation	31	21	68%
 Dissemination	31	25	81%
 Observance	51	35	69%
 Total	138	101	73%

MFI's profile – September 2012

Name of the MFI	Sarala Women Welfare Society (Sarala)
Legal form	Not-for-profit company registered u/s 25 of The Companies Act 1956
Operational Head	Mr Pranab Rakshit
Year of starting microfinance	2006
Branches	55
Operational area	West Bengal
Total number of staff involved in microfinance	298
Visit of the Assessment team	18 December 12 – 21 December 12
Correspondence address	Sarala Women Welfare Society 4/2/3, Dino Master Lane, Shibpur, Haora – 711 103, India. Phone : +91 33 2678 5925/8390

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

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

Microfinance Methodology

Sarala's operational model is inspired by the ASA MFI of Bangladesh. Clients are organized in groups of 10 to 30 and there are three office bearers in the group– the President, the Cashier and the Secretary. Prior to lending the members are trained. The members have to compulsorily attend four weekly meetings during which they are trained on the loan product, pricing and various organizational policies and processes. Post training, Branch Manager cross-checks the group and then the loans are given.

The disbursements are done in the branches while collections are done in the field in weekly group meetings by the Credit Officers. There is no joint liability in the model and the members are not forced to repay loan in case of default of any other member.

Sarala has become member of High Mark Credit Information Services as well as Equifax Credit Information Services. However, Sarala is still in the process of finalizing systems for data sharing and currently does not undertake credit bureau checks before lending to its clients as its software-based MIS system is currently under implementation.

Details of the loan products - 30 September 2012

Product	Description	Loan size*	APR	EIR	% in portfolio
Suchana 1	Loans are given to members for income generation activities. Interest rate on the loan is 23.62% per annum on reducing balance basis. An upfront processing fee of 1% is charged. Loan is to be repaid in 45 weekly installments within a total period of 52 weeks. Sarala maintains a buffer of 7 weeks for any non-repayment of installment on account of any client emergencies or holidays.	2,000 to 15,000	25.9%	29.2%	62%
Suchana 2	Loans are given to members for income generation activities. Interest rate on the loan is 25.12% per annum on reducing balance basis. An upfront processing fee of 1% is charged. Loan is to be repaid in 37 weekly installments within a total period of 42 weeks. Sarala maintains a buffer of 5 weeks for emergencies and holidays.	2,000 to 15,000	28.2%	32.1%	38%

Notes:

1. APR has been calculated by taking the actual cash flow for the loan including principal, interest and processing fee. The holidays given by Sarala have been factored in and have been uniformly distributed across the loan period in intervals of one holiday after every seven weeks.
2. EIR has been calculated through compounding interest on monthly rests. EIR has been calculated as: $EIR = (1+r)^n - 1$, where $r = APR/12$ and $n=12$ (for 12 months to annualize).

Key facts and figures			
Parameters	31-Mar-11	31-Mar-12	30-Sep-12
Total groups	6,048	6,260	5,482
Total Members	117,292	101,375	87,492
Active borrowers	108,707	98,145	81,472
Branches	62	61	55
States	1	1	1
Number of districts	13	13	12
Total staff	362	343	298
Number of loans disbursed in FY Period	120,727	114,826	51,587
Amount of loan disbursed in FY Period (Rs Mn)	976.1	907.9	410.1
Loan portfolio outstanding (Rs Mn)	469.4	400.3	337.2
PAR ₆₀	2.6%	4.5%	2.8%
PAR ₃₀	3.1%	4.6%	2.9%
Yield on portfolio	25.5%	26.7%	27.9%
OSS	156.6%	157.9%	153.3%
RoA	6.4%	7.0%	7.8%
RoE	58.8%	41.5%	30.2%

Source: Data provided by Sarala

Equity structure

As of 31st March 2012, Sarala Women Welfare Society, which is a not-for-profit company, did not have any share capital and had no shareholders.

