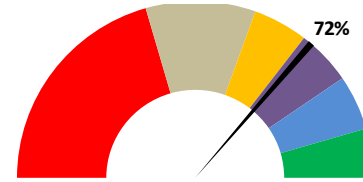
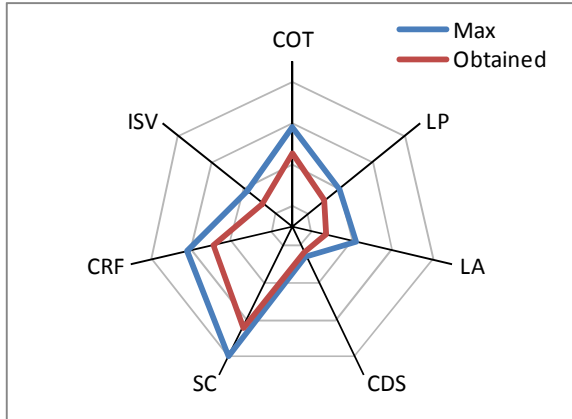


YVU Microfin
December 2012



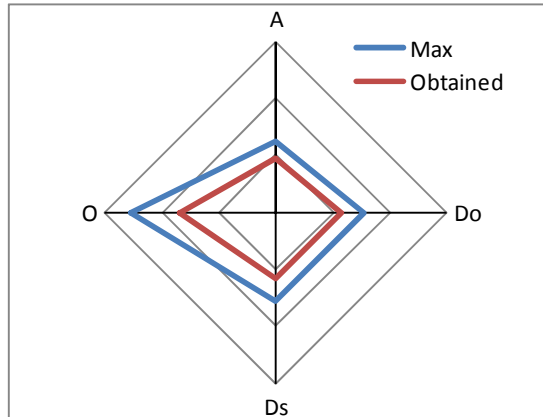
Composite COCA Score: 72%, Good level of adherence

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

YVU Microfin has good level of adherence to most of the code of conduct dimensions. The organization has adopted the RBI and the industry's Fair Practice Code and has trained its staffs on them. However, YVU Microfin's loan appraisal for the sizes of loans it gives is weak. There is also need for strengthening operational controls for better compliance of organizational policies. Further, a separate Mutual Benefit Trust is mobilizing savings from the members of YVU Microfin and the Trust is also the lender of YVU Microfin, M2i does not view this as a sound governance practice. YVU Microfin was found to be complying with all the RBI directions for priority sector lending status.

Highlights

- YVU Microfin has documented Fair Practice Code which is displayed in all its branches.
- Staffs have good understanding of code of conduct aspects.

Areas of improvement

- Individual wise MIS and records should be maintained instead of group wise to enhance transparency.
- Field level operations need to be standardised and quality of documentation needs improvement.
- Scope of internal audit should be enhanced to cover code of conduct aspects and quality of documentation.
- Loan appraisal of YVU Microfin needs to be made more objective.

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 YVU Microfin in the last one year. Further, none of M2i's staffs or their relatives are represented in the Board of YVU Microfin or related institutions.

Section 1: Scores¹ and facts

Code of Conduct dimensions	Maximum	Obtained	%
Client Origination and Targeting	24	18.0	75%
Loan Pricing	15	10.1	67%
Loan Appraisal	16	8.7	54%
Client Data Security	8	6.9	86%
Staff Conduct	35	27.1	77%
Client Relationship and Feedback	26	19.2	74%
Integrating Social Values into Operations	14	9.0	64%
Total	138	99.0	72%
RBI's Directions	12	12	100%

Compliance parameters	Maximum	Obtained	%
Approval	25	19.0	76%
Documentation	31	23.0	74%
Dissemination	31	23.0	74%
Observance	51	34.0	67%
Total	138	99.0	72%

MFI's profile – December 2012

Name of the MFI	YVU Microfin
Legal form	Trust
Operational Head	Mr Akoijam Tikendrajit Singh
Year of starting microfinance	2007
Branches	7
Operational area	Manipur
Total number of staff involved in microfinance	87
Visit of the Assessment team	10 January 12 – 12 January 12
Correspondence address	Waiview Bhawan, Thoubal Wangmataba, Thoubal – 795 138 Manipur Tel: +91 3848 222 224/ 222 514/ 2442 931

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).

