

Code of Conduct Assessment

Shikhar Microfinance Private Limited

Comprehensive Grade Assigned: C3

Date assigned: April 28, 2017

Scale	C1	C2	C3	C4	C5
MFI 1					
MFI 2+					
MFI 2					
MFI 3+			MFI 3+* C3		
MFI 3					
MFI 4+					
MFI 4					
MFI 5					

*Assigned by CARE in Feb 2016

The MFI obtains code of conduct assessment grade of **C3**. This indicates that the MFI has an average performance on code of conduct dimensions.

Rationale

Code of Conduct Assessment Grade	Shikhar Microfinance Private Limited obtains “ C3 ” as its Code of Conduct Assessment Grade which signifies average performance on COCA dimensions.
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*Assessment on Code of Conduct has been done on the indicators pertaining to **Transparency, Client Protection, Governance, Recruitment, Client Education, Feedback & Grievance Redressal and Data Sharing**. Some of these indicators have been categorized as Higher Order indicators consisting of indicators on **Integrity and Ethical Behaviour and Sensitive Indicators**.*

Conflict of Interest Declaration

ICRA has not been involved in any assignment of advisory nature for a period of 12 months preceding the date of the comprehensive grading. None of the employees or the Board members of ICRA have been a member of the Board of Directors of the MFI during for a period of 12 months preceding the date of the comprehensive grading. The analysts certify that they do not hold any shares of the company being rated and the analysts do not have any conflict of interest with reference to the company being rated.

Disclaimer

The objective of the Code of Conduct assessment exercise is to assess the extent of adherence to common Code of Conduct by MFIs during the period of assessment. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the graded entity. ICRA however has not conducted any audit of the graded entity or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than grading to the entity graded. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.

Code of Conduct Assessment scale and definitions

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

MFI's profile (March 31, 2017)	
Name of the MFI	Shikhar Microfinance Private Limited
Legal form	NBFC-MFI
Institution Head	Mr. Satyavir Chakrapani
Year of starting microfinance	2007
Branches (March 31,2017)	26
Active borrowers	41,286
Total staff	178
Operational area	Delhi, Uttar Pradesh, Haryana, Uttarakhand and Rajasthan
Visit of the Assessment team	Delhi, Haryana and Uttar Pradesh
Correspondence address	A-112, 1 st floor, Palam extension (behind ICICI Bank), sector 7, Dwarka, New Delhi-110077

Details of Loan Products (April 12, 2017)				
Product	Description	Loan size (Rs)	Interest Rate	APR (Interest Rate and Processing fees)
Sambandh	JLG - IGL 1	15,000-20,000- 25,000	12-15 months	25.71% + 0.99% (processing fees)
Umang	JLG - IGL 2 & above	25,000 – 30,000 – 35,000 – 40,000 – 45,000 – 50,000	18-24 months	25.71% + 0.99% (processing fees)
Tarang*	Individual Loan	60,000 - 80,000	24- 36 months	25.71% + 0.99% (processing fees)

*Started as a pilot project and closed in FY2016

Ownership/Equity Structure

Shareholding Pattern (March 31, 2017)	
Shareholder	% Shareholding
Dia Vikas Capital Pvt. Ltd.	47.80%
Shikhar Development Foundation	23.84%
SIDBI	19.24%
Partners of Shikhar Trust	6.89%
Shikhar Employee Welfare Trust	1.21%
Mr. Satyavir Chakrapani	0.71%
Mr. Thomas Vinoy Thomas	0.31%
Total	100%