Sarala Board of Directors – 30 September 2012	
Name	Profile
Dr Arabinda Sinha	Mr Sinha is the Chairman of the Board. He is MSc from Calcutta University and PhD from University of California, USA. Mr Sinha is an academician. He was a faculty in a medical college in USA and has now retired. Mr Sinha has interest in microfinance and has undertaken Microfinance training in Harvard Business school and ASA, Bangladesh and has several years of experience in rural development.
Mr Ganesh Chandra Modak	Mr Modak is Bachelor in Commerce and is a veteran development professional. He has over 20 years of experience of working with various not-for-profit organizations and MFIs. He is currently General Secretary of a Microfinance Institution and has also headed the training department of another MFI in West Bengal.
Mr Mihir Kumar De	Mr De is a Bachelor in Science from Kolkata University and Post Graduate in Anthropology from Utkal University, Orissa. He was previously a police officer. Mr De retired from the post of Deputy Superintendent of Police, West Bengal.
Mr Nepal Rakshit	Mr Rakshit is the co-promoter of Sarala. He has over 32 years experience and has retired as the Administrative Officer of a Public-Sector Undertaking. Post retirement, Mr Rakshit has worked with several multinational companies. He has now started his own business on whole sale distribution of food products.
Mr Sachin Bhattacharya	Mr Bhattacharya is a lawyer and retired Assistant Registrar of Companies. He has over 38 years of experience. He is also Secretary of a Girls' High School and President of a Public Library. He is also holding key position in other associations and institutions.
Mr A Ramanathan	Mr Ramanathan is an MBA and MPhil (Management). He has over 35 years of professional experience. He is ex-Chief General Manager of NABARD where he has served in the Microcredit Innovations Department. At NABARD he was also in-charge of the Financial Inclusion department. Mr Ramanathan has also been the Joint Director of Bankers Institute of Rural Development (BIRD), Lucknow and has also worked as Finance Officer with State Industries Promotion Corporation of Tamil Nadu.

Section 2: Status of Regulatory Compliance

2.1 Compliance with regulations

At the time of M2i visit in December 2012, Sarala was complying with most of the directions of RBI of May 2011 on priority sector lending. However, in the last financial year it has remained non-compliant on loan pricing, which it has complied with in the current financial year. However, in loan documentation it was still taking clients' signature on having rights over the asset created with the loan amount until the loan is fully repaid. M2i views this as equivalent to taking collateral.

Sarala's compliance with RBI guidelines for MFIs is presented below.

Sarala is a not-for-profit company and its compliance is guided by the RBI's circular RBI/2010-11/505 RPCD.CO.Plan BC. 66/04.09.01/2010-11 dated 3 May 2011. The Circular was on bank loans to microfinance institutions under priority sector status. It encompassed all MFIs availing loans under priority sector from banks irrespective of their legal forms.

Capital requirement

Being a not-for-profit entity, Sarala does not have any mandatory compliance for capital. However, as on 31st March 2012, Sarala had total equity of Rs89.2 million comprising of its reserves and surplus.

Proportion of qualifying assets and income generation loans

Sarala has been obtaining CA certificate for its qualifying assets on a quarterly basis. As per CA's certificate for quarter ending September 2012, Sarala had Qualifying Assets of 91.7% and 100% of its loan had been given for income generation purposes. This is in compliance with the RBI directions given for MFIs.

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

- Loan size verification

Sarala currently does not offer any loan beyond Rs15,000. Thus it is in compliance with the RBI directions on maximum loan in first cycle of Rs35,000 as well as maximum loan in any subsequent cycle of Rs50,000. Physical verification of over 150 loan documents as well as visit to over 120 clients corroborated this.

- Collateral verification

Sarala's loan agreement states that "the ownership of the asset created from the loan would remain with Sarala until the full loan is repaid". Further, it states that "the client will not have the option of going to court against the actions taken by Sarala in case of default".

M2i views this as violation of the RBI's direction of not taking collateral against loan. Further, taking clients' signature on a statement debarring her from approaching court may not be tenable.

Management response

Sarala's management has explained that the organization does not have any policy or practice of taking ownership of any asset of client. However, the loan forms currently being used are the old stationery. New loan forms with modified wordings have also been printed and have been sent to some branches while in other branches they will soon be sent.

