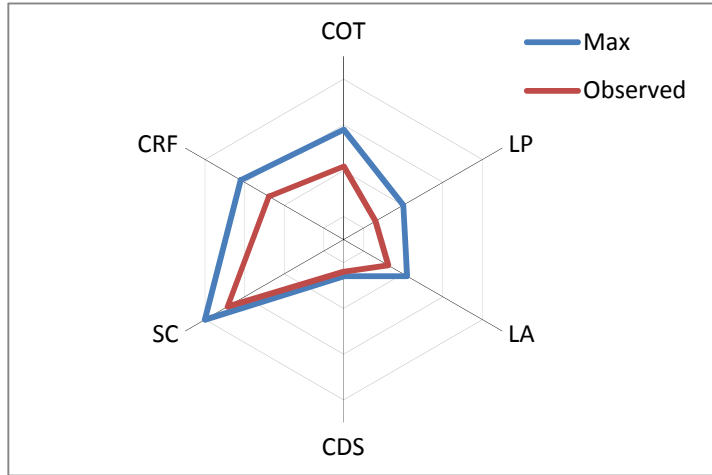


Shree Kshetra Dharmasthala Rural Development Project (SKDRDP)

Dharmasthala, India

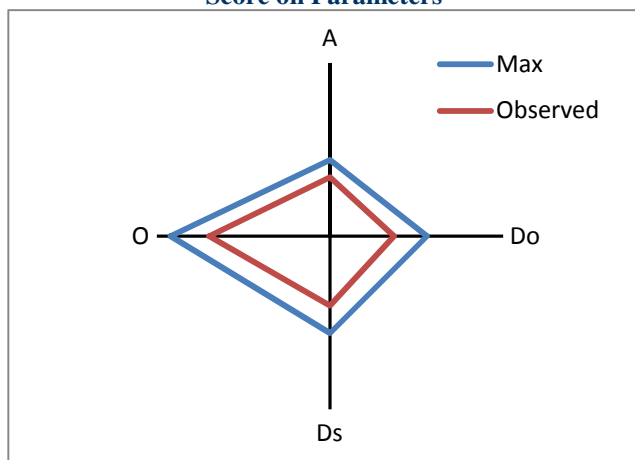
Composite COCA Score: 73%, reasonable level of adherence

Score on Dimensions



COT=Client Origination and Training, LP=Loan Pricing, LA = Loan Appraisal SC=Staff Conduct, CDS=Client Data Security, SC=Staff Conduct, CRF=Client Relationship and Feedback

Score on Parameters



A= Approval, Do=Documentation, Ds=Dissemination, O=Observance

Rationale

SKDRDP receives reasonable score on account of its emphasis on professional staff conduct and responsive feedback mechanism. Although, the organization charges low interest rates on its loans, there is need to increase transparency in communication of interest rates to the clients.

Highlights

- SKDRDP does not provide monetary incentives for formation of SHGs or disbursement of loans. This ensures that the field staff focus on quality of the groups.
- SKDRDP helps the SHG members in preparing their five year livelihood plan consisting of planned livelihood activities and credit requirements. This helps the households in effective management of their livelihoods and aids in prevention of over-indebtedness.
- The organization has drafted a code of conduct for its staff members. This code emphasizes on transparent behavior and professional conduct of staff members towards clients.








Areas of improvement






- SKDRDP charges and communicates interest on a flat rate basis. Transparency will increase if the organization starts calculating and communicating interest rates on a reducing balance basis.
- The system of ensuring identity of clients can improve if the organization starts collecting documentary evidence for clients' identity and address.
- System of dissemination of grievance redressal mechanism requires improvement to ensure that all clients are aware of it.

Code of Conduct Assessment Compliance Assessment Tool

This tool requires scores to be assigned on the six Code of Conduct dimensions – **Client Origination, Loan Pricing, Loan Appraisal, Client Data Security, Staff Conduct and Client Relationship and Feedback**, across the four parameters – **Approval, Documentation, Dissemination and Observance**. The six dimensions have been drawn from a review of the norms prescribed for MFIs including Sadhan's and MFIN's code of conducts, fair practices guidelines from the Reserve bank of India and CGAP's client protection principles (Smart Campaign). The methodology followed for this assessment is presented in annexure 2 and the framework of the tool is presented in annexure 3. This assessment has been commissioned by the Small Industries Development Bank of India (SIDBI).