Microfinance Methodology
<p>YVU Microfin uses Joint Liability Group (JLG) model and individual model for its lending activities.</p> <p><u>Joint liability Groups</u> YVU Microfin mostly has groups which have women members, although it has formed some groups of men too. Each group has 5-7 members and 5-10 such groups together form a centre. There are village based groups and market based groups. In a group, members take joint liability of each other. All members within a group are given equal loan amount. The disbursements are done at the branches through cheque. A single cheque in the name of group leader is issued for the entire group. The members then visit the bank, en-cash the cheque and distribute the money equally. The collections are done in the weekly centre meetings.</p> <p><u>Individual</u> YVU Microfin started its microfinance activities with the individual model of microfinance. These loans are mostly given for petty shops and small businesses. These members are located in rural as well as in urban market areas. The disbursements to clients are done through cheques in the branches and the collections are done by the YVU Microfin’s field staffs from the clients’ business locations either on daily or on monthly basis depending on the product chosen by the client.</p> <p>YVU Microfin has become member of Equifax Credit Information Services. It shares data with Equifax but currently does not avail credit reports as no other MFI in its operational area is sharing data with Equifax.</p>

Details of the loan products - 31 December 2012					
Product	Description	Loan size*	Interest Rate	APR (Interest Rate and Processing Fees)	% in portfolio
Income Generation loan (IGL) - Group	Loans given to members of Joint Liability Groups of women. These loans are given for income generation activities. Loan tenure (depending on loan size and client’s choice) can be between 12-30 months with weekly repayments.	Rs5,000 to Rs50,000 per member.	22.8% pa, on reducing balance basis and 1% processing fees	24.6%	31.2%
Income Generation loan (IGL) - Individual	Loans given to individuals for income generation. Loan tenure is 12-30 months depending on clients’ choice and loan size. Client can choose to repay either daily or monthly.	Up to Rs50,000	22.8% pa on reducing balance basis if client chooses to pay daily and 24% on reducing balance basis if client chooses to pay monthly. In case	24-26% (for loans given at 22.8% and 24% reducing) 20.3% (for loans given	68.6%

			of widow borrowers, the interest rate is 18% on reducing balance basis. 1% processing fees is charged on all loans.	at 18% reducing)	
Emergency loan	This loan is given for meeting any consumption needs of the client eg. marriage, health, education, house repair etc. Loan tenure is 12-30 months and depends on clients' choice and loan size. Client can choose to repay either daily or on monthly basis.	Up to Rs50,000	22.8% pa reducing if client chooses to pay daily and 24% reducing if client chooses to pay monthly. 1% processing fees.	24-26%	0.2%

Notes:

1. APR has been calculated by taking the actual cash flow for each loan including principal, interest and processing fee.
2. EIR for YVU Microfin's loan products, except emergency loans, is between 22.0% and 29.0%. EIR has been calculated through compounding interest on monthly rests: $EIR = (1+r)^n - 1$, where $r = APR/12$ and $n=12$ (for 12 months to annualize).

Key facts and figures			
Parameters	31-Mar-11	31-Mar-12	31-Dec-12
Total JLGs	1,926	2,519	2,809
Total Members	11,556	15,114	16,854
Active borrowers	8,665	8,708	9,106
Branches	7	7	7
States	1	1	1
Number of districts	6	6	6
Total staff	71	79	87
Number of loans disbursed for the FY ending	3,644	3,779	3,282
Amount of loan disbursed for the FY ending (Rs Mn)	146.7	165.1	143.8
Loan portfolio outstanding (Rs Mn)	79.1	93.6	106.4
PAR-60	0.03%	0.09%	0.83%
PAR-30	0.05%	0.06%	0.84%
Yield on portfolio	25.74%	26.41%	19.70%
OSS	109.4%	107.7%	110.0%
RoA	1.9%	1.5%	0.81%
RoE	10.4%	8.2%	10.81%