- Loan duration verification

The two loan products offered by Sarala have loan tenures not exceeding one year. *Suchana-1* product is for 45 weeks which can be extended up to 52 weeks, while *Suchana-2* is for 37 weeks which can be extended up to 42 weeks. Sarala currently does not lend beyond Rs15,000 under any of its loan products. The tenure of loan products for the loan sizes are in accordance with the RBI directions.

- Household income

Sarala, as a policy, has adopted its target clients as those having annual household income of not more than Rs60,000 in rural areas and Rs120,000 in urban areas. Thus Sarala complies with the RBI directions on target clients. On the loan application Sarala carries out household cash flows analysis and captures the income level. In a check of randomly selected 150 loan documents across 8 branches it was observed that all members had their income within the RBI stipulated annual household income limit for rural and urban areas.

Multiple lending and Indebtedness

As per the existing policy of Sarala, total indebtedness of a client should not exceed Rs50,000. Further, as a policy Sarala does not extend loan to any client who has existing borrowing outstanding from two other institutions. Sarala checks the indebtedness of the clients before lending to them. M2i did not find any of these guidelines breached in any of the 150 random loan documents checked and over 120 clients visited.

Pricing of credit

At the time of M2i visit in December 2012, Sarala was complying with the directions of RBI on pricing and margin cap. Sarala charges interest of 23.62% and 25.12% on its two loan products. In addition it charges 1% upfront processing fee and 1% for insurance which includes its administrative charges for insurance.

Sarala has obtained CA certificate on compliance on pricing as well as on margin cap. CA has certified that for the quarter ending 30 September 2009, Sarala had interest rate margin of 11.82% which is within the stipulated 12% margin cap. For the quarter, Sarala had yield on its loan portfolio of 25.65% while the average cost of borrowing for the same period was 13.83%.

Sarala takes the certification on quarterly basis, M2i verified the past certificates also and did not find the margin cap violation.

Sarala's promoters have also promoted a health care company called Sarala Healthcare Pvt Ltd, which provides health service to poor and low income people. Sarala Women Welfare Society's members who choose to become members of Sarala Healthcare have to pay additional Rs150, which is collected by Sarala Women Welfare Society's staff. For this the members are issued a Health card for free check up for a year of 6 members of their family.

While Sarala Women Welfare Society actively promotes this health card, it is not compulsory to take the health card for availing the loan.

While Sarala is currently complying on pricing, it was taking upfront security and admission fee in the last financial year, this was against the RBI's directions for classification of loans under priority sector. However, in the current financial year it has changed those policies and made them compliant. M2i through its loan document review and direct verification with clients across 8 branches has verified the compliance on pricing.

Capital adequacy

Although no directions have been issued by RBI regarding the capital adequacy for not-for-profit entities, but as on 31st March 2012, Sarla had capital adequacy above 20%. It had a total equity capital of Rs89.2 million against the total assets (without cash and cash equivalents) of Rs435.9 million.

Customer Protection Initiatives

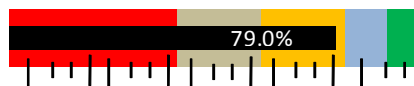
Sarala has formally adopted the industry Code of Conduct and the RBI guidelines. It had previously adopted the Sa-Dhan code of conduct in its board meeting of December 2010. However, it has recently adopted the new industry code of conduct and the RBI's Fair Practices Code (FPC) in its Board meeting of 14th December 2012.

Membership with SRO and credit bureau

Sarala is a member of Sa-Dhan. Sarala has also become member of High Mark Credit Information Services Limited as well as of Equifax Credit Information Services Limited. However, Sarala has still not started sharing data with credit bureau and also does not avail credit reports from the bureaus before its own disbursements. This is because Sarala is currently in the process of implementing its software based MIS and is working on a platform wherein it can share data with the credit bureaus in their desired formats. Sarala expects to be able to do credit checks and share data of all its branches with the two bureaus in the next financial year.