Section 1: Scores¹ and facts

Code of Conduct dimensions	Maximum	Observed	%
 Client Origination and Targeting	24	16	67%
 Loan Pricing	15	8	53%
 Loan Appraisal	16	11	70%
 Client Data Security	8	7	88%
 Staff Conduct	35	29	84%
 Client Relationship and Feedback	26	19	72%
 Total	124	90	73%

Compliance parameters	Maximum	Observed	%
 Approval	22	17	77%
 Documentation	28	19	66%
 Dissemination	28	20	71%
 Observance	46	35	76%
 Total	124	90	73%

MFI's profile

Name of the MFI	Shree Kshetra Dharmasthala Rural Development Project (SKDRDP)
Legal form	Charitable Trust
Operational Head	Dr LH Manjunath
Year of starting microfinance	1996
Branches (Project offices)	34 (December 2010)
Operational area	9 districts of Karnataka
Total number of staff involved in microfinance	3,425 (December 2010)
Visit of the Assessment team	April 2011 Dharmashri Building
Correspondence address	Dharmasthala – 574216 Belthangady Taluk, Dakshina Kannada District Karnataka

¹ The scores have been colour coded as follows. Red = Less than 60% indicating significant scope of improvement; Orange = 60% or more but less than 80% indicating moderate to high level of adherence; Green = 80% or more indicating high to very high level of adherence

Microfinance Methodology

SKDRDP undertakes most of its development interventions through the Self Help Groups (SHGs) in the villages. These SHGs are also used to deliver savings, credit and insurance services to the clients. While the men's SHGs have 5-8 members, women's SHGs have 10-20 members. SHGs elect their office bearers and are provided training on book-keeping and conducting affairs of the group. About 20 SHGs in the village form a federation of SHGs. SHGs meet weekly for savings, repayment of installments and discussing other issues. Loan applications are approved by the concerned SHG and the Federation before being forwarded to SKDRDP for appraisal. Disbursement of loans and collection of installments and savings take place in the village office of SKDRDP. Some of the SHGs have also been linked to the State Bank of India under the Business Correspondent (BC) model.

Details of the loan products

Product	Description	Loan size*	APR	EIR	% in portfolio
First loan	First loan is available to the individual after completion of three months of mandatory savings. Maximum loan term is 156 weeks (3 years). Repayments are weekly and interest charged is 9% pa flat with 1% processing fee.	Maximum loan size is Rs10,000. First loan is not linked to savings.	17.26%	18.96%	7.9%
Revolving fund	Loan is given for consumption purposes eg. weddings, education, consumer goods, medical expenses and for repaying other loans. Maximum loan term is 156 weeks (3 years). Repayments are weekly and interest charged is 9% pa flat with 1% processing fee.	Up to 10 times of savings balance subject to the maximum limit of Rs25,000	17.26%	18.96%	49.4%
Livelihood fund	Loan is given for income generating activities such as agriculture and allied activities and business. The maximum loan term is 208 weeks (4 years).	Up to 20 times of savings balance subject to the maximum	16.75%	18.88%	9.2%

	Repayments are weekly and interest charged is 9% pa flat with 1% processing fee.	limit of Rs50,000.			
Infrastructure facility fund	<p>Loan is given for asset building for productive purposes eg. purchase of pumps, equipments, machines, for repairs of existing machines, construction or repair of godowns, wells, tanks, cattle sheds, land improvement, fencing etc. or utilities such as toilets, solar electricity, gobar gas etc.</p> <p>The maximum term of the loan is 260 weeks (5 years).</p> <p>Repayments are weekly and interest charged is 9% pa flat with 1% processing fee.</p>	Up to 20 times of saving balance subject to the maximum limit of Rs50,000.	16.33%	18.84%	13.1%
Swagruha fund (Housing loan)	<p>Loan can be used for – construction, repair or renovation of house.</p> <p>The maximum term of the loan is 520 weeks (10 years).</p> <p>Repayments are weekly and interest charged is 9% pa flat with 1% processing fee.</p>	Up to 40 times of savings balance subject to maximum limit of Rs100,000 .	14.82%	18.69%	14.6%

