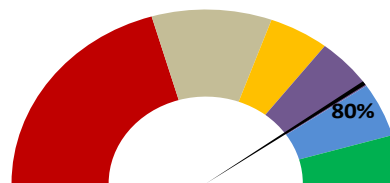
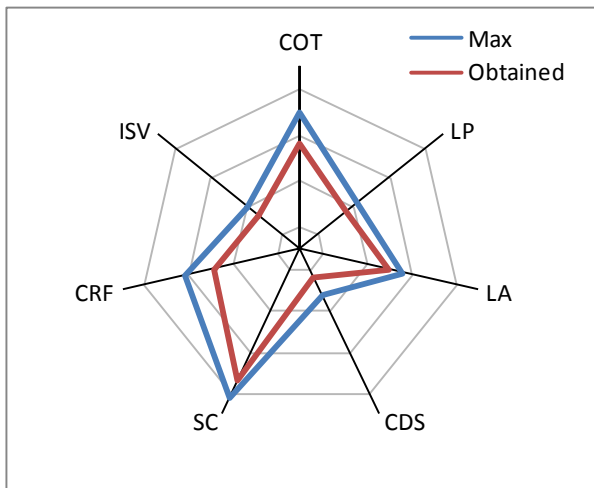


**Grameen Development & Finance Private  
Limited (GDFPL)**  
MAY 2016



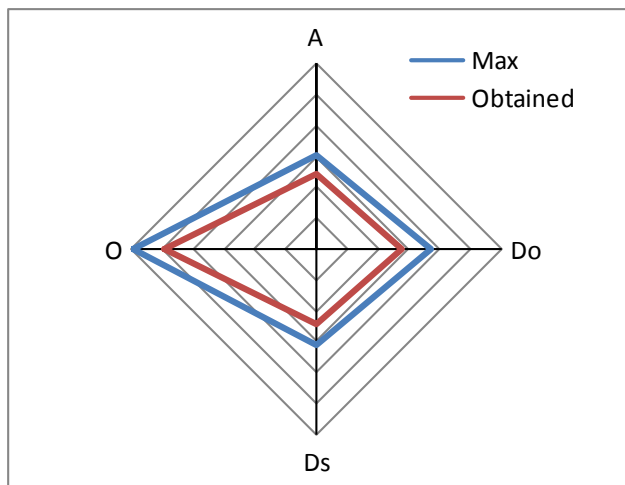
**Composite COCA Score: 80%, Good level of  
adherence**

**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  
ADD0 © Prime M2i Consulting Private Limited

**Rationale**

GDFPL receives a “Good” overall score on account of its professional staff conduct and well-defined client origination and targeting policies. The organization is dedicated towards working in underserved areas of northeast. GDFPL has displayed its commitment towards aspects of code of conduct by developing and effectively disseminating a well-defined and comprehensive code of conduct. GDFPL undertakes the appraisal of clients by collecting information on their incomes, expenses, surpluses, and indebtedness. However, the process needs to be strengthened by establishing objective criteria for determining the loan amount or tenure based on a client’s cash flow analysis.

**Highlights**

- GDFPL has a well-defined code of conduct for its staff, which emphasizes on ensuring transparency in dealing with the clients.
- The guidelines for client origination and targeting are well disseminated among branches.
- GDFPL has well-defined grievance redressal policy and mechanism for capturing client complaints.
- GDFPL has been active in organizing enterprise promotion training camps and financial literacy camps for its clients.

**Areas of improvement**

- GDFPL needs to develop an objective criterion for determining the loan amount and tenure based on a client’s cash flow analysis and surpluses
- GDFPL needs to develop a policy for avoidance of involvement of unauthorized agents in client origination process.
- The organization needs to develop a documented policy for security of data maintained in electronic form.
- Scope of internal audit should be enhanced to cover code of conduct aspects









**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 Grameen Development & Finance Private Ltd. In the last one year. Further, none of M2i's staffs or their relatives is represented in the Board of Grameen Development & Finance Private Ltd. or related institutions.