Section 3: Observations

3.1 Client Origination and Targeting (COT)



Sarala's score on client origination and targeting is 'good'. Sarala's policy for identifying target clients is well documented and well communicated to staffs. Staffs are aware of risks of involvement of agents or using any unfair means to acquire clients. However, in many urban pockets Sarala has overlap of operational area with many other MFIs, which enhances risk of unauthorized agents. Further, there is scope of improvement in area survey process of Sarala.

Approval (A)	Documentation (D)
<ul style="list-style-type: none"> ✓ Sarala has a board approved policy of targeting low income clients as per RBI directed income criteria. ✓ The board has approved of using only fair means and practices for acquiring new clients. 	<ul style="list-style-type: none"> ✓ The organization has well documented policy on target clients. ✓ The policy clearly lays out processes of area selection, eligibility criteria of clients and induction process of clients. ✗ Currently there is no formal format for carrying out survey or reporting the survey findings.
Dissemination (D)	Observance (O)
<ul style="list-style-type: none"> ✓ Staff members are provided trainings and communications on all aspects of area selection and member orientation. ✓ Staffs have been made aware of agent risks and risk of using any unfair means for acquiring clients. ✗ Staffs need to be trained on preparing formal reports on surveys. 	<ul style="list-style-type: none"> ✓ No evidence of use of any external agent or payment of unfair money for client origination was observed. ✓ Staffs are following the documented policies and processes for originating clients. ✓ Sarala does not have incentive for acquiring new clients and incentives for servicing clients is also quite nominal. ✗ Sarala does have overlap of operational area with many MFIs in certain pockets, which creates potential of risk due to involvement of unauthorized agents.

Sarala carries out survey of any area before starting operation in it. The survey is carried out by middle management as well as senior management staffs. In the survey, details are collected on business potential, livelihood options of people, target clientele, infrastructure, competition etc. The findings are discussed by the senior management which finally takes the decision on expansion.

However, there is no formal report produced for the area survey.

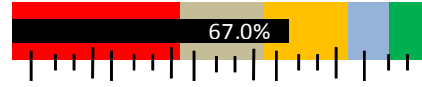
Once Sarala starts operations, the client it targets are those who fit in the RBI's income criteria (annual household income of not more than Rs60,000 in rural area and Rs120,000 in urban areas). The income details of the clients are obtained at the time of filling the loan application and are recorded in the form.

The clients visited by M2i across 8 branches belonged to low income category and matched the income profile as stated in the policy.

Before induction, a client has to necessarily attend four weekly meetings, during which she is explained various processes and other terms and condition of Sarala's loan.

Sarala has explicitly documented policy against use of any informal agents in client origination. Staffs were also found well aware of Sarala's client origination policy and threat posed by agents. However, in some high competition pockets it was found that some of Sarala's group leaders were also group leaders of other MFIs. Thus, there is a potential risk of unauthorized agents in such high competition pockets.

The staff incentive system of Sarala is sound and it does not provide any direct incentive to staffs for inducting new clients. In fact, incentive portion is not very significant in the overall salary of the staff.



3.2 Loan Pricing (LP)

Sarala’s score on loan pricing is ‘reasonable’. This is on account of the fact that Sarala had been taking up front security and admission fee until last financial year.

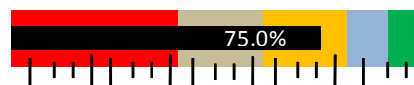
Approval (A)	Documentation (D)
<ul style="list-style-type: none"> ✓ Sarala’s board approves loan pricing for the organization. ✗ Sarala’s board did not take cognizance of compliance on pricing by Sarala last year. 	<ul style="list-style-type: none"> ✓ Sarala currently has clearly documented policy on pricing which includes interest rate, processing fee and insurance as per RBI directions.
Dissemination (D)	Observance (O)
<ul style="list-style-type: none"> ✓ All the staff interviewed had received training and communications on Sarala’s pricing policy and were fully aware of the interest rates charged, processing fee and insurance charges. 	<ul style="list-style-type: none"> ✓ The interest rates, processing fees and insurance charges are printed prominently in the loan cards. These are also displayed in all the branches. ✓ Awareness regarding interest rate and other charges was satisfactory among Sarala’s clients.