Board of Directors			
S. No.	Name	Position	Brief profile
1	Mr. N.R. Rayalu	Chairman of the Company, Independent Director	He is retired Deputy Comptroller & Auditor General of India. In the past, he has been the CEO of National Pension System Trust and Joint Secretary and Financial Advisor in the Ministry of Finance, Government of India. He was the government nominee director on the board of Syndicate Bank and is currently a delegate from Asia to ILO, Global Counsel.
2	Mr. Anil Vidyarthi	Independent Director	He chairs the Finance & Audit Committee, Nomination & remuneration Committee and Executive Committees of Shikhar Microfinance Pvt. Ltd. Also, he is the Chairman of Investment Committee of Green India Venture Fund established by IFCI and posted as a Director on the Board of IFCI Venture Capital Limited. In the past, he has been the General Manager at SIDBI.
3	Mr. Shantanu Dutta	Nominee Director, Shikhar Development Foundation	He chairs the Human Resource Committee and is a member of the Executive Committee. He is currently the National Director-Advocacy, International Justice Mission, India, working in the area of trafficking and bonded labor. He is an Ex-Indian Air Force Medical Officer with rich experience in community health & development.
4	Mr. Javed Ahmad Siddiqui	Nominee Director, SIDBI	He is a member of the Human Resource Committee at Shikhar Microfinance. In his full-time role, he is the Deputy GM at SIDBI, currently heading the New Delhi branch office.
5	Mr. Saurabh Baroi	Nominee Director, Dia Vikas Capital Pvt. Ltd.	He is a member of the Human Resource Committee, Finance & Audit Committee and Risk Management Committee at Shikhar Microfinance. He comes with more than 20 years' experience in the field of microfinance and livelihood with expertise in assessment, rating, due diligence, capacity building assessment, mentoring of MFIs, handling transformational issues, baseline and impact studies for microfinance projects. He is currently serving as the Deputy GM at Dia Vikas Capital.
6	Mr. Satyavir Chakrapani	Managing Director & Chief Executive Officer	Coming with a rich experience of more than 20 years in development sector and MFI's, he founded Shikhar in the year 2007. He was a Board member of Opportunity International Network and currently on Board of Delhi House Society (destitute home-Sewa Ashram). He has been a Consultant with various e-governance projects and ICT initiatives during his career with One World International Foundation, Emmanuel Hospital Association and other developmental agencies. In the past, he has worked with World Vision India and Shramik Bharti.
7	Mr. Thomas Vinoy Thomas	Whole-time Director, Chief Finance Officer	He has been a part of Shikhar's founding team and is currently taking care of the day-to-day operations at Shikhar. Has more than 15 years of work experience. At U-DeC, IDFC's infrastructure advisory company, he worked on tourism, airports, ropeways and urban projects in the areas of infrastructure advisory, financial modelling and analysis with the private sector and all agencies of the Government experience includes stint with Hindustan Zinc Ltd. taken over by Sterlite Industries Ltd., (presently Vedanta) working with finance and operations on efficiency enhancement projects.

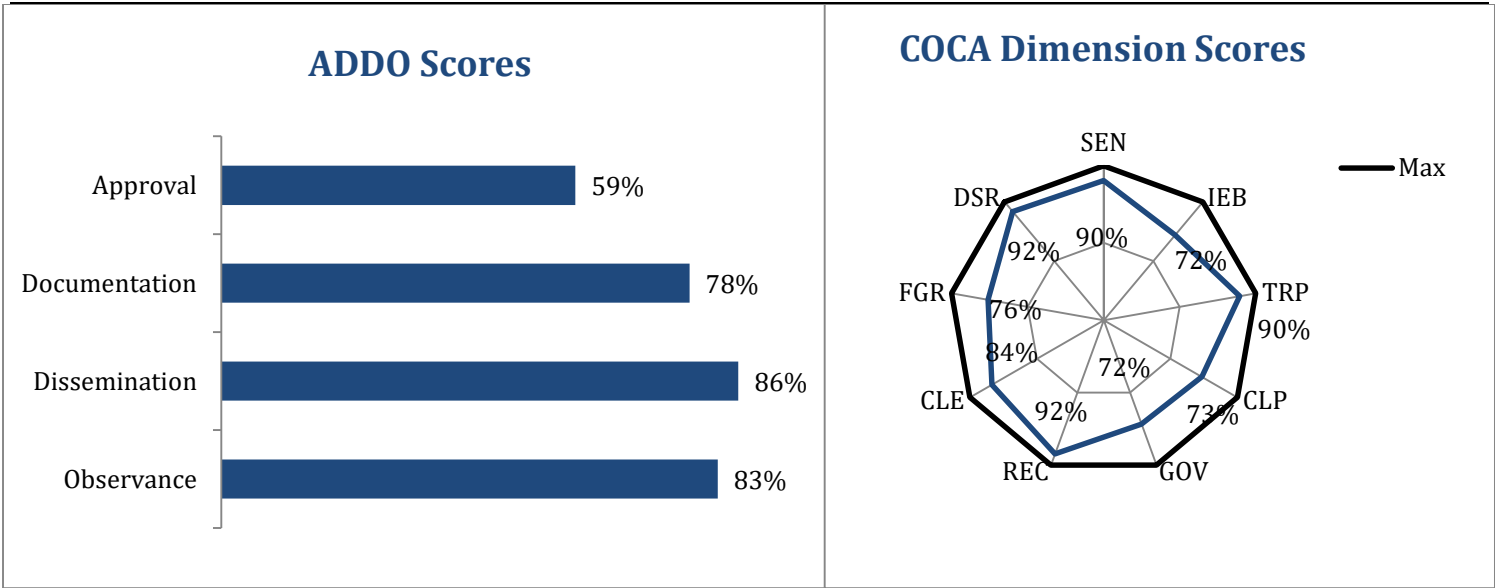
Key Performance Ratios		
	March 2016	December 2016
Portfolio at Risk (>30 days)	1.68%	1.54%
Capital to Risk Weighted Capital Adequacy Ratio (CRAR)	18.75%	16.36%
Operating Expense Ratio (OER)	10.75%	9.64%
Funding Expense Ratio (FER)	13.88%	14.00%
Write-offs to average portfolio	0.21%	0.0%
Return on Assets (RoA)	0.45%	0.16%
Return on Equity (RoE)	2.82%	1.38%
Active borrowers per staff	602	574
Active borrowers per branch	1860	1656