Source: Data Provided by YVU Microfin

YVU MICROFIN's Board of Trustees – 31 December 2012	
Name	Profile
Dr M Rajendra Singh	Mr Rajendra Singh is the Chairman of YVU Microfin. He is Bachelor in Veterinary Science. He has retired as Joint Director, Veterinary Department, Govt. of Manipur.
Ms N Satyabati Devi	Ms Satyabati Devi is the Chairperson of the Board. She is Bachelor in Science and has 15 years of professional experience. Ms Satyabati is currently Assistant Project Officer, ICDS, Department of Social Welfare, Chandel. She is a writer and social activist. She has published 7 novel, short story and poetry. She is also the Editor of Quarterly journal "SAHITYA".
Mr Ak Tikendrajit Singh	Mr Tikendrajit Singh is the CEO of YVU Microfin. He is Bachelor in Science and has over 30 years of professional experience.
Mr. Brajamohon	Mr Brajamohon is a retired school teacher and had published books - 3 short stories, 1 novel and 1 poetry. Would request to make the correction accordingly.
Mr Ak Ibochouba Singh	Mr Ibochouba Singh is Bachelor in Arts by qualification. He is Section Officer in Electricity Department of Manipur.
Dr Ch Ibohal Meitei	Dr Ibohal Meitei is MBA from IIM Bangalore. He is currently Director of Manipur Institute of Management Studies, Manipur University.
Mr Dr A Bimol Akoijam	Dr Bimol Akoijam is PhD in Sociology. He is Associate Professor in Jawaharlal Nehru University, New Delhi.
Mr Ksh Joychandra Singh	Mr Joychandra Singh is Bachelor in Science and has retired as Manager from State Bank of India.
Mr Ksh Shyamkeshwar Singh	Mr Shyamkeshwar Singh is Bachelor in Science and is a Businessman.
Mr A Manglemba Sharma	Mr Manglemba Sharma is MBA and is currently Zonal Manager in Birla Sunlife, Guwahati.
Mr W Prabinkumar Singh	Mr Prabinkumar Singh is MBA and is Manager in Microfinance & Micro, Small Enterprise Department of North Eastern Development Financial Corporation Ltd (NEDFi), Guwahati

Section 2: Status of Regulatory Compliance

2.1 Compliance with regulations

YVU Microfin complies with all the directions issued by RBI regarding priority sector lending status of MFIs.

YVU Microfin's compliance with RBI directions for MFIs is presented below.

YVU Microfin is a not-for-profit Trust 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 organisation, YVU Microfin does not have any mandatory compliance for capital. However, as on 31st March 2012, YVU Microfin had total equity capital of Rs21.7 million.

Proportion of qualifying assets and income generation loans

YVU Microfin has been obtaining CA certificates for its qualifying assets. As per CA's certificate for financial year end of 2012, YVU Microfin had 89.9% of its total assets (excluding cash and bank balance) as 'qualifying assets'. Further, CA has certified that 95.6% of YVU Microfin's loans were for income generating 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

YVU Microfin does not offer loan greater than Rs35,000 in the first cycle and loan greater than Rs50,000 in any cycle. It checks overall indebtedness of the borrower before lending and does not exceed total indebtedness limit of Rs50,000 per borrower. M2i did not observe any case in which these limits had been breached.

- Collateral verification

M2i has verified that YVU Microfin does not take any collateral on its loan both in Group as well as in Individual loans, thus complying with RBI directions.

- Loan duration verification

YVU Microfin complies with the direction given by RBI on loan duration. All loans of the organization greater than Rs15,000 have tenure more than 24 months. The clients are free to prepay the loan and there are no penalties on prepayment.

- Household income

YVU Microfin, 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. YVU Microfin takes client profile at the time of client induction in which it collects data of

household income. YVU Microfin also captures household income in its loan application. In a check of randomly selected over 200 loan documents across all 7 branches of YVU Microfin it was observed that members had revealed 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 YVU Microfin, it does not lend to any member who has an active loan from any other source. In case a member has a loan from any other institution, the organization first asks the member to close that loan before lending. Thus, it complies with the RBI direction regarding client indebtedness. M2i did not find any of these directions breached in any of the 200 loan documents checked and clients visited across all 7 branches.

Pricing of credit

YVU Microfin is charging interest rate ranging from 18% - 24% on reducing balance basis across its different products. In addition it charges 1% processing fee and insurance premium is charged on actual basis. YVU Microfin does not charge any penalty in case of any overdue on loans or in case of prepayments. Also interest on unexpired period of loan is not collected in case of prepayment of loan.

YVU Microfin does not collect any security deposit for any loan currently. However, until 6th February 2012, YVU Microfin was collecting security deposit on the loans, which it stopped from 7th February 2012. This has been certified by CA. However, at the time of M2i visit, past security deposit had not been completely refunded to the clients and YVU Microfin still had security deposits on its books, which it plans to refund by 31st March 2013. YVU Microfin was also collecting penalty in case of overdue loans until March 2012 which it stopped from 1st April 2012. Discontinuation of collection of penalty and security deposit was verified by M2i.

CA has certified that YVU Microfin was complying with interest rate margin cap of 12% as directed by RBI. For FY 2011-12, YVU Microfin had an interest rate margin of 8.95%. It had interest yield of 18.15% on its average portfolio and its cost of borrowing was 9.2%.

Capital adequacy

Although no directions have been issued by RBI regarding the capital adequacy for not-for-profit Trusts, but as on 31st March 2012, YVU Microfin had CRAR of 21.4%. It had risk weighted assets of Rs101.4 million against the total capital of Rs21.7 million.