Notes:

1. APR takes into account interest and upfront fees on the loans.
2. EIR takes in to account interest income, upfront fees and security deposits/loan linked savings on the loans. SKDRDP collects compulsory savings from the SHG members (minimum of Rs10 per week). The organization pays interest @6% pa on these saving. For EIR calculation saving at Rs10/week has been assumed and interest has been calculated on weekly basis. Entire saving and interest has been assumed to be paid back one week after the loan closure.

3. A client can avail more than one loan simultaneously. However, total outstanding under all products taken together cannot exceed maximum of 40 times of the individual's savings (except in case of the first loan). Total outstanding of a client cannot exceed Rs100,000.
4. SKDRDP earlier used a model where it provided credit services to the groups and the groups in turn provided loans to the individual members. Under this SKDRDP charged interest of 15% declining to the groups while the groups charged 9% flat interest to the individual members. Group collects weekly repayments from the members while group pays back to SHG on a monthly basis. Some of the loans provided under this model are still continuing and at the time of the visit had, SKDRDP Rs1.2 billion (Rs120 crores) in outstanding under this model.

Details of insurance products

Life insurance: The life insurance is provided in collaboration with LIC and the product offered is *Jeevan Madhur*. It is an endowment product for 15 years. Sum assured ranges between Rs5,000 and Rs30,000 depending on the premium paid.

Health insurance: The health insurance scheme is called *Sampoorna Suraksha*. This scheme is being offered in association with public sector insurance companies. The premium varies from Rs220 to Rs1,525 per household per annum for above poverty line members and between Rs200 to Rs1,190 per household per annum for below poverty line members. The premium varies on account of the number of members in the household.

The insurance covers hospitalization expenses, maternity related expenses and domiciliary treatment. The cashless facility in the network hospitals is also available.

Details of savings products

SKDRDP collects savings from its members. The savings are compulsory for the members and at least Rs10 per week must be saved by each member. The savings cannot be withdrawn by client unless s/he wants to drop out. SKDRDP pays 6% interest on the savings.

Key facts and figures			
Parameters	Mar-09	Mar-10	Dec-10
Active borrowers	733,566	1,121,690	1,209,855
Number of SHGs	80,701	114,864	118,257
Number of branches	34	34	34
Number of states	1	1	1
Total staff involved in microfinance	2,587	3,087	3,425
Portfolio outstanding (Rs mn)	4,893	6,149	7,906
PAR ₆₀	0.5%	0.3%	0.3%
Yield on Portfolio (YoP)	14.6%	17.3%	15.1%
Operating Self-Sufficiency (OSS)	101.8%	115.5%	103.7%
Return on Assets (RoA)	0.2%	1.9%	0.5%

Profile of the Board of Trustees	
Name	Profile
Dr. D. Veerendra Heggade,	Dr Heggade is the head of the famous Manjunatha Swamy Temple in Dharmasthala. He has conceived many programs in the field of entrepreneurship, education, health, yoga, Indian system of medicine and temple administration.
Ms Hemavathi V. Heggade	Ms Heggade is a social activist experienced in women empowerment and youth development. She has founded Nethravathi craft center and young women's club of Dharmasthala. She conceptualised the Jnanavikasa programme which is now one of the flagship programs of SKDRDP to empower rural women.
Mr D. Surendra Kumar	Mr Kumar is a noted industrialist in Karnataka. He is also on the Board of Directors of Karnataka Bank.
Mr K. M. Udupa	Mr Udapa retired as head of the rural credit section of Syndicate Bank. He is at present the Chief Executive of Bharathiya Vikas Trust, an NGO engaged in alternative energy programs.
Mr R. V. Shashtri	Mr Shashtri is the former Chairman and Managing Director of Canara bank. He serves on the boards of many organizations.
Mr B. B. Shanbhogue	Mr Shanbhogue is a Chartered Accountant by profession and runs his own firm at Mangalore.
Mr Uday Kumar Shetty	Mr Shetty is an advocate by profession and practices law at Mangalore.