Compliance with RBI's Directions for MFIs

S. No.	RBI's Direction	Status
1	85% of total assets to be in the nature of qualifying assets	Complied as per Internal Audit Report by an external CA agency
2	Net worth to be in excess of Rs5 Crore	Complied
3	Income of borrower not to exceed Rs100,000 in the rural areas and Rs160,000 in the urban and semi-urban areas*	Complied. Income declarations received from clients met the RBI criteria
4	Loans size not to exceed Rs60,000 in first cycle and Rs100,000 in subsequent cycles*	Complied
5	Total indebtedness of the borrower not to exceed Rs100,000 (excl medical and education loans)*	Complied
6	Tenure of loans not to be less than 24 months for loan amount in excess of Rs30,000, with prepayment without penalty*	Complied
7	Pricing guidelines are to be followed	Complied. Interest Rate charged is 25.71%
8	Transparency in interest rates to be maintained	Complied
9	Not more than two MFIs lend to the same client	Complied. Shikhar does not lend as a third lender as per policy.

* For the assets classified as qualifying

Section 1: Code of Conduct Assessment



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

Code of Conduct Assessment Summary

Shikhar’s performance on the code of conduct takes into account MFI's strong performance on Transparency, Recruitment, Client Education and Data Sharing. The overall score is further enhanced by Shikhar's high score on sensitive parameters. There is scope of improvement across Feedback & Grievance Redressal, Client Protection, Integrity, Ethical Behaviour and Governance parameters.

MFI Strengths and weaknesses pertaining to Code of Conduct

Strengths
<ul style="list-style-type: none">• Shikhar has a dedicated internal monitoring and compliance team who is responsible for branch audits. The concurrent audit and risk mitigation (CARM) team comprises of 8 persons including the Audit Head, all of which are involved in concurrent/regular audit of the branches. The head of CARM team reports to the audit committee and to the Board. The board is chaired by a independent chairperson and 5 of the 7 board members are independent/nominee directors• Shikhar communicates with borrowers in a transparent and professional manner with use of single effective interest rates and receipts issued for all payments. All loan forms and communication are done in vernacular• The operational staff is punctual and courteous towards the borrowers with none of the borrowers complaining about the operational staff's behavior.• Shikhar disseminates a single, effective annual rate to its borrowers of 25.71% (w.e.f. April 1, 2017) on group loans. The processing fees charged is 0.99%, which is in line with the prescribed guidelines.• All the first cycle borrowers need to undergo two day CGT training and one day GRT for where they are informed about the products offered by the company, terms and conditions, responsibilities and so on. For subsequent cycles, CGT of one day is conducted• No instances of collateral or security deposit being taken from the borrowers were observed. The same has been documented in the operational manual as well. Interviewed branch managers were aware regarding the guidelines. An external CA agency tracks company's compliance on the same every quarter. In addition, the internal audit department conducts concurrent audit of its branches at regular intervals.• Shikhar undertakes review of its margin regularly and abides by the RBI pricing guidelines certified by an independent CA agency on a quarterly basis.• Shikhar as a policy collects both Aadhar card and Voter ID for all loan cycles. Disbursements are also made in the bank accounts of the customers• Shikhar shares data with all 4 bureaus on a weekly basis and monthly basis. Review of a sample of loan files indicated that credit bureau checks had been made not more than 15 days prior to disbursement in all cases.• During the assessment, no case was seen wherein a commission was paid to an agent/field officer to get a loan.

Weaknesses
<ul style="list-style-type: none">• Of the ADDO parameters, the company scores lowest on approval indicating that the company needs to improve on what is reported to the board. Annual review of Code of conduct compliance report and credit bureau checks post disbursement would help the company increase score on the same.• While all Branch Managers' are given trainings but their awareness with respect to RBI directions regarding loan sizes, loan tenures, loan purpose, income level of borrowers and KYC norms was low as observed during field visits. However, they are aware of Shikhar's lending policy, which is in line with the RBI guidelines.

Other observations
<ul style="list-style-type: none">• Details of the principle, interest, insurance and processing charges were disclosed on the loan cards, however, very few clients were not aware of the same and few were aware of the grievance redressal mechanism of MFIN and sharing of their data for authorized purposes• As per the board minutes shared by the company, it complies with Sa-dhan's code of conduct, which has a policy restricting posting of new joiners at the same geography where they were associated with the previous organization (if recruited from an MFI); however, the company does not have any formal policy regarding the same.