### Section 1: Scores<sup>1</sup> and facts

Code of Conduct dimensions <sup>2</sup>	Maximum	Obtained	%
 Client Origination and Targeting	30	23.0	77%
 Loan Pricing	16	12.9	81%
 Loan Appraisal	23	19.8	86%
 Client Data Security	11	6.8	62%
 Staff Conduct	36	31.7	88%
 Client Relationship and Feedback	26	19.3	74%
 Integrating Social Values into Operations	15	11.8	79%
 <b>Total</b>	<b>157</b>	<b>125.3</b>	<b>80%</b>
<b>RBI's Directions</b>	<b>12</b>	<b>12</b>	<b>100%</b>

Compliance parameters	Maximum	Obtained	%
 Approval	30	24.0	80%
 Documentation	37	28.0	76%
 Dissemination	31	24.0	77%
 Observance	59	49.3	84%
 <b>Total</b>	<b>157</b>	<b>125.3</b>	<b>80%</b>

### MFI's profile – March 2016

Name of the MFI	Grameen Development & Finance Pvt. Ltd
Legal form	NBFC-MFI
Operational Head	Sarat Chandra Das
Year of starting microfinance	2012
Branches	17
Operational area	Assam, Meghalaya & Nagaland
Total number of staff involved in microfinance	89
Visit of the Assessment team	May 2 – May 6, 2016
Correspondence address	Grameen Development & Finance Pvt. Ltd Dubjeni, Kulsi Road, PO/PS: Chhayagon, Dist: Kamrup, Assam, PIN: 781124

<sup>1</sup>The 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

Grameen Development Financial Pvt. Ltd. (GDFPL) follows the Joint Liability Group (JLG) lending model. It enrolls women members and organizes them into groups of 5-20 members. Two or more such joint liability groups are combined to form a center. A Compulsory Group Training (CGT) of three days is provided to the clients before lending to them. CGT is followed by Group Recognition Test (GRT) and the Credit Bureau (CB) check.

The loans are provided on the basis of a joint liability accepted by the members for their respective groups. The disbursements are made at the branches, and the collections are undertaken in monthly center meetings.

### Details of the loan products - 31 March 2016

Product	Description	Loan size*	Interest Rate	APR (Interest Rate and Processing Fees)	% in portfolio
Microfinance Loan	Loans given to members of JLG. The loans are given for income generation activities. The loans are provided for tenure of 12-24 months.	Up to Rs.55, 000	25% pa, reducing balance basis and 1% processing fees	27.27%	78.1%
Microfinance Loan	Loans given to members of JLG. The loans are given for income generation activities. The loans are provided for tenure of 12-24 months.	Up to Rs.40, 000	24% pa, reducing balance basis and 1% processing fees	26.04%	7.7%
Microfinance Loan	Loans given to members of JLG. The loans are given for income generation activities. The loans are provided for tenure of 12-24 months.	Up to Rs.20, 000	20% pa, reducing balance basis and 1% processing fees	21.98%	10.5%
Microfinance Loan – OBC	Loans given to Other Backward classes arranged in Joint Liability Groups of women. These loans are given for income generation activities.	Up to Rs.45, 000	4% pa, reducing balance basis and 1% processing fees	5.90%	3.4%

Individual Loan	Loans given individually to members of groups for income generation purpose.	Up to Rs.50, 000	25% pa, reducing balance basis and 1% processing fees	27.20%	0.3%
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**Notes:**

1. APR has been calculated by taking the actual cash flow for each loan including principal, interest and processing fees.

<b>Key facts and figures</b>			
<b>Parameters</b>	<b>31-Mar-14</b>	<b>31-Mar-15</b>	<b>31-Mar-16</b>
Total Groups	63	509	827
Active borrowers	2,087	9,968	14,983
Branches	2	14	17
States	1	2	3
Number of districts	2	5	7
Total staffs	15	38	89
Number of loans disbursed for the FY ending	1,835	5,299	11,320
Amount of loan disbursed for the FY ending (Rs.mn)	25.4	126.6	220.2
Loan portfolio outstanding (Rs.mn)	21.0	102.2	174.9
PAR-30 (%)	0.13	0.20	0.23
PAR-60 (%)	0.13	0.16	0.22