Section 2: Observations

2.1 Client Origination and Targeting (COT)

Observed score 67%



SKDRDP's score on COT is moderate mainly because the organization does not collect documentary evidence to ensure identity and address of the clients. The organization also does not have a policy on avoidance of unauthorized agents.

Client origination in SKDRDP is primarily the responsibility of the field staff (*Sevanirathas*). Each village where SKDRDP works has an office headed by the field staff. Field staffs inform villagers about SKDRDP and its activities and invite them to form SHGs. After the groups are formed, they are provided trainings on book-keeping and functioning of the SHGs. The SHGs are required to conduct weekly meetings and undertake compulsory savings for a minimum period of three months before they become eligible to undergo the process of grading. Only SHGs receiving satisfactory performance grades are eligible for applying for loans.

During the first three months each member of the SHG is encouraged to prepare his/her five-year livelihood plan consisting of planned livelihood activities and credit requirements. The five-year plan is prepared in a booklet provided by SKDRDP. The five-year plan is also reviewed every year which results in preparation of annual plan for the clients. Achievements against the planned activities and credit actually availed by the client's household during the plan period are also formally recorded.

SKDRDP provides moderate targets for group formation (20-30 SHGs per year). Also, the monetary incentives of the field staff are not linked to group formation or loan disbursement targets. Due to these factors the field staff are likely to focus on the quality of the groups that they form.

One of the weaknesses of the client origination process of the SKDRDP is that it does not collect proof of identity and address (Know Your Client – KYC documents) from the clients. This increases the possibility of enrolment of fake/undeserving clients. Further, the organization does not have any formal policy of avoiding the activities of the unauthorized agents in the operational area. Also, SKDRDP considers all the residents in the catchment area of the respective project offices as their prospective clients and does not have a policy of avoiding areas where other MFIs are already operating.

At present, SKDRDP mostly operates in areas where other MFIs are not operating but as the organization expands to newer areas, problems relating to unauthorized agents and intense competition may emerge. In the current assessment no evidence could be found to suggest that unauthorized agents are affecting the operations of the organization in any significant manner.

Approval (A)	Documentation (D)	Dissemination (D)	Observance (O)
<p>SKDRDP has an elaborate process of client enrolment which includes training of SHGs and preparation of livelihood plan for each client. The organization, however, does not collect proofs of identify and address from the clients. The organization also does not have a policy of avoiding unauthorized agents.</p>	<p>The process of client origination has been documented clearly in the operational manual and the compendium of circulars.</p>	<p>SKDRDP provides rigorous training to its staff before placing them in the field. The operational manual and compendium of circulars was found to be readily available in all the village and project offices visited by the assessment team.</p>	<p>SKDRDP has been the first MFI to start operations in almost all the project areas where it is working. The organization does not have a policy of avoiding unauthorized agents and also does not collect KYC documents from its clients. Due to these factors problems relating to unauthorized agents and intense completion may emerge.</p>

2.2 Loan Pricing (LP)

Observed score 53%



Organization's score on loan pricing is low because it accounts for and communicates interest on a flat rate basis.

SKDRDP has publicly stated its commitment to price its loan products in a responsible manner keeping in mind the welfare of clients and not-for-profit nature of the organisation. Annualized Percentage Rate (APR) on the loan products of SKDRDP is between 16.33% and 17.25% which is among the lowest for the MFIs in India.

One of the weaknesses of the loan pricing by SKDRDP is the fact that interest is calculated and accounted for by the organization on a flat rate basis. Only the flat rate of interest is communicated to the clients. APR or the effective interest rate is not communicated to the clients.

Staff and clients interviewed were aware only of the flat rate of interest and not the effective interest rate.

Upfront fees and deposits

SKDRDP charges upfront fees of 1% on the total loan amount. There are no upfront security deposit requirements but maximum loan size is linked to the savings of the clients.

Late payment charges and penalties

SKDRDP does not charge any late payment fees or penalties. Total amount to be paid by the client remains the same even if there is delay in payment. No additional interest is charged in case the actual loan duration exceeds the contracted loan duration. No penalty is charged for late payment or for overdue.