Customer Protection Initiatives

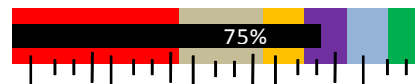
YVU Microfin has formally resolved to abide by the RBI Fair Practice Code and the industry Code of Conduct (Sa-Dhan and MFIN code). It has adopted these in its Board meeting June 2012. Prior to this, YVU Microfin in its Board meeting of March 2012 also resolved to follow all guidelines that have been issued by RBI for NBFC-MFIs even though it is not an NBFC.

Membership with SRO and credit bureau

YVU Microfin is a member of Sa-Dhan. It is also member of Northeast Microfinance Forum but the forum is still not very active. In February 2012, YVU Microfin became member of Equifax Credit Information Services Limited. It shares its data with Equifax but was not availing any credit reports from the bureau.

Section 3: Observations

3.1 Client Origination and Targeting (COT)



YVU Microfin has documented policy for client origination. There is structured training, recognition and registration process for members. KYC documents are taken in all cases. However, no policy has been documented regarding avoidance of unauthorized agents.

Approval (A)	Documentation (D)
<ul style="list-style-type: none"> ✓ The board has approved policies regarding proper authentication of client identity and obtaining KYC. 	<ul style="list-style-type: none"> ✓ Clear policies have been framed regarding group formation, group training and final induction of member. ✗ No formal report of market survey is produced. ✗ There is no documented policy regarding avoidance of unauthorized agents in client acquisition process.
Dissemination (D)	Observance (O)
<ul style="list-style-type: none"> ✓ Staff members are trained on client origination process. ✓ The existing policies related to client origination are documented in manual which are available in each branch. 	<ul style="list-style-type: none"> ✓ There was no evidence of use of any unauthorized person or payment of unfair money for client origination at YVU Microfin. ✓ Proper authentication of client and household is done through household visits and KYC verification before induction.

The permission for area expansion is given by the CEO or the MD. For venturing into a new area for opening a new branch, market survey is carried out by Head Office team including members from HR or MIS departments.

For expansion in any new area by a branch, a market survey is carried out. YVU Microfin has recently developed a format for carrying out the Market Expansion Survey. The survey is done by the branch staff. The survey gathers data on income generating activities in the area, other MFIs and money lenders operating in the area, prevailing interest rates, credit history of the area, law and order situation, status of access to financial services, people’s preference of financial products etc. Based on the survey findings the decision for expansion is taken by the CEO or the MD. However, currently no formal survey reports are produced.

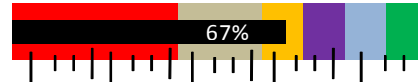
The process of client origination starts with field staffs visiting the area and meeting elders, community heads, religious heads etc. and informing them about YVU Microfin, its vision, mission, products and methodology. In market areas, YVU Microfin also distributes pamphlets about the organization. Through subsequent meetings, interested members are asked to organize into groups. Once the groups are formed they have to attend Loan Orientation Training (LOT). These are done over six meetings in which YVU Microfin’s

staffs train them on the organization's products, policies and processes. During these meetings it is compulsory for the field staff to make house visit of the client and to gather the KYC documents. For the first time clients, a Membership form is filled and the member is registered. After the first four meetings, Group Recognition Test (GRT) is done either by the Branch Manager or somebody from the Head Office. GRT is done using a format. Post GRT, the client applies for loan on a printed loan application. To avoid any unfair practice, YVU Microfin does not provide incentive to its field staffs for acquiring new clients.

In case of individual clients, the client is told of all terms and conditions by field staff in one or two meetings and if the member agrees then the loan application is filled. In case of individual client house and business verification is done and KYC documents are taken.

YVU Microfin has defined its membership criteria which subscribes to the RBI income directions of Rs60,000 in rural areas and Rs120,000 in non-rural areas. During member registration and at the time of applying for loan, members have to self-reveal their income which is recorded in the forms. Apart from this, no other tool or method is used to ascertain the economic status of the member. Client profiles are not taken in subsequent cycles of loans and hence the profile does not get updated in every cycle.

YVU Microfin does not have any documented policy regarding avoidance of unauthorized persons in client origination or other activities. Although M2i did not come across any instance of involvement of any unauthorized person or any unfair payment for client origination, YVU Microfin does have operational area overlap with other MFIs, which creates risk of unauthorized agents.



3.2 Loan Pricing (LP)

YVU Microfin’s pricing on loan products are all within regulatory directions. The pricing is communicated to clients. However, since YVU Microfin maintains group wise MIS, it reduces transparency for individual members. Also there are operational policy deviations at field level. Further, one of the lenders of YVU Microfin is a Mutual Benefit Trust which also mobilizes savings from YVU Microfin’s members, which is not a transparent practice.