At the time of M2i visit in December 2012, Sarala charged interest of 23.62% and 25.12% on reducing balance on its two loan products. In addition it charged 1% upfront processing fee and 1% for insurance which included its administrative charges for insurance.

All of Sarala’s staffs were aware of the pricing. The awareness on pricing was also reasonable among the visited clients. Around 60% of the visited clients could tell the interest rate. The interest rate is hand-written or stamped on the client passbook and is also prominently displayed in all branch offices. 100% of the client passbooks checked had the interest rate and processing fee written on them.

While Sarala’s performance on pricing is currently good but there were compliance issues on pricing as Sarala was collecting admission fee and security deposit in the last financial year.

3.3 Loan Appraisal (LA)

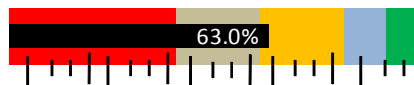


Sarala's performance on Loan Appraisal is 'good'. Sarala records client family details, does cash flow analysis to ascertain the repayment capacity and also checks clients' indebtedness level. However, Sarala does not check credit history of client through any credit bureau.

Approval (A)	Documentation (D)
<ul style="list-style-type: none"> ✓ Sarala has a board approved policy of appraising loans as per the directions of the RBI to prevent over-indebtedness of its clients. 	<ul style="list-style-type: none"> ✓ Sarala has loan forms which allow capturing of clients household cash flows and indebtedness data. ✗ Sarala's old loan form has language which does not subscribe to RBI's directions on collateral. Although Sarala has now printed new forms but these old forms are still in use.
Dissemination (D)	Observance (O)
<ul style="list-style-type: none"> ✓ Sarala's staff is trained in loan appraisal by carrying out household cash flow analysis and capturing indebtedness data. ✓ Staffs have been trained on avoidance of over indebtedness. 	<ul style="list-style-type: none"> ✓ Sarala's policy on loan disbursements is cautious and the stepping up of loan in each cycle is also conservative. ✓ The cash flow analysis and indebtedness analysis being done by Sarala was found to be good for the loan size being disbursed ✓ In all visited clients Sarala had disbursed loans so as not increase their total indebtedness over Rs50,000. ✗ Sarala currently does not carry out credit check through credit bureau.

The Credit Officer of Sarala fill up the loan application in which there is provision for capturing client's family profile, asset-liability of client and her income and expenditure details. In light of the fact that the maximum loan size of Sarala is only Rs15,000, the quality of data being captured by the staffs was found to be good. Sarala has also been very cautious in enhancing loan amount in each cycle.

For ensuring loan repayment, Sarala does not take any joint liability from the members. In case of any overdue, other members are not required to repay, which is a good practice from client protection perspective and does not stress other clients in case of overdue. However, the wording of loan agreement of Sarala is such that it can be construed as taking physical collateral and hence is not a fair practice from client protection perspective as well as from the regulatory compliance perspective. Further, Sarala currently does not check credit history of clients through credit bureau currently.



3.4 Client Data Security (CDS)

Sarala's performance on client data security is 'reasonable'. Sarala has documented policy for keeping client data confidential and staffs are also aware of it. However, Sarala does not have software based data security system. The loan documents are stored at branch level where they are easily accessible.

Approval (A)	Documentation (D)
<ul style="list-style-type: none"> ✓ Sarala has a board approved policy regarding client data security. 	<ul style="list-style-type: none"> ✓ Sarala has documented policy on how the client data has to be stored. ✓ In the code of conduct displayed at branch, Sarala has mentioned that all client data will be treated confidential. ✗ The policy does not expect client data to be stored under lock and key and states that it should be stored in cartons or tied in cloth.
Dissemination (D)	Observance (O)
<ul style="list-style-type: none"> ✓ There is awareness among the staffs regarding client data security and how client data should be stored as per the existing policies of Sarla. 	<ul style="list-style-type: none"> ✗ Currently Sarala does not have secured software system to store client data. ✗ The data is recorded in registers which are accessible to COs. Physical documents are stored at branch level in cartons and are not kept securely in locks and hence are easily accessible.