*Source: Data Provided by Grameen Development and Finance Pvt. Ltd.*

<b>GDFPL Board Members – 31March 2016</b>	
<b>Name</b>	<b>Profile</b>
Mr. Sarat Chandra Das	Mr. Sarat Chadra Das is associated with GDFPL as a promoter and Managing Director. He has an experience of 18 years in development and microfinance management. He has vast professional experience in Banking and Microfinance.
Mr. Dandiram Kalita	Mr. Dandiram Kalita is a graduate with vast professional experience in banking. He is associated with the organization as a Director and is also an integral part of various committees, such as the Audit Committee, Sexual Harassment Committee, Social Performance Management Committee and Grievance Redressal Committee.
Mr. Srijob Kumar Baruah	Mr. Srijob Kumar Baruah is associated with GDFPL as a Nominee Director, representing NEDFI. He has vast experience in Accounts, Company Secretarial Affairs, Human Resource Development, Legal & Recovery, Business Development, Consultancy & Advisory and Micro Finance.
Mr. Tilak Das	Mr. Tilak Das is a retired Deputy General manager of State Bank of India, with 35 years of experience in financial inclusion, SHG bank linkage, and rural and agribusiness. He is currently associated with GDFPL as an Independent Director.
Mr. Mrinal Baishya	Mr. Mrinal Baishya is a retired General Manager of United Bank of India, with 40 years of experience in coordinating, supervising, and implementing the bankable projects through the network of rural and semi urban branches more particularly in microfinance sector. He is currently associated with GDFPL as an Independent Director.

## Section 2: Status of Regulatory Compliance

### 2.1 Compliance with regulations

*Grameen Development Financial Pvt. Ltd. complies with all the guidelines issued by RBI regarding NBFC-MFIs.*

#### ***Capital requirement***

Grameen Development Financial Pvt. Ltd has obtained a CA certificate as on 13 February 2016, stating that it had Net Owned Fund of 27.6 million as on January 2016. This is more than the required Rs.20.0 million of Net Owned Fund (NOF) prescribed by RBI for NBFC-MFIs registered in Northeastern states.

#### **Proportion of qualifying assets and income generation loans**

Grameen Development Financial Pvt. Ltd has obtained a CA certificate for its qualifying assets and income generation loans. As per the CA's certificate issued on 13 February 2016, GDFPL has 97% of its total assets as 'qualifying assets'. Further, the CA has certified that the organization has given 100% of the total loans for income generation activities.

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

#### Loan size verification

GDFPL is in compliance with the RBI directions on maximum loan in the first cycle of Rs.60, 000 as well as a maximum loan in any subsequent cycle of Rs.100,000. Physical verification of over 300 loan documents, as well as visits to the clients across eight branches of GDFPL, corroborated this.

#### Collateral verification

M2i's check of loan documents and direct verification with clients did not reveal any loans where collateral had been obtained from the clients.

#### Loan duration verification

M2i has verified that GDFPL's loans above Rs.30, 000 have a loan term of 24 months. Thus, the organization is compliant with RBI's directions on loan tenure.

#### Household income

GDFPL obtains a declaration from its clients about their household income at the time of loan application. It also collects client profile at the beginning of every loan cycle in which it collects data on household income and expenses, capturing the surplus generated by the household.

In a check of randomly selected 300 loan documents across eight branches, it was observed that the declared income of all members was within the RBI stipulated guidelines of annual household income limit of Rs.100,000 in rural areas and Rs.160,000 in urban areas.

### Multiple lending and Indebtedness

As per the existing policy, GDFPL captures the indebtedness data of the clients, takes a declaration from the client that their total indebtedness falls under the RBI guidelines and performs compulsory credit bureau check for every client. This ensures GDFPL's compliance towards RBI's indebtedness guidelines. ( i.e. total indebtedness of the client does not exceed Rs.100,000). During our assessment, we did not come across any instance where the total indebtedness of a client was beyond the RBI's indebtedness guidelines.

### Margin

GDFPL has obtained CA certificates, which state that it has been in compliance with RBI's direction regarding margin for lending by MFIs to qualify as priority sector loans. This is presented in the table below:

For Apr 2015 to Mar 2016				
Particulars	Apr 15 - June 15	July 15 - Sep 15	Oct 15 - Dec 15	Jan 16 - Mar 16
Average fortnightly balance of outstanding Loan Portfolio	118.02	119.29	139.03	170.20
Average fortnightly balance of outstanding Borrowing	126.78	113.13	143.62	179.89
Security Deposit/ Cash with Banks (Cumulative)	17.00	17.00	24.0	35.0
Net average fortnightly balance of outstanding borrowing (Average balance of outstanding borrowing less security deposit/ cash with banks)	109.78	96.13	119.62	144.89
Interest income on Loan portfolio	5.90	6.45	6.85	9.27
Financial cost	3.03	2.85	4.06	4.89
Cost of funds = (Financial cost/ Outstanding borrowing)*100 (%)	2.76%	2.97%	3.39%	3.38%
% of Income from GLP on Qualified Assets	5.00%	5.41%	4.93%	5.45%
Margin (%)	2.24%	2.44%	1.54%	2.07%
Margin (%) (annualised)	8.95%	9.75%	6.16%	8.27%

*Figures are in Rs. million*

### Diversification

GDFPL has operational presence in three states of Assam, Meghalaya & Nagaland.