Approval (A)	Documentation (D)
<ul style="list-style-type: none"> ✓ YVU Microfin’s board has approved to follow all directions issued by RBI on pricing. 	<ul style="list-style-type: none"> ✓ YVU Microfin has clearly documented its pricing for all its loan products.
Dissemination (D)	Observance (O)
<ul style="list-style-type: none"> ✓ The loan pricing has been clearly communicated to staffs. ✓ Staffs have been trained on pricing on different products and were well aware of interest rate, processing fee and insurance charges. ✓ Pricing is displayed in all branches. 	<ul style="list-style-type: none"> ✓ YVU Microfin’s pricing is in accordance to the regulatory directions. ✓ Awareness regarding pricing was found to be high among clients. ✗ Since YVU Microfin has group wise MIS; passbooks, sanction letters and receipts are not issued to individual members but to groups as a whole, which reduces transparency. ✗ There were instances of policy deviations at field level reducing transparency for clients on pricing.

YVU Microfin charges interest in the range of 18% to 24% on diminishing basis on its different loan products. Processing fee is 1% and insurance premium is charged at 0.65% which is on actual incurred basis. YVU Microfin does not collect any security and does not take any collateral. Also no penalty is charged for overdue or in case of prepayments. In case of pre-closure, interest on unexpired period of loan is not collected. Thus, YVU Microfin’s pricing is in accordance with RBI directions. However, in the last financial year YVU Microfin was collecting security deposit which it has still not fully repaid. YVU Microfin plans to refund the security deposit by March 2013.

The current loan pricing is clearly understood by staffs and is also communicated to clients through sanction letter and passbooks. Loan pricing is displayed in all branches where clients have to come for disbursement.

However, the overall transparency reduces as in case of group loans - the loan sanction letter, loan passbooks and receipts are issued group wise instead of individual wise. The cheque for disbursement of loan is also made for the entire group in the name of group leader or the Secretary instead of individual members.

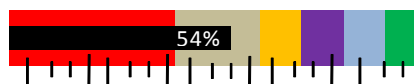
From the group passbooks, individual clients cannot see their individual installments. Individual installments are recorded separately in a client level register. The repayment schedule is also provided group wise.

Further, interest on loan for each month is charged upfront by YVU Microfin and group passbooks are reconciled with Head Office records on monthly basis. The individual level principal and interest break-up is not provided.

Therefore, this policy of having group wise records reduces the overall transparency for individual clients.

It was also observed that there were frequent policy deviations at the field level, of the nature where sanction letters provided to clients were not properly filled. Many clients had been provided old passbooks in which no interest rate or processing fees were printed. In other cases, group clients had been provided passbooks for incorrect loan products.

There is a separate Mutual Benefit Trust (LMBT-Luxmi Mutual Benefit Trust) which is one of the major lenders of YVU Microfin, this trust mobilizes savings from the members of YVU Microfin. Members are not aware of the investments made by LMBT and the risks associated with such investments.



3.3 Loan Appraisal (LA)

The loan appraisal process of YVU Microfin is currently weak for the size of loans that it provides. While the policies on appraisal have been documented, objective tools to assess repayment capacity of clients are not used. Further credit bureau is not operational in the region.

Approval (A)	Documentation (D)
<ul style="list-style-type: none"> ✓ YVU Microfin has approved of policies regarding avoidance of over indebtedness of clients and to lend within regulations. 	<ul style="list-style-type: none"> ✓ YVU Microfin’s operation manual provides directions for carrying out loan appraisal of clients before lending to them. ✗ The forms and formats of YVU Microfin do not allow objective calculation of household cash flow or to capture seasonality in business. ✗ Policies regarding loan decision making based on client data gathered are not clearly defined.
Dissemination (D)	Observance (O)
<ul style="list-style-type: none"> ✓ YVU Microfin’s field staffs have been told to carry out loan appraisal before lending to any client and to lend within repayment capacity of the client. ✗ Staffs are still not trained in carrying out cash flow analysis or on taking decision based on client data gathered. 	<ul style="list-style-type: none"> ✓ YVU Microfin lends within credit limit of Rs35,000 in fist cycle and not more than Rs50,000 in any cycle. ✗ YVU Microfin is providing loans as high as Rs50,000. The level of credit analysis for such loan amounts is not adequate. ✗ Credit bureau checks are not being performed currently.

YVU Microfin has an approved policy regarding lending to a client within her repayment capacity. It is also part of its fair practice code. YVU Microfin has made a policy of not lending to any member who has loan from any other source. M2i through loan documents check and client visit observed that no client of YVU Microfin had borrowed from any other source and no client had been lent beyond Rs50,000.