Significant observations - Higher Order Indicators

1. Integrity and Ethical Behavior

Strengths
<ul style="list-style-type: none"> • Shikhar has a policy of providing sufficient notice to any employee. However, as per policy, no notice period is given for noted cases of breach of code of conduct. • As a policy, Shikhar provides relieving letter and service certificate to all employees who have given adequate notice before quitting. • The staff members were trained by senior branch staff on the various processes to be followed including CGT and GRT and the disclosures to be made to the borrowers. • The branch managers and staff members were aware of the need to communicate in a transparent manner with the borrowers and were given training on the same. • The operational staff confirmed that they have received training on the following: <ul style="list-style-type: none"> ○ Conducting client meetings ○ Collecting repayments ○ Recovering overdue loans ○ Feedback and grievance redressal ○ Appropriate documentation and vouching • The members of staff confirmed receiving training from seniors on the grievance redressal mechanism. • Internal audit report by an external CA agency tracks if borrowers get proper documents. The staff confirmed that they had been trained on providing accurate receipts to clients. • Interviews with staff members revealed they were aware of the process to be followed with delinquent clients. • In the sample of branches visited, MFI has displayed the grievance redressal mechanism with contact details of the grievance redressal officer • The employee code of conduct specifically states that collection shortfall will not be recovered from employees (except in proven cases of fraud). Interviews with employees also confirmed that the collection shortfalls were not recovered from them

Weaknesses
<ul style="list-style-type: none"> • Staff satisfaction related to compensation and incentive is not covered by internal audit or the HR manuals. However, it would be included in the new manual released after the on-going review. • Grievance redressal mechanism established by industry associations is disseminated to the borrowers. While the RBI helpline is mentioned in the branches and communicated to the borrowers but contact details of the SRO were not seen in branches visited during field visits.

Other observations
<ul style="list-style-type: none"> • The special incentives forming a part of the compensation is linked to repayment rates for Branch Manager and above levels (higher repayment rates lead to higher incentives; not capped beyond 98%)

2. Sensitive Indicators

Strengths
<ul style="list-style-type: none"> • Most of the borrowers were aware of the amount and number of instalments they were required to pay • No instances were observed where a borrower had been made to pay for a service or product as a precondition for loan. • No instances of fine or penalty being levied or collected from the borrowers were observed. The borrowers also confirmed that no fine has been paid by them. • No instances of collateral or security deposit being taken from the borrowers came to notice during the field visit. • During the field visits, ICRA did not come across incidence of borrowers being charged processing fee in excess of 1%. • The company has a single product: Joint Group Loans (JLG). There is no variation in the interest rates for any ticket size loans. The MFI charges 25.71% (w.e.f. April 1, 2017; reduced from 25.88% charged earlier) on its group loans. • Shikhar undertakes review of its margin quarterly and tracks the prevailing base rates of five largest banks. The company also gets compliance with RBI pricing guidelines certified by an independent CA agency on a quarterly basis. • Shikhar communicates the terms and conditions through its loan forms and loan cards in vernacular. It does not have a formal loan agreement or sanction letter. However Loan cards mentioned most of the important terms and conditions • During interviews with borrowers, loan utilisation was found to be in line with RBI's directions. Most of the loans were taken for income generation purpose; however, some clients had taken loans for renovation of their home. • Shikhar follows a monthly repayment cycle and most of the borrowers were comfortable with the existing repayment schedule. • Shikhar has a clear policy regarding documents to be collected for identity and address proof. The company requires borrowers to have both Aadhar Card and Voter ID. The copy of KYC collected from clients will need to be verified with original documents by the Branch Manager. Not a single instance was observed where for a loan classified as qualifying microfinance loan, identity proof (with a verified with original declaration) had not been obtained. • No instances were observed where clients were charged additionally for insurance, apart from premium payable. • Review of loan files indicated that credit bureau checks had been made not more than 15 days prior to disbursement in all cases. • For around 80% of the borrower's indebtedness of borrower was within the stipulated limit by RBI at the time of disbursements. • Shikhar has a clear policy regarding documents to be collected for identity and address proof. The company requires borrowers to mandatorily have both Aadhar Card and Voter ID. • Interviews with borrowers revealed no instances of the following: <ul style="list-style-type: none"> ○ Abusive language or threats ○ Visiting borrowers at odd hours ○ Forcible entry into dwelling and forced seizure of property without the legal orders. • All clients revealed that they receive accurate receipts for all transaction. • The loan agreement forms take consent from clients that her data can be shared by Shikhar. • There were no adverse observations in the Auditor's report for the year 2015-2016 regarding accounting standards followed by the MFI. • Earlier, Shikhar was a member of 3 out of the 4 credit bureaus but currently has tied up with the remaining one. It provides data to each of the bureau on a weekly and monthly basis. It provides data when called for by RBI or MFIN.
Other observations
<ul style="list-style-type: none"> • The company gave loans worth Rs. 80,000 to borrowers before MFIN introduced the loan cap of Rs. 60,000, but later discontinued the pilot in December 2015.