Prepayment charges

The organization does not have any prepayment penalty. In fact, because the interest is calculated on a flat rate basis, the APR actually decreases in case the client decides to prepay her loan.

Approval (A)	Documentation (D)	Dissemination (D)	Observance (O)
<p>The Board of SKDRDP has approved of charging reasonable interest rates on its loans keeping in view the charitable nature of the organization. The Board, however, has not approved principles of informing clients about the equivalent diminishing balance interest rates on the loans.</p>	<p>Interest is charged on a flat rate basis. The operational manual mentions interest only on a flat rate basis. There is no mention of the equivalent diminishing interest rate.</p>	<p>Staff have been trained to communicate only the flat rate of interest. They are not aware of the equivalent diminishing balance interest rate on the loans.</p>	<p>Repayment schedules provided to the clients mention only the flat rate of interest. None of the clients are aware of the equivalent diminishing balance interest rate on the loans.</p>

2.3 Loan Appraisal (LA)

Observed score 74% ■

The score of SKDRDP on Loan Appraisal is reasonable on account of the practice of the organization to undertake analysis of cash flow of the clients in case outstanding of a client exceeds certain limit.

SKDRDP has an elaborate process of appraisal of loans. Loan applications are submitted by the SHGs to the concerned field staff who undertakes preliminary verification. The loan applications are then considered by the SHG federation. After approval from the SHG federation, loan applications are submitted in the Project Offices where loan eligibility is checked on the basis of the records available with the organization. Loan applications up to Rs200,000 are sanctioned by the Project Officers. Loan applications of higher sizes are sent to the Head Office for sanction.

Formal analysis of repayment capacity is carried out only when the total outstanding of the client exceeds Rs45,000. SKDRDP calculates repayment capacity of its clients on the basis of the following factors.

1. Income of the client
2. Indebtedness of the clients
3. Age of the SHG
4. Grade of the SHG

The computation of repayment capacity results in determination of the maximum exposure in terms of loans outstanding which SKDRDP can have with an individual. One of the limitations of this system is that the expenses of the client are not taken in to account while computing repayment capacity. Also, repayment capacity does not take into account variations in repayment terms across various loan products. For instance, client opting for a 3- year loan term will be subject to same limit on total outstanding as a client opting for a 10- year loan term although weekly installments in both the cases differ significantly.

No formal analysis of repayment capacity is performed for clients where outstanding is less than Rs45,000. Further, there is no audit check on the accuracy of the computation of repayment capacity in cases where it is done.

Approval (A)	Documentation (D)	Dissemination (D)	Observance (O)
SKDRDP's policy requires that adequate loan appraisal be performed before disbursing a loan. Analysis of income and expenses of the clients is required in case outstanding with the	Appraisal guidelines are clearly documented in the operational manual and the compendium of circulars.	Staff members are trained adequately on the appraisal guidelines during regular trainings. All the staff members interviewed were aware of these guidelines.	Review of loan files and discussions with clients reveal that thorough analysis of income and indebtedness of clients is carried out before providing loans, in case the loan outstanding with the client exceeds

<p>client exceeds 45,000</p>			<p>Rs45,000. Loans where outstanding with a clients does not exceed Rs45,000 are approved mostly on the basis of recommendation of SHG, federation and the field staff.</p>
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2.4 Client Data Security (CDS)

Observed score 88% ■

SKDRDP's score on CDS is high on account of its system to ensure privacy of client's data.

SKDRDP does not collect KYC information from its clients. Other documents pertaining to the group are kept in the custody of the microfinance manager at the Project Offices and are barred from unauthorized access. The software which SKDRDP uses for its microfinance operations has well-defined user rights.

Approval (A)	Documentation (D)	Dissemination (D)	Observance (O)
SKDRDP does not collect KYC documents from its clients. The policy of the organization, however, emphasizes on security of loan documents and records in the software.	Guidelines for maintaining security of physical documents and records in the software are mentioned in the operational manual and the compendium of circulars.	Staff in the Project Office are trained adequately on how to store files and the documents of the clients. There is also training on data security related aspects in the software.	All the documents are kept in the custody of the microfinance manager at the project office. Field staff do not have access to files and documents of the clients.