The loan process of YVU Microfin starts as client applies for loan through a printed loan application. In the loan application client has to reveal his/her income and indebtedness. Based on the loan application the core team of YVU Microfin carries out the appraisal. However, the effectiveness of loan appraisal form is limited because of the following:

- Loan appraisal form does not give much details about the business or enterprise being financed
- Loan appraisal form does not capture client’s income, expenditure, household and business cash flow and does not estimate the household cash surplus.
- The appraisal form does not capture the indebtedness details of the client.

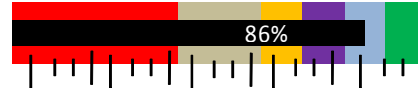
- The nature and seasonality of business is not captured in detail
- There are no objective parameters to link the loan size and tenure with the client's data gathered in the appraisal form.
- Appraisal form collects information only about business stock, daily sales, business profit and household and business asset value which is not adequate to understand repayment capacity of an individual.

The rigor in appraisal is critical for YVU Microfin as it has almost 70% of its portfolio in individual loans where the loan sizes are generally high – in the range of Rs30,000 to Rs50,000. Lack of any credit check through credit bureau also enhances risk.

Further, YVU Microfin has a complicated practice of producing two sets of loan repayment schedule. When a loan is disbursed, a repayment schedule is generated through its main BIJLI MIS as per the defined product. However, at the branch level another repayment schedule is generated as per the convenience of the client. This repayment schedule is generated on a separate Excel file and is not updated on the BIJLI MIS. Thus, it creates two sets of repayment schedule. It was observed that although the repayment schedule generated at the branch is created at the request of the client, it generally has much shorter loan tenure and the tenure is not calculated on any scientific basis. Mostly, the loan tenure in this repayment schedule is one year or lesser even for loans as high as Rs50,000. This creates possibility of stress for client due to high repayment burden.

Internal audit too does not make checks to see the quality of appraisals. It also does not verify the basis of the loan size or the repayment schedule and if it is according to the repayment capacity of the members.

3.4 Client Data Security (CDS)

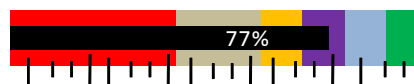


YVU Microfin has a policy for keeping the client data secured. The client data is maintained in software based MIS and the rights to modify or edit data for staffs are restricted. The physical documents are stored in lock and key at the branch level, with well defined key handling process.

Approval (A)	Documentation (D)
<ul style="list-style-type: none"> ✓ YVU Microfin has a board approved policy regarding client data security. 	<ul style="list-style-type: none"> ✓ YVU Microfin has documented its policy of client data security which is part of its Fair Practice Code.
Dissemination (D)	Observance (O)
<ul style="list-style-type: none"> ✓ YVU Microfin’s staffs are trained on maintaining confidentiality of client’s data and documents. 	<ul style="list-style-type: none"> ✓ Rights to modification of data on software are restricted with only MIS team. Regular back-up of MIS data is taken. ✓ Physical documents are stored in lock and key and keys are kept only by the core team at branch. ✗ Physical documents are stored at branch level making them susceptible to loss or manipulation.

YVU Microfin has formulated policies for protection of client data and preventing unauthorized access of client records. The client records are maintained on software, the rights to editing of data on software are restricted to the MIS team. YVU Microfin takes regular back-up of data at branch as well as at Head Office.

The physical loan documents are stored in cupboards at the branch. The KYC documents of clients are stored separately in a trunk at each branch. All documents are locked and the keys are kept by one of the members of the branch core team (Branch Manager, Accountant or Systems Officer). It was observed that branch staffs were very well oriented on the safety of the client documents and against the potential misuse of data.



3.5 Staff Conduct (SC)

YVU Microfin’s staffs are trained on acceptable behavior with clients. Clients had no adverse observation on behavioral aspects and staffs complied with the code. However, due to weak controls, frequent policy deviations were observed in field operations and documentation.