Significant observations – Building Blocks

1. Transparency

Strengths
<ul style="list-style-type: none"> • Shikhar has adopted the guidelines and directions issued by Reserve Bank of India (RBI) with respect to vernacular language being used in communication, use of only single and effective interest rate and issue of receipt for any payments. The same have been documented in manuals. • Circulars with most recent RBI directions were available in the branches visited. • The branch managers and staff members were aware of the need to communicate in a transparent manner with the borrowers and were given training on the same. • The borrowers confirmed that they had been communicated all terms and conditions such as interest rates, loan tenure, processing fee etc during the group training prior to disbursement. • The field staff interviewed was aware of the terms and conditions that need to be communicated to the borrowers. • Various forms and documents used by Shikhar are in the vernacular; however the same has not been reviewed by the board in the past 1 year. • The loan card issued to clients provides the complete repayment schedule with interest, principal, insurance and processing charges mentioned separately. • The branches maintained the formats in vernacular approved by the board. • Discussions with clients revealed that they or someone in their families were able to read and understand the text in documents, such as loan cards, loan agreements etc, shared by the company • The interest rate and charges applicable are communicated to the client in writing on a loan agreement. Almost all borrowers were aware of the amount and number of instalments they were required to pay. • Given a single product in its portfolio, Shikhar has a single, effective annual rate for all loans. The processing fees charged is 0.99%, which is in line with the prescribed guidelines. • No instances of fine or penalty being levied or collected from the borrowers were observed. The borrowers also confirmed that no fine has been paid by them. • Shikhar has a board approved policy stating that no security deposit will be collected, or collateral will be obtained for loans meant to qualify under priority sector classification and company's position on the same has been reviewed by the board in the past year. The same has been documented in the operational manual as well. Interviewed branch managers were aware regarding the guidelines. • No instances of collateral or security deposit being taken from the borrowers came to notice during the field visit. • Any changes in its interest rate are documented through formal circulars and branches have access to the same. • Shikhar undertakes review of its margin quarterly and tracks the prevailing base rates of five largest banks. The company also gets compliance with RBI pricing guidelines certified by an independent CA agency on a quarterly basis. • Review of latest loan files revealed that the loans had been disbursed at the most recent rate of interest at the time of document collection and disbursement. • ICRA did not come across incidence of borrowers being charged processing fee in excess of 1%. • With only JLG loans, it did not have any difference in the interest rates for its different products. The MFI charges 24.71% w.e.f. April 1, 2017, reduced from 24.96% charged earlier on its group loans. • The internal audit report by an external CA agency tracks whether all clients receive the necessary loans documents • The staff had received training regarding the documents to be provided to clients. • While Shikhar has developed acknowledgement and acceptance formats for clients but around 10% of the clients did not receive the same. However, Shikhar has zero tolerance policy against any such reported instances in the field and suitable actions against staff were taken • Recent operational data was available in public domain on the company's website

Weaknesses
<ul style="list-style-type: none"> • While all documents are in vernacular language, Shikhar's Board did not specifically review whether the client loan document formats in use are understandable by MFI's clients particularly in new areas of operations. • Financials for FY2016 were not available on the website • Out of the sample branches visited, few branches did not display the details of charges (interest, insurance charges and processing fee) on the notice board; however, details were mentioned on loan cards. Also, the circulars were available at the branches and review of the latest loan files revealed that loans were disbursed as per latest terms.