### Customer Protection Initiatives

GDFPL has adopted the revised Sa-Dhan-MFIN industry code of conduct in its board meeting in February 2016. It has regularly discussed customer protection and other aspects related to the code of conduct in its board meetings.

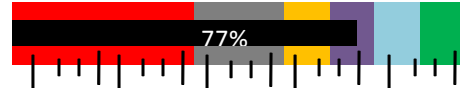


### **Membership with SRO and credit bureau**

GDFPL is a member of Sa-Dhan. It is also a member of all credit bureaus and shares client data with them. The organization uses reports from one of the credit bureaus- High Mark- to check the credit history of its clients.

**Section 3: Observations**

**3.1 Client Origination and Targeting (COT)**



*GDFPL's score on client origination and targeting is 'Good'. The organization operates in areas, which are underserved by microfinance institutions. It ensures the identity of the clients by obtaining KYC documents. GDFPL discourages the involvement of external agents in its client origination process, although the organization does not have a documented policy for the same.*

Approval (A)	Documentation (D)
<ul style="list-style-type: none"> <li>✓ GDFPL has an approved policy of targeting women belonging to underserved areas of Northeast. The organization is committed towards the RBI guidelines for income level of the clients.</li> </ul>	<ul style="list-style-type: none"> <li>✓ The process of area selection, client origination, and targeting has been documented in operations manual.</li> <li>✗ GDFPL does not have a documented policy on avoidance of agents for originating clients.</li> <li>✗ GDFPL does not have guidelines seeking the Input of the branch managers for Branch level business planning</li> </ul>
Dissemination (D)	Observance (O)
<ul style="list-style-type: none"> <li>✓ The guidelines for client origination and targeting are well disseminated among branches.</li> <li>✓ The interviewed staff members were found to be aware of the client origination process.</li> </ul>	<ul style="list-style-type: none"> <li>✓ The staff was found to be aware of the policies to be followed for client origination and targeting.</li> <li>✓ No evidence of involvement of any external agent for client origination observed.</li> <li>✓ The organization has an upper limit on the incentives provided to field officers for group formation.</li> </ul>

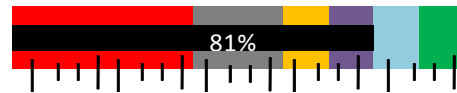
GDFPL operates in the Northeastern states of India, with a focus on areas, which are underserved by microfinance institutions and where a large number of poor households lack access to financial services. The organization is committed to following RBI guidelines for MFIs regarding the annual income of the clients. It was observed that client origination guidelines are well documented and disseminated among the branches. GDFPL provides its field executives with incentives for originating new clients, but the incentives are capped to avoid the risk of frivolous client enrollments.

The income details of the clients are obtained at the time of loan application. The organization takes a self- declaration of income from all borrowers to ensure that only those borrowers whose incomes are within the stipulated guidelines of RBI will be eligible for a loan. Proper Know Your Customer (KYC) documents are collected from clients to ensure their identity. A Compulsory Group Training (CGT) is provided to the clients prior to their enrollment in the microfinance program. A Group Recognition Test (GRT) by the branch

manager follows the CGT, which confirms client's entry into the microfinance program of the organization.

GDFPL does not have a documented policy on avoidance of unauthorized agents; however, the field staffs were found to be aware of the need to avoid involvement of any external agents in the client origination process. The organization has not faced any problem in the past related to unauthorized agents as it operates in areas, which are underserved. It was however observed, that some of the group leaders of GDFPL were group leaders of other MFIs as well.