Approval (A)	Documentation (D)
<ul style="list-style-type: none"> ✓ YVU Microfin has approved policies related to staff behavior with clients. 	<ul style="list-style-type: none"> ✓ YVU Microfin has well documented policies on acceptable staff behavior with clients. Its Fair Practice Code clearly mentions the ‘Dos’ and the ‘Donts’ ✓ The documented policies cover all aspects of good staff behavior such as for making recoveries, interacting with members, entry in house, dress code and timings to meet members etc.
Dissemination (D)	Observance (O)
<ul style="list-style-type: none"> ✓ Fair Practice Code is displayed across all branches and a Fair Practice document has been provided to each branch. ✓ Employees have been trained on code of conduct in July 2012 at the Head Office. 	<ul style="list-style-type: none"> ✓ Staffs were found to be aware of behavioral issues with clients. Staffs were following these staff conduct policies. ✗ YVU Microfin incentivizes its staffs for collections, which creates potential risk of behavior issues with clients. ✗ Policy deviations were observed at field level such as incomplete documentation, incorrect passbooks being given etc. ✗ Staffs conduct with clients are not checked by internal audit

YVU Microfin has framed detailed policies regarding staff behavior with clients. In each branch the Fair Practice Code is displayed which shows the ‘Dos’ and ‘Donts’ for the staffs. Key aspects of YVU Microfin’s staff code are:

- Behave respectfully and in a friendly manner with the clients
- Reach centre meetings on time
- Do not visit clients after 6 ‘o’ clock
- Do not enter any client’s home
- Inform clients of all details of the product
- Wear formal clothes for meeting with clients
- Update all client records and issue receipts for all transactions

Overall, policies related to staff behavior with clients were found to be good and staffs were also aware of these policies. Clients did not report of any misbehavior or coercion by any staffs of YVU Microfin.

The policies on overdue collections are also client friendly and do not allow staffs to use any force or indecent language. In case of overdues, branch staffs have to interact with the group to enforce joint liability, and visit delinquent member's house and if the overdue persists then a series of reminder letters have to be sent. Even then, if the overdue is not collected then the case is handed over by the branch to the Head Office which follows it up with the client, again through regular meetings. Overall, overdue collection practices were found to be non-coercive.

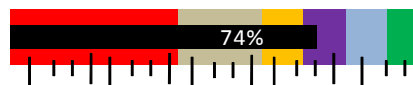
While the staff behavior with clients was good there were several operational policy deviations observed such as:

- Passbooks of incorrect products had been issued to clients
- Passbooks were not filled properly
- Passbooks had not been stamped with helpline numbers
- Loan documents, sanction letters were not completely filled
- For a few clients in Kakching branch it was observed that blank stamp papers with member signatures had been obtained. As per YVU Microfin's policy members in a group have to give a declaration for timely loan repayment on stamp paper. In other branches stamp papers were properly filled.

Such policy deviations reflect weak controls which can lead to client stress and are not sound code of conduct practices.

Further, the internal audit checks do not cover aspects related to staff behavior with the clients, clients' awareness of products and services or other aspects of staff conduct as per the fair practice policies.

3.6 Client Relationship and Feedback (CRF)



YVU Microfin has overall good client relationship and feedback process. The clients are provided helpline number and also phone numbers of branch staffs. There is also complaint box in each branch. However, process for handling grievance, its resolution and cross-checking is not documented.

Approval (A)	Documentation (D)
<ul style="list-style-type: none"> ✓ The Board has approved of providing grievance redressal mechanism to the clients. ✓ Grievance redressal is part of Fair Practice Code of YVU Microfin. 	<ul style="list-style-type: none"> ✓ Commitment towards grievance handling is documented in the Fair Practice Code of YVU Microfin. ✗ The exact process for grievance handling, ensuring grievance resolution and reporting is not documented.
Dissemination (D)	Observance (O)
<ul style="list-style-type: none"> ✓ Staffs have been trained in receiving client complaints through phone or complaint box. 	<ul style="list-style-type: none"> ✓ Process for lodging complaint is displayed in each branch. A high proportion of clients interviewed were aware of complaint box and the helpline number. ✓ Complaints had been recorded in the complaint register by the branch staffs. ✗ Helpline number was either not stamped or not stamped clearly in almost 10% of the clients' passbooks visited by M2i. ✗ No consolidated reports on grievance resolution are prepared and submitted to senior management.

YVU Microfin has a grievance redressal system under which each branch has a complaint box for clients to put their complaints. The keys of the complaint box remain with the HR department. The HR officials check the box once every month. The process for lodging complaint is displayed in each branch.

In addition to the complaint box, the clients have also been provided phone numbers of field staff, branch managers and a helpline number. The field staffs are supposed to stamp the phone numbers on the passbooks of the clients. M2i observed that in almost 10% of the passbooks checked, the number was either not stamped or was not stamped clearly.

Since, there is no landline number at the Head Office of YVU Microfin, the helpline number is currently the number of one of the branches and calls are received by the branch staffs, this limits the efficacy of the helpline number.

The branches have been instructed to record all complaints of the clients received either on staff phone number or on the helpline number. It was observed that most of the complaints were being received by the concerned branch staffs on their phones. In all branches except

Kakching branch the complaint registers had been properly maintained and complaints had been recorded. In Kakching branch the complaint register had only two complaints for the last six months period.