2.5 Staff Conduct (SC)

Observed score 84% 

The score on staff conduct is high on account of policies and systems to ensure professional conduct of staff members.

SKDRDP provides adequate emphasis on the professional conduct of its staff members, who, are subject to rigorous training before they are put on the job independently. Focus of this training is to ensure that the field-staff are completely aware of the products and services and values of the organization. Special focus is on training on soft skills as the staff are required to interact with the clients closely.

The organization has prescribed a code of conduct of staff behavior for its staff members. Key principles of the expected behavior of staff towards the clients are

- to provide correct information to clients at all times
- to respect clients and their families
- to understand livelihood patterns of the clients
- to respect the opinion of the village elders and
- to uphold reputation of the organization and the Manjunatha Swamy temple

The code specifically proscribes the following

- having unlawful relationship with the clients or other villagers
- talking in harsh tone
- smoking or drinking
- violent behaviour
- engaging in unlawful activities
- financial fraud
- acting against the interest of SKDRDP or the Manjunatha Swamy temple.

Loan recovery practices

Weekly installments are collected by the SHG in their regular group meetings. Each village office earmarks one day of the week as the collection day. On the scheduled collection day, one member of each SHG visits the village office and deposits installments for all the group members. Collections are recorded in the Point of Sales (POS) devise and the electronic receipts are provided to the group. (The POS devise is portable and is carried to the village office only on the scheduled day of the collection. Collections at any other time or place are not permitted.)

In case one or more group members do not repay on the scheduled date, the field staff/supervisor visits the SHG in its next meeting and tries to find out the reasons for delinquency. He tries to persuade the SHG to pay and takes help of the concerned federation in recovery efforts. If required, the field staff visits the house of the clients along with the SHG's/federation's representatives. The field staff, however, does not collect installments in the SHG meeting or from the house of the client. A member of the SHG has to come to the village office on the scheduled day to repay the installments. (See caselets 1 and 2).

The following factors reduces the possibility of use of coercive recovery practices

1. Salaries of SKDRDP's staff members are not directly linked to repayment rates so the staff are not under undue pressure to ensure 100% repayment rate.
2. Staff members are instructed to resolve all the issues in the SHG/Federation meeting and not to meet clients on a one to one basis except where the group has split. If house visit is required, SHG/Federation representatives accompany the staff members. Involvement of the community reduces the possibility of errant behavior by the staff.
3. Staff members are prohibited from collecting loan installments when they visit the SHG, federation or the client for dealing with delinquency. The delinquency client/SHG is not under pressure to pay at the time of the visit. In case they agree to pay certain sum they get some time for arranging funds.

SKDRDP, however, does not have any policy for restructuring/waiver of loans in case clients are facing genuine difficulty like mishap in the family, severe illness/injury or business failure. Since there is no compulsory loan-linked insurance, family members of the clients are required to repay remaining installments in case of death of the clients. The SHG can request for partial or complete waiver of loan only in case of death of the clients and such requests are considered by the organization on a case to case basis. In case client or its family members are unable to repay, other members of the SHG are required to contribute for the delinquent members.

While SKDRPD has policies to prevent coercive recovery practices by its staff members, SHGs, in order to protect their performance grade (to which loan eligibility is linked), may put undue pressure on the delinquent clients in case it feels that other members of the group will be required to pay for the delinquent clients.

Caselet 1: Manjunath (Kodakani village, Kumta project office)

Manjunath, a resident of Kodakani village under Kumta project office joined one of the SHGs of SKDRDP in 2005 and by April 2009 had taken three loans totaling over Rs50,000. He was a lorry driver and was working with one of the mining companies. In 2009, the mine closed down and Manjunath lost his job. Since then he has not been able to find a stable job and a regular stream of income. Consequently, he has been repaying his installments erratically and had over Rs35,000 as overdues by March 2011. His group members have refused to help. Manjunath told M2i's assessment team that SKDRDP's staff regularly visit his house for the follow-up but have never been rude or have unduly pressurized him for repaying. He further told that SKDRDP's staff always come to his house by taking prior appointment and have even helped him in recovering money which his previous employer owed to him.