**3.2 Loan Pricing (LP)**



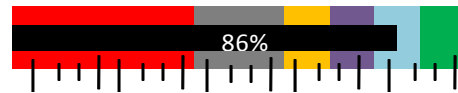
*GDFPL's score on loan pricing is 'Very Good'. The organization charges interest on declining balance basis. It charges a loan-processing fee of 1%. The loan passbooks issued to the clients contain details of the interest rates and other terms and conditions on the loan.*

Approval (A)	Documentation (D)
<ul style="list-style-type: none"> <li>✓ GDFPL's Board has approved policy for loan pricing and has issued guidelines to ensure that these are in line with RBI guidelines.</li> </ul>	<ul style="list-style-type: none"> <li>✓ GDFPL has documented the pricing of its loan products in its operations manual</li> <li>✓ The process of loan prepayment is documented in the operations manual.</li> </ul>
Dissemination (D)	Observance (O)
<ul style="list-style-type: none"> <li>✓ Staffs are trained on loan pricing during regular staff meetings</li> <li>✓ The pricing policy is documented in operations manual. The copy of operations manual is well disseminated among branches.</li> </ul>	<ul style="list-style-type: none"> <li>✓ GDFPL does not charge any penalty or interest for unexpired period of loan in case of loan pre-closure.</li> <li>✓ The awareness of clients on installments and outstanding loan amount was found to be good.</li> <li>✗ The awareness on terms of insurance was found to be low.</li> <li>✗ The organization does not issue individual repayment schedules containing details relating to interest rates, processing fees and other terms and conditions to the clients; instead a single repayment schedule is issued to the group.</li> </ul>

GDFPL charges interest rate on declining balance basis. In addition, it charges processing fees of 1% and the insurance premium is collected on actual basis. GDFPL does not collect any security and does not take any collateral. The organization has documented policy on loan prepayments indicating that it does not charge any penalty on prepayments or interest on unexpired period of the loan.

GDFPL has prominently displayed its pricing in branches. The organization does not issue individual repayment schedules containing details relating to interest rates, processing fees and other terms and conditions to the clients; instead a single repayment schedule is issued to the group. The organization communicates the loan pricing to the clients during CGT. No mismatch in stated policy on pricing and actual practice on the field was found during the assessment. It was observed that the awareness of clients regarding the number of installments and the amount of installment to be paid was good, while, the awareness on terms of insurance was found to be low. The organization should thus emphasize on creating awareness among clients on the terms and conditions related to insurance.

### 3.3 Loan Appraisal (LA)

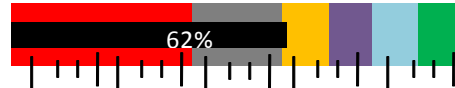


*GDFPL's score on loan appraisal is 'Very Good'. The loan form allows appraisal of the repayment capacity of the borrower by recording incomes, expenditures, and surplus. However, currently the organization does not have objective criteria for determining the loan amount or tenure based on a client's cash flow analysis and surpluses.*

Approval (A)	Documentation (D)
<ul style="list-style-type: none"> <li>✓ GDFPL has a policy of collecting data pertaining to client's income, expenses and surpluses.</li> </ul>	<ul style="list-style-type: none"> <li>✓ The loan application form allows capturing of income, expenses and surplus.</li> <li>✗ The organization does not have objective criteria for determining the loan amount or tenure based on a client's cash flow analysis and surpluses.</li> <li>✗ The organization does not have documented guidelines on overriding/ not using credit bureau reports.</li> </ul>
Dissemination (D)	Observance (O)
<ul style="list-style-type: none"> <li>✓ GDFPL provides trainings to its field staff on collecting information related to client's income and surplus levels.</li> </ul>	<ul style="list-style-type: none"> <li>✓ GDFPL assesses the repayment capacity of the clients by assessing the income, expenses and surpluses of the clients.</li> <li>✓ GDFPL performs compulsory credit bureau checks for all its clients.</li> <li>✓ The loan repayment capacity of the clients and the quality of appraisal is checked by the internal audit.</li> </ul>

The loan application form of GDFPL is designed in such a manner so as to capture the incomes, expenses, and surpluses of the household. The form also seeks a self-declaration from the clients, indicating that their income and indebtedness levels are as per RBI guidelines. For subsequent loan cycles, the appraisal process is primarily based on a member's performance in the previous loan cycle and attendance. On the basis of the member's performance in previous loan cycle, the field executive provides his comments on the loan application and hands over the same to the branch manager for appraisal. The branch manager ensures that the amount requested is in agreement with the loan cycle and is based on the organization's policy of increasing the loan amount by a maximum Rs.5,000/- subject to increment in member's cash flow analysis. The file is then forwarded to the area manager for review and sanction. Compulsory credit bureau checks are performed for loan applications. The loan repayment capacity of the clients and the quality of appraisal is also checked by internal audit. However, the organization does not have specific guidelines on situations where credit bureau reports will be over-ridden such as an instance when a member has paid her outstanding loans to other MFIs after the date on which credit bureau report was made.