2. Client Protection

Strengths
<ul style="list-style-type: none"> • Shikhar's board reviews the proportion of qualifying loan assets to total assets quarterly. • The norms regarding loan size, loan tenure and turnaround times have been documented in operating manuals/ circulars. • Internal audit report by an external CA agency keeps track of the following parameters and their compliance with RBI directions: <ul style="list-style-type: none"> ○ loan sizes of qualifying loan assets ○ loan tenure of qualifying loans ○ loan purpose of qualifying loans ○ income of borrowers • No instances of the following were observed: <ul style="list-style-type: none"> ○ Loan size or tenure being in non-compliance with RBI directions. ○ Clients being deliberately made to pre-pay. ○ The MFI offering any un-approved product/service. ○ A party other than the MFI staff or client (and her family member), was involved in filling up her loan application. ○ MFI charging clients additionally for insurance, apart from premium payable. ○ Indebtedness of borrower was more than that stipulated by RBI. ○ Unauthorised sharing of client data by the MFI • During interviews with borrowers, loan utilisation was found to be in line with RBI's directions. Most of the loans were taken for income generation purpose. Clients had also taken loans for home renovation. • There was consistency in repayment observed and repayment as per the loan contract among the client sample. • Shikhar has a monthly repayment cycle and borrowers said that they were satisfied with the repayment frequency of loans. • Shikhar has a clear policy regarding documents to be collected for identity and address proof. The company requires borrowers to have both Aadhar Card and Voter ID. The copies of KYC documents collected from clients are verified by the branch manager after seeing the original. Not a single instance was observed where for a loan classified as qualifying microfinance loan, identity proof (with a verified with original declaration) had not been obtained. • Shikhar has a stated turn-around time of up to 30 days for loan disbursement; however, most borrowers stated that they had been disbursed loans within 7-10 days. • Shikhar has a policy stating that any non-credit product offered will be voluntary for the client and would not be a precondition for loans and the same has been documented in its operational manuals. • Shikhar provides insurance to its clients through IRDA approved agency – Kotak Mahindra and PNB Metlife. Review of insurance claims settled by the MFI revealed that all of the sample claims had been settled within a period of 45 days. • Shikhar's loan application form enables it to record borrower's household income, expenses and indebtedness. • Shikhar's operational manual presents how the loan officers will assess the repayment capacity of the clients. However, the operational manual does not have a clear linkage between loan sizes, loan duration with the assessment of the repayment capacity.

Strengths

- The operational staff revealed that they had been trained on how to assess repayment capacity of borrowers which includes housing surveys, talking to neighbours and cash flow analysis done on the loan form.
- Shikhar has documented guidelines regarding credit bureau checks to be performed on loan applications to check indebtedness of the client. Shikhar as a policy does not lend as a third lender.
- Internal audit report keeps track of indebtedness of borrowers and whether compliance with RBI's directions is being met.
- During the 9 branch visits of the sampled MFI, most recent loan appraisal criteria of the MFI were found in the form of recent circulars.
- The maximum loan given by Shikhar under JLG loans does not exceed Rs 60,000. However, ICRA came across instance where the total loan was Rs. 80,000 to a borrower and was stated to be a part of a pilot project.
- Nearly 90% of the borrowers interviewed had borrowing from two or fewer lenders, including loans taken from the BC channel. Shikhar as per policy does not lend as a third lender.
- Shikhar as a policy collects mandatory Aadhar card and another ID for all loan cycles. The same has been documented in circulars and manuals.
- The operational staff interviewed confirmed that they have received training on RBI's guidelines regarding maximum indebtedness of clients.
- The operational manual specifies guidelines for the following:
 - Informing the clients regarding the product and services of the MFI, particularly the interest rates and other costs
 - Collecting repayments
- The operational manual clearly specifies guidelines on conducting client meetings. The operational staff confirmed that they have received training on the following:
 - Conducting client meetings
 - Collecting repayments
 - recovering overdue loans
- Borrowers reported that MFI staff arrives on time for client meetings and staff conduct is professional. Borrowers do not find the process of making repayments inconvenient or risky.
- The MFI staff confirmed that they had received training regarding the policy of not visiting borrowers at odd hours and not to forcibly enter into dwelling and seize client property without the legal orders.
- The sampled MFI branches had an employee code of conduct that clearly present guidelines to prevent unacceptable behaviour
- Interviews with borrowers revealed that the staff did not indulge in the following:
 - Abusive language or threats
 - Visiting borrowers at odd hours
 - Forcible entry into dwelling and forced seizure of property without the legal orders.
- Internal audit report by an external CA agency tracks if borrowers get proper documents and the same has been reviewed by the MFI's Board. The staff confirmed that they had been trained on the same.
- 90% clients revealed that they receive accurate receipts for all transaction; few of them had not received receipts for insurance and processing charges.
- Shikhar has a board approved policy of recovering delinquent loans. In addition, it has step-by-step guidelines for dealing with delinquent clients for different stages of default.
- Interviews with staff members revealed they were aware of the process to be followed with delinquent clients.
- The MFI takes back-up of digital data on a daily basis.
- MIS and IT department require checking whether client data has been stored with adequate security. However, there was no evidence to suggest that client data has been shared without clients' consent being taken.
- The manuals specifically state that collection shortfall will not be recovered from employees (except in proven cases of fraud); however none of the employees are made to pay for shortfall in collections.