Sarala has approved the policy to protect client data and to treat client information as confidential. This is also well documented in its operations manual and is prominently displayed in code of conduct displayed at each branch.

The staffs were also found to be sensitized to client data security. However, under the current systems the client data and records are easily accessible. There is no software and all records are manually maintained. All recording of client data is done at the branch and all records stay at branch level, where the data is susceptible to any modification or manipulation.

Even the physical loan documents of clients are stored at branch level. The old documents are packed in cartons and stored in the branches. Again there is no formal system of keeping them in lock and key.



3.5 Staff Conduct (SC)

Sarala’s score on staff conduct is ‘very good’. This is on account of Sarala’s clearly documented policies on expected staff behavior. The staffs are also sensitized on proper conduct with clients. Further, Sarala has good client friendly operational policies.

Approval (A)	Documentation (D)
<ul style="list-style-type: none"> ✓ Sarala has adopted the industry code and RBI fair practices code for staff behavior which includes policies regarding expected staff behaviour with clients. 	<ul style="list-style-type: none"> ✓ Sarala has well documented the acceptable staff behavior with clients and has a staff code of conduct, which is displayed in all branches. ✓ Sarala has also documented messages for clients, informing them of their rights and responsibilities.
Dissemination (D)	Observance (O)
<ul style="list-style-type: none"> ✓ “Dos” and “Donts” of staff conduct have been put on posters in branches. ✓ Employees have been trained on how they should address their clients and expected behavior particularly during collection of money. 	<ul style="list-style-type: none"> ✓ All visited staffs were found to be aware of behavioral issues with clients. Staffs were following these codes of conduct policies. ✓ Visited clients did not report any incidence of staff misconduct or coercion.

Sarala has well documented policy on staff conduct. Sarala’s staffs’ behavior with clients was found to be good. None of over 120 clients visited by M2i reported of any incidence of misbehavior or any other misconduct by Sarala’s staffs. M2i also visited clients who had overdue and even they did not report of any coercion or threat by staffs.

Sarala has prominently displayed Code of Conduct for its staffs in each branch and has also displayed information for the clients. Key features of these are:

Code of conduct for staffs displayed at Sarala branch (list presented here is not exhaustive, only key points are being presented):

- Always treat clients with respect
- All transaction with borrowers should be fair, clear and ethical
- Inform all borrowers clearly of all services and the terms and conditions
- Inform clearly about price – interest, fees, installment etc
- All loans to be disbursed as per the repayment capacity of the borrower
- Acknowledgement for all transactions to be given to clients
- At the time of repayment following have to be observed:
 - No collection to be done during illness or other such distress situations
 - No aggression or intimidation should be shown during collection
 - Respond to all queries of borrowers
 - All documents of borrowers to be treated confidential

Appeal to borrowers displayed at Sarala branch (list presented here is not exhaustive, only key points are being presented):

- Utilize the money only for the given purpose
- Organize group with familiar people and those who have the capacity to repay
- Receive all acknowledgements against the money you have paid
- Call the helpline no. of organization if there is any misbehavior by any staff
- Do not pay commission or involve any agent
- Don't take loan on behalf of others
- You will not get loan from us if you have loan from 2 other organizations or have loan outstanding beyond Rs50,000.

Sarala has friendly client practices which are mentioned below:

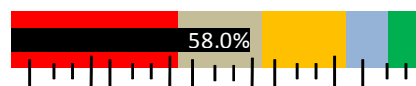
- There is an inbuilt buffer of 5-7 weeks in its loan products. So in any distress the organization does not collect repayments for those week/s and collects it in the last installment.
- In case of client or spouse death, Sarala pays the full insurance amount to the clients on its own as soon as it receives the death certificate. Sarala does not deduct the loan outstanding on its own. It leaves the choice to customers, whether they want to settle outstanding with insurance money received or want to continue paying normally. Sarala pays the insurance amount on its own and does not wait for insurance company's claim, which it collects later. Although Sarala has to block its own funds as well as forgo interest on the amount, Sarala has adopted this as a fair practice.
- Sarala does not enforce joint liability on its members, thus it does not create any stress for good clients, in case any other client is not able to repay.
- Sarala does not incentivize its staffs for new client acquisition or for repayment or collection of overdues.