Caselet 2: Vinayaka SHG (Mallalur village, Chikamagalur project office)

The Vinayaka Pragatibandhu SHG in Mallalur Village in Chikamagalur District has five members. The group had taken loan of Rs60,000 in 2009 for three years and the total weekly installment for the group was about Rs400. All the members are daily wage earners but have been facing shortage of work for the last one year. Due to this they have not been able to repay their installments for the past eight to ten months and as on march had about Rs10,000 as overdue. The supervisor had visited this SHG several times but the group had said that it will clear its loan in March 2011. On 6 April 2011, the concerned supervisor went to the SHG meeting for follow-up on the loans. The group members agreed to repay Rs6,000 on the next scheduled collection date. The supervisor informed the concerned field staff and came back to the project office. On the scheduled collection date, the group members deposited only Rs5,000 in the village office.

Approval (A)	Documentation (D)	Dissemination (D)	Observance (O)
<p>Various policies of the organization provide adequate directions for staff conduct with clients. Clear directions are provided to the staff members on how to proceed when one or more members of the SHGs are unable to repay their installments.</p>	<p>Expected behavior of the staff members towards the clients is mentioned in the code of conduct specified for all the staff members.</p>	<p>The organization has a systematic process of training its staff members on the code of conduct.</p>	<p>Staff members interviewed were found to be aware of various elements of the code. Most of the operational and human resource policies of the organization have been designed to ensure that staff members do not indulge in coercive recovery practices. However, absence of policies on restructuring/waiver of loans in case of genuine cases may cause SHGs to cause undue stress to their members.</p>

2.6 Client Relationship and Feedback (CRF)

Observed score 72% 

SKDRDP's score on Client Relationship and Feedback can improve if efforts are made to ensure thorough dissemination of the grievance redressal system to its clients and independent checks are introduced to ensure that the all client complaints are resolved in a timely manner.

SKDRDP has set up a grievance redressal mechanism to address complaints of its clients. Clients can call a specified number in the Head Office every Friday to lodge their complaints. All complained received are summarized and presented to the Executive Director. The Executive Director, provides necessary instructions to the respective project offices to ensure that the client complaints are resolved within a reasonable period of time. The project offices submit an action taken report on each complaint. Analysis of complaints received is carried out periodically and is put in the public domain.

One of the weaknesses of this system is that there is no independent audit check (by meeting or calling clients) on whether client complaints have actually been resolved. In the absence of this, there is a chance that the complaint remains unresolved even after the project office's reply. The grievance redressal system is not likely to be effective if the clients feel that putting complaints through it does not result in any action (See caselet 3).

Another issue is the system of communication of the grievance redressal mechanism to the clients. The mechanism is communicated through the monthly magazine of SKDRDP - *Nirantara*. *Nirantara* is a subscription based periodical and has wide circulation in operational area but not all clients are subscribers of the magazine. (While the total client base of SKDRDP is about 1.2 million the circulation of the *Nirantara* is close to 300,000). In the absence of a formal channel to communicate the grievance redressal system to all the clients there is a possibility that many clients are actually not aware of the system at all. Of about 160 clients interviewed by the assessment team only about 40% were found to be aware of the grievance redressal system.

SKDRDP undertakes several developmental activities in the areas of health, education, agriculture and livelihood which helps it to maintain good relationship with its clients. In fact, in most of the areas where the organization starts interventions, other developmental activities precede microfinance activities.

Some cases of frauds, however, have come to light during the past a few years apparently on account of inadequate internal controls (See caselet 4). The organization has taken several steps to improve controls (like introduction of POS devices and strengthening of internal audit) to eliminate frauds. Instances of frauds reduce the confidence of the clients in the organization and impacts client relationship.