Weaknesses

- The internal audit checklist does not include any indicator regarding checking credit bureau reports or their validity; the same has not been stated explicitly but followed as per policy by Shikhar.
- Shikhar's incentive structure does not specify an upper limit for incentives related to monthly client enrolment targets which might result in over-lending of clients.
- The company does not have a policy of carrying out credit bureau checks on a sample of clients after loan disbursement and the same have not been put before the board.
- Shikhar's board has not reviewed MFI's performance on the following in the past year:
 - Informing the clients regarding the product and services of the MFI, particularly the interest rates and other costs
 - Conducting client meetings
 - Collecting repayments
 - Recovering overdue loans
- While permission had been obtained for the sharing client information for authorised purposes from borrowers, client awareness of the fact that their data can only be shared for authorized purposes was low

Other observations

- Based on the sample of branches visited, Branch Managers' were aware of Shikhar's lending policy but their awareness of RBI guidelines was average. While the company has refresher courses to educate their Branch Managers' but nearly 60% of branch managers were aware of the RBI's directions regarding loan sizes, nearly 40% were aware of RBI's directions regarding loan tenure, nearly 20% were aware of RBI's directions regarding loan purpose, nearly 20% were aware of RBI's directions regarding income level of borrowers, nearly 70% were aware of RBI's direction regarding KYC norms and nearly 80% were aware of company's turnaround time limits.

3. Governance

Strengths

- The board persons have a sound reputation and it is headed by an independent chairman. The representatives of the board have adequate knowledge to guide the MFI. The company is governed by MFIN directives and hence has one-third of its board constituted by independent directors.
- The board meets at least once every quarter and the minutes of the meetings are maintained by the MFI.
- Summary of key changes in the operational manual is provided to the Board of Directors.
- Shikhar's board consists of 7 directors of which 2 are independent and 3 are nominee directors
- The policies and procedure of the MFI and any subsequent changes to the same are approved by the board. The meeting agenda contains the key operational and financial information of the MFI.
- The MFI transparently discloses CEO's compensation in its audited report.
- Concurrent audit of branches are carried out as per a predefined checklist at regular intervals to understand the gaps between stated and followed policies. Finding from such audits are recorded in the register kept at branch and sent to Head Office through e-mail.
- The audited financials disclose the compensation of key managerial personnel which consists of compensation of Managing Director
- The audit committee has met four times over the past year. Minutes of the audit committee have been maintained.
- There were no adverse observations in the Auditor's report for the year 2015-2016 regarding accounting standards followed by the MFI.

Weaknesses
<ul style="list-style-type: none"> • Shikhar currently does not have a formal policy for restructuring loans of borrowers facing repayment stress but the management is working on a formal policy. • Shikhar has an internal monitoring and compliance team that conducts branch audits at least on a quarterly basis for each branch. However, action taken report based on the last audit report was not available in 40% branches visited. • The adequacy and scope of the Concurrent Audit & Risk Mitigation (CARM) team has not been reviewed in the past one year.

4. Recruitment

Strengths
<ul style="list-style-type: none"> • Shikhar's board has reviewed its documented guidelines regarding recruitment at least once in the previous year. • Shikhar has a policy of seeking reference check from previous employer and documentary evidence was available for the same. • Shikhar has a defined process for responding to reference check requests and the same was captured in the documents. • Shikhar has a policy of providing notice period of minimum one month • Submission of relieving letter from the previous employer is mandatory for new joiners and documentary evidence was available for the same. Also, the MFI has a system of providing NOC/relieving letter to its employees.

Other observation
<ul style="list-style-type: none"> • Shikhar complies with Sa-dhan's code of conduct and thus restricts posting of new joiners at the same geography where they were associated with the previous organization (if recruited from an MFI); however, the company does not have any formal policy regarding the same.

5. Client Education

Strengths
<ul style="list-style-type: none"> • Shikhar's manual mandates CGT and GRT for all first cycle borrowers which include informing the borrower about the product, joint liability, meeting process, organisation policy, interest rates, fees and charges etc. The whole process takes three days to complete. • Borrowers confirmed receiving detailed trainings (compulsory group training and group recognition test) on the product and organisation policy. The borrower's further confirmed that no payment has been made for these trainings. • The staff members were trained by senior branch staff on the various processes to be followed including CGT and GRT and the disclosures to be made to the borrowers. • Internal audit checklist includes assessment of clients' awareness and understanding on aspects like interest rates and other charges, products, choices and responsibilities and so on.