Case study: Client sensitive collection practice

Sarala has a group named 'Anandita' in Kasba branch. In January 2011, houses of 14 of the 17 members in the group were burnt. The clients were shifted by authorities to a local school. During the period, Sarala immediately stopped collection for those 14 members. Further, it being winters, Sarala provided blankets to its members to bear the cold.

By March 2012, Government had rehabilitated all 14 members and it was only then that Sarala resumed collection. All the members fully paid the loan back and have now taken next cycle loan.

3.6 Client Relationship and Feedback (CRF)



Sarala's performance on CRF is 'weak'. The system it has put in place is still nascent and is mostly ineffective.

Approval (A)	Documentation (D)
<ul style="list-style-type: none"> ✓ The Board has approved the policy for grievance redressal and to address any complaint lodged by the client. 	<ul style="list-style-type: none"> ✓ Sarala has documented policies regarding recording of client complaint and the time frame in which it has to be addressed. ✓ Sarala has documented step-wise process for escalation of grievance to its clients. ✗ Sarala has not documented specific policies for staffs for handling grievances and to check if the grievances have been addressed.
Dissemination (D)	Observance (O)
<ul style="list-style-type: none"> ✓ The staffs are aware of grievance redressal process. ✗ Staffs are still not professionally trained to address grievance systematically and to ensure that the issue is resolved. 	<ul style="list-style-type: none"> ✓ Sarala has provided mechanisms to clients for lodging their complaints at branch as well as head office level. ✓ Sarala has recently appointed a Grievance Redressal Officer at Head Office. ✗ The complaint recording and redressal process at the Head Office is still not systematic. ✗ The grievance redressal system at branch is almost ineffective as no complaint was found in any register or complaint box. ✗ Internal Audit does not audit the grievance process and complaint resolution.

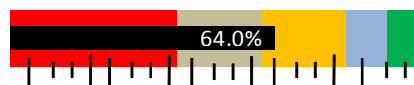
Sarala formulated a grievance redressal policy for addressing client grievances. At the branches it maintains a complaint register and has also put a complaint box. The key of the complaint box remains with the Regional Manager, who has to check the box in his monitoring visits.

Sarala has also provided toll-free helpline number to its client which is written in their group resolution register. In the same register Credit Officer and Branch Manager numbers are also written. The grievance redressal mechanism is also displayed in each branch. Sarala has recently appointed a Grievance Redressal Officer at the Head Office.

However, the effectiveness of the grievance redressal at present is limited on account of the following:

- The grievance recording system at Head Office is not systematic. Currently client grievances as well as other calls received at Head Office are all recorded in the same register.
- There is no step-wise formal process to manage grievance related calls. The staff managing the calls was also not professionally trained to handle the calls, expected responses that need to be given and the next steps to be followed.
- There is no process to cross-check whether the grievance has been resolved and no cross-checking with client is done. Further, no record of the grievance resolution status is maintained at the Head Office.
- Internal audit also does not verify the grievance related calls and cross-checks the actions taken against the grievance calls.
- It was observed that the complaint register as well as complaint boxes had limited effectiveness as clients were not using them frequently.
- Awareness regarding toll-free number, its purpose and about complaint register was found to be moderate in the clients. Sarala staffs do not pro-actively propagate the number or explain the meaning of ‘toll-free’.

3.7 Integrating Social Values into Operations (ISV)



Sarala’s performance on ISV is ‘reasonable’. Sarala’s board has good representation of independent directors. Sarala has also taken other health related initiatives through its sister company. However, Sarala currently does not have any mechanism to track socio-economic progress of its clients or to see the impact of its services.