Caselet 3: Latha (Durgakari Village, Hannavar project office)

Latha, a member of Vanitha SHG in Durgakeri village of Hannavar Project Office purchased a health insurance policy (*Sampoorna Suraksha*) for her family. She submitted a claim for reimbursement of hospitalisation expenses to SKDRDP in November 2010. She did not receive her claim even after repeated follow-up with the village office of SKDRDP. She finally lodged a complaint using the grievance redressal mechanism of SKDRDP in February 2011. The Head Office asked the project

office for resolution of this complaint. The project office responded that since the claim was from a non-network hospital, it will take time for processing. M2i's assessment team contacted Latha on 8 April 2011 and enquired about the status of the claim. She responded that her claim has not been settled and no one from SKDRDP contacted her subsequent to her lodging the complaint. She has been following-up with the village office but is not able to get any satisfactory reply.

Caselet 4: Kadikamba SHG (Kujali village, Kumta project office)

In Kadikamba SHG of Kujali village under Kumta project office, six clients paid premium for the life insurance policy in October 2009 in the village office but did not receive receipt for this. The amount, was actually misappropriated by the field staff and the premium was not deposited in client's account. The matter came to notice only when the next year's premium fell due and it was realised that these six clients had not paid their premium for the previous year. The fraud was uncovered upon investigation and the clients were compensated for the loss and their insurance policy was reinstated. This case highlights weaknesses in the internal control systems and lack of client awareness on the critical issues. Such issues may have adverse implications on the client relationship.

Approval (A)	Documentation (D)	Dissemination (D)	Observance (O)
The board of SKDRDP has provided for a grievance redressal mechanism to handle complaints of the clients.	Details of the grievance redressal mechanism are not mentioned in the operational manual but are mentioned in the monthly magazine of the organization (<i>Nirantara</i>) which has wide circulation in the operational area of SKDRDP.	At present <i>Nirantara</i> is virtually the only means of communication of the grievance redressal mechanism to its clients. Details are not mentioned in the passbooks or other documents provided to the clients.	Awareness of clients on the grievance redressal mechanism is low. Only about 40% of clients interviewed were found to be aware of the grievance redressal mechanism.

2.7 Opinion of important stakeholders

Discussions with the SKDRDP's lenders revealed that they had a favorable opinion of its field practices and client relationships. It also enjoys a healthy reputation among its peer for its operational practices.

Annexure 1: Matrix of Score Obtained

Indicators	A		Do		Ds		O		Total	
	Max	Obt	Max	Obt	Max	Obt	Max	Obt	Max	Obt
Client origination and targeting	5	3	5	2	5	2	9	9	24	16
Loan Pricing	3	2	1	-	2	-	9	7	15	8
Loan Appraisal	4	4	4	3	3	3	5	2	16	11
Client Data Security	1	1	3	2	2	2	2	2	8	7
Staff Conduct	7	6	7	5	10	9	11	9	35	29
Client Relationship and Feedback	2	2	8	7	6	4	10	6	26	19
Total	22	17	28	19	28	20	46	35	124	90

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

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, Sadhan's code of conduct, MFIN's code of conduct, and CGAP's client protection principles. The most important challenge for M2i was to create objective indicators which could comprehensively measure the six dimensions. A total of 124 indicators were developed across each of these dimensions, so that subjectivity in measurement could be minimized. The number of indicators for each of the dimensions has been 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

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).

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.

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 150 and 200 clients are sampled for primary survey.

Key Aspects

- Duration of the exercise: Four to eight days
- Nos. of branches to be visited: Three to Fifteen
- Nos. of MFI clients to be interviewed: 150-200

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 8 project offices of SKDRDP in Karnataka. The details of the project offices (branch) visited are provided below.

Sr No	Project office (branch)	District	No of clients interviewed
1	Belthangady	Dakshin Kannada	13
2	Puttur	Dakshin Kannada	15
3	Mudigere	Chikamagalur	45
4	Chikamagalur	Chikamagalur	0

5	Karkala	Udupi	23
6	Kundapur	Udupi	20
7	Hannavar	Uttar Kannada	21
8	Kumta	Uttar Kannada	26

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.

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:

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%	2%	7%	12%
Loan Appraisal	3%	3%	2%	4%	13%
Client Data Security	1%	2%	2%	2%	6%
Staff Conduct	6%	6%	8%	9%	28%
Client Relationship and Feedback	2%	6%	5%	8%	21%
Totals	18%	23%	23%	37%	100%