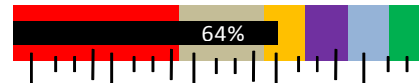
On receiving any complaint at branch, the core team comprising the Branch Manager, Accountant and the Systems officer provide the appropriate response to the client and the response is also recorded in the complaint register. The internal audit also checks the register. As per the policy, the complaints have to be responded to within maximum of 7 working days.

M2i made a check of the helpline number and it was found that the number was functional and the helpdesk did provide a response to the queries raised.

YVU Microfin has not documented the process of grievance handling in detail. No escalation matrix is provided and no process is defined for cross-checking the status of grievance. Further, no consolidated reports of grievances are prepared or submitted to the senior management.

In Board meeting of January 2013, YVU Microfin has resolved to form a Grievance committee, however at the time M2i visit, the committee had not been constituted.

3.7 Integrating Social Values into Operations (ISV)



YVU Microfin has been involved in providing other social services apart from financial services. It has been involved in providing livelihood trainings and marketing support to its members. Through a separate Society, YVU is running a dairy project. However, YVU Microfin does not have any social performance management policy and does not track socio-economic progress of its clients.

Approval (A)	Documentation (D)
<ul style="list-style-type: none"> ✓ YVU Microfin’s board has adequate representation of independent members. ✓ YVU Microfin’s vision is to empower the underprivileged people by augmenting their income earning capacity through credit support. ✗ Board has not approved of any social performance management policy. 	<ul style="list-style-type: none"> ✗ YVU Microfin does not have any social performance management policy or policy for measuring impact of its services.
Dissemination (D)	Observance (O)
<ul style="list-style-type: none"> ✓ The vision and mission of YVU Microfin are displayed in all its branches. 	<ul style="list-style-type: none"> ✓ YVU is involved in a dairy project with around 200 beneficiaries. ✗ YVU Microfin does not measure impact of its services on its members.

YVU Microfin has eleven member board and except for the CEO, all the other members are independent. In January 2013 YVU Microfin constituted a three-member board level Audit committee and has also resolved to form a Grievance committee. At the time of M2i’s visit, the committees had not started functioning.

YVU Microfin neither has any social performance management policy nor has there been any effort towards measuring impact of its services through any tool or stand alone researches.

YVU Microfin supports its members by providing other non-financial services. YVU Microfin encourages children, of its clients, who perform well in Board exams, by providing them awards. YVU Microfin also distributes mats, wall clock, cash award and award in-kind to its clients. YVU Microfin has also provided livelihood trainings to its members such as on poultry, piggery etc.

YVU, a separate society is involved in a dairy development project, which has 150 direct beneficiaries and 50 indirect beneficiaries. Under the project YVU has provided high-yield cattle to farmers and now procures milk from them. It has a packaging plant where it packages the milk and supplies it to traders in Imphal.

Under its financial services, YVU Microfin provides an emergency loan for purposes other income generation. Under the product, widows are lent at 18% reducing balance which is

lower than the interest charged to other members. However, as of 31st December 2012, there was only 0.2% loan portfolio under the product. YVU also provides accidental insurance to its members in collaboration with Oriental Insurance, the premium for this insurance is borne by YVU Microfin.

Annexure 1: Matrix of Score Obtained²

Indicators	A		Do		Ds		O		Total	
	Max	Obt	Max	Obt	Max	Obt	Max	Obt	Max	Obt
Client origination and targeting	5	3.0	5	4.0	5	4.0	9	7.0	24	18.0
Loan Pricing	3	2.0	1	1.0	2	1.0	9	6.1	15	10.1
Loan Appraisal	4	3.0	4	2.0	3	2.0	5	1.7	16	8.7
Client Data Security	1	1.0	3	2.0	2	2.0	2	1.9	8	6.9
Staff Conduct	7	6.0	7	6.0	10	8.0	11	7.1	35	27.1
Client Relationship and Feedback	2	2.0	8	6.0	6	4.0	10	7.2	26	19.2
Integrating Social Values into Operations	3	2.0	3	2.0	3	2.0	5	3.0	14	9.0
Total*	25	19.0	31	23.0	31	23.0	51	34.0	138	99.0

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

² 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 indicators³ 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).

³ 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	Thoubal	Manipur	6
2	Paona	Manipur	3
3	Kakching	Manipur	15
4	Wangmataba	Manipur	21
5	Singjamei	Manipur	21
6	Wangjing	Manipur	8
7	Nambol	Manipur	15
Total			89

*YVU MICROFIN has only seven branches and M2i visited all its branches.

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.