Approval (A)	Documentation (D)
<ul style="list-style-type: none"> ✓ Sarala’s board has adequate representation of independent directors. ✓ The organization’s mission is to provide financial services to the poor in a sustainable manner. 	<ul style="list-style-type: none"> ✓ The documented operational policies of Sarala are client friendly. ✗ Sarala currently does not have any social performance management policy.
Dissemination (D)	Observance (O)
<ul style="list-style-type: none"> ✓ Sarala’s staffs are well aware of low income target clientele of Sarala. ✗ Sarala’s staffs have not been trained in tracking the socio-economic progress of clients or to see the impact of its services on clients. 	<ul style="list-style-type: none"> ✓ Sarala provides healthcare services in a structured manner to its members through its sister company. Sarala is also planning other interventions in the field of adult education. ✗ Sarala does not track the socio-economic progress of its clients. ✗ Sarala has not taken any initiative to capture the impact of its services on its clients.

Sarala’s board has six directors and except one promoter, all the five directors are independent. Sarala has also recently formed a five-member audit committee, comprising of three board members and two members from senior management team including the CEO. However, currently the quality of internal auditing was found to be moderate. There is lack of formats for carrying out auditing and reporting the findings objectively.

Sarala provides healthcare facility to its members through its sister company called Sarala Healthcare Pvt Ltd. The company takes an annual fee of Rs150 and provides service to six members in a family for one year. It provides regular health check-ups for which doctors visit Sarala’s branch offices every month. Members or their family members can come to branch location for checkups. Sarala also provides generic medicines to those who need it. The generic medicines are available at almost 50% of the retail price available in the market.

However, currently Sarala does not have any process to systematically capture the impact of its financial services on its clients. Sarala has not prepared any social performance management policy and has also not carried out any study or research to see the impact of its services.

Sarala has limited range of financial products which are only for income generating purposes. It does not have any product to address other needs of the members.

Annexure 1: Matrix of Score Obtained³

Indicators	A		Do		Ds		O		Total	
	Max	Obt	Max	Obt	Max	Obt	Max	Obt	Max	Obt
Client origination and targeting	5	3.67	5	4.58	5	4.58	9	6.42	24	19
Loan Pricing	3	1.83	1	0.92	2	1.83	9	5.04	15	10
Loan Appraisal	4	3.67	4	1.83	3	2.75	5	3.85	16	12
Client Data Security	1	0.92	3	0.92	2	0.92	2	1.83	8	5
Staff Conduct	7	6.42	7	6.42	10	9.17	11	9.26	35	31
Client Relationship and Feedback	2	0.92	8	4.58	6	3.67	10	5.68	26	15
Integrating Social Values into Operations	3	2.29	3	1.83	3	1.83	5	3.21	14	9
Total*	25	20	31	21	31	25	51	35	138	101

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

³ ADDO © Prime M2i Consulting Private Limited

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

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

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

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

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

Illustration

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

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

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

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

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

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

RBI's Directions and Guidelines

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

Methodology

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

Key Aspects

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

This exercise requires:

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

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

Sr No	Branch	State	No of clients interviewed
1	Kulgachia	WB	53
2	Kaktia	WB	7
3	Tumluk	WB	7
4	Ramrajatala	WB	20
5	Bakultala	WB	20
6	Sankrail 1	WB	3
7	Dum Dum 1	WB	17
8	Dum Dum 2	WB	3
Total			130

Branches were visited in 3 districts: Howrah, East Midinipur and North 24 Parganas

Annexure 3: Code of Conduct Assessment – Framework

Code of conduct dimensions

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

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

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

Compliance

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

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

Weights

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

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

Regulatory compliance (ReC)

Since it is mandatory for MFIs to comply with the guidelines given by the regulator, the MFIs are assessed for their compliance with these regulations. The level of compliance of an MFI to regulations is scored and this is factored-in in COCA by scaling down the scores on various COCA dimensions in proportion to the score obtained on ReC. In total there 12 indicators have been used to measure ReC.