Weaknesses
<ul style="list-style-type: none"> • Although the clients are informed about the charges/fee payable for availing the loan but as per our branch visits, following observations were made regarding the proportion of clients aware about the following: <ul style="list-style-type: none"> ○ Annualized Interest rate - ~40% ○ Processing fees - ~70% ○ Insurance claim settlement process - ~60% ○ Any other product/service - ~40% ○ Insurance charges - ~70%

6. Feedback & Grievance Redressal

Strengths

- Shikhar has a formal grievance redressal as well as escalation mechanism along with time frame for grievance resolution.
- The members of staff confirmed receiving training from seniors on the grievance redressal mechanism. The same is also part of the operational manual.
- The borrowers confirmed that the grievance redressal mechanism was explained to them during the loan disbursement, however, only 20% of the borrowers were aware of the process to be followed in case of any grievance except reaching out to the field officer and branch manager
- The company has documented proof that it has acted upon the grievance in a time bound manner; however, it does not have a documentary proof for providing acknowledgement to its borrowers.
- The borrowers were aware of the name of the MFI and the branch location.
- Grievance redressal system set up by the MFI is displayed prominently by the MFI in 80% of the sample branches visited.
- Shikhar has designated a grievance redressal official, whose number is provided to all clients in their loan cards. However, only 20% clients were aware of the grievance redressal process
- Complaints are generally recorded at the HO through a telephone call and the usual turnaround time of the complaints is within 7 days as per the sample data seen.
- There was a response when a surprise call was made on the number provided.

Weaknesses

- In the sample branches visited, disclosures stating that the MFI is responsible for the actions of its staff were not found. However, the same is mentioned in the forms filled by the employees during recruitment process.
- During branch visits, nearly 70% of the borrowers interacted were aware of the grievance redressal mechanism.
- Although Shikhar has a dedicated grievance redressal officer, it does not have a formal mechanism to issue complaint numbers/acknowledgement to the complainant.
- Grievance redressal mechanism established by industry associations is disseminated to the borrowers. However, none from the sample of borrowers was aware of the same.

7. Data Sharing

Strengths

- Consent from clients is taken in loan agreement regarding sharing of their data as per their loan forms, which are in vernacular
- Shikhar has recently started sharing data with Experian; earlier they were sharing monthly data with the other three credit bureaus.
- Shikhar has provided data when called for by RBI or MFIL.

Weaknesses

- Shikhar does not disclose latest operational and financial data on its website; financial data for FY2015 was available.

COCA Methodology

The Code of Conduct Assessment (COCA) tool was developed as a response to the need expressed in a meeting of stakeholders in Indian microfinance by the Small Industries Development Bank of India (SIDBI) and the World Bank in December 2009. The code of conduct dimensions were identified by reviewing the various norms for ethical finance. These included RBI's fair practices guidelines for Non Banking Financial Companies, industry code of conduct (Sadhan-MFIN) and Smart Campaign's Client Protection Principles (CPP).

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

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

Chart: COCA Indicators Framework

Number of indicators in each category is presented below

Higher Order Indicators	Number of Indicators
Integrity and Ethical Behaviour	32
Sensitive indicators	27
Building Blocks	Number of Indicators
Transparency	40
Client Protection	123
Governance	30
Recruitment	13
Client Education	14
Feedback & Grievance Redressal	25
Data Sharing	6
Total	251

Methodology

The Code of Conduct exercise is spread over four to eight days. The first day is spent at the head office. The assessment team visits the branches over the next three to eight days. Depending upon the size and the operational area of the MFI, eight to fifteen branches and between 120 and 300 clients are sampled for

primary survey (except in cases where number of branches in an MFI is less than eight).

Sampling guidelines

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

MFI Size	No. of branches to be visited	No. of borrowers to be visited
Small MFI (Less than 8 branches)	All branches	15 clients per branch covering minimum two centers.
Small / Mid size MFI (up to 2,50,000 borrowers)	8 – 10 branches (geographically distributed)	120-150 clients (15 clients per branch covering minimum two centers).
Large MFI (>2,50,000 borrowers)	12 – 15 branches (geographically distributed)	240-300 clients (20 clients per branch covering minimum two centers).
Large MFIs (Loan portfolio outstanding of Rs500 crore or more, irrespective of the number of borrowers)	18 – 20 branches (geographically distributed)	360-400 clients (20 clients per branch covering minimum two centers).

Code of Conduct Assessment exercise requires:

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

7. Review of loan files at the branch office. This review focuses on loan appraisal performed before disbursing loans as well as the documents collected from the clients.

As part of this assessment, we visited nine branches of the MFI. Additionally, calls were made to 10 clients to check their details. The details of the branches visited are provided below.

S. No.	Branch	State	No of clients interviewed
1	Badarpur	Delhi	15
2	Nangloi	Delhi	11
3	Uttam Nagar	Delhi	18
4	Arjun Nagar	Uttar Pradesh	17
5	Kamla Nagar	Uttar Pradesh	13
6	Khajuri	Uttar Pradesh	10
7	Vijay Nagar	Uttar Pradesh	16
8	Faridabad	Haryana	15
9	Palwal	Haryana	14
Total			129