### 3.4 Client Data Security (CDS)



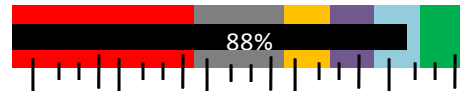
*GDFPL's score on client data security is 'Reasonable'. Ensuring privacy of clients' data and documents is one of the main aspects of the code of conduct adopted by the organization. However, the organization does not have documented guidelines on how the client data will be stored.*

Approval (A)	Documentation (D)
<ul style="list-style-type: none"> <li>✓ GDFPL has included client data security as part of its code of conduct.</li> <li>✗ The organization does not have documented guidelines for storage of client data.</li> <li>✗ Board has not approved any IT policy to ensure electronic data security.</li> </ul>	<ul style="list-style-type: none"> <li>✓ GDFPL has a documented policy stating that privacy of the client data will be maintained, which forms part of its code of conduct.</li> <li>✗ GDFPL does not have a guideline on how the client data will be stored.</li> <li>✗ The organization does not have a documented policy for security of data maintained in electronic form.</li> </ul>
Dissemination (D)	Observance (O)
<ul style="list-style-type: none"> <li>✓ Interaction with branch staff showed that the staffs were sensitized to keeping the client data safe and private.</li> </ul>	<ul style="list-style-type: none"> <li>✓ The physical documents of clients are stored securely at the Branches under lock and key.</li> <li>✗ The organization does not have guidelines defining access rights and policy for digital data security.</li> <li>✗ Client data security has not been included in the Internal Audit checklist.</li> </ul>

GDFPL has adopted client data security and privacy as part of its code of conduct. However, the organization does not have a documented policy on how the client data will be stored. The guidelines for maintenance of client data in electronic format are also not documented. The organization should develop guidelines defining access rights and policy for digital data security and data backups. GDFPL should also include client data security in its Internal Audit checklist.

The interaction with the branch staff showed that the staffs were sensitized towards keeping the client data safe and private. Although there are no written guidelines for storage of client documents, it was however observed that the physical documents of clients are stored securely at the Branches under lock and key.

### 3.5 Staff Conduct (SC)



*GDFPL's score on staff conduct is 'Very Good'. The organization has adopted professional and ethical staff behavior and client interaction as a separate staff code of conduct. The staff behavior on the field was observed to be good, and the clients did not report of any incidence of misconduct by staff in the past.*

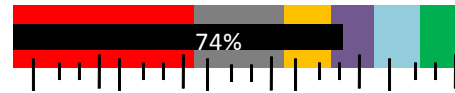
Approval (A)	Documentation (D)
<ul style="list-style-type: none"> <li>✓ GDFPL has Board approved guidelines for professional and ethical staff behavior, which includes policies on the expected staff conduct with clients.</li> </ul>	<ul style="list-style-type: none"> <li>✓ GDFPL has framed a staff code of conduct which has documented guidelines on acceptable staff behavior with clients</li> <li>✓ Policy on recovering overdue loans is well documented.</li> </ul>
Dissemination (D)	Observance (O)
<ul style="list-style-type: none"> <li>✓ Employees are trained on aspects of appropriate behavior with the clients.</li> <li>X The sampled branches did not have guidelines regarding step by step procedures and time frame on how to proceed in case a borrower is in default.</li> </ul>	<ul style="list-style-type: none"> <li>✓ Staffs were found to be aware of the need to have professional conduct with the clients.</li> <li>✓ Visited clients did not report any incidence of staff misconduct or coercion</li> <li>✓ Staff was found to be aware of the procedure to be followed in case of loan overdue.</li> </ul>

GDFPL has framed guidelines on staff code of conduct for ensuring professional staff behaviour in interactions within the organisation as well as with clients. The policies are documented in the HR manual of the organization. Staffs are regularly sensitized on the importance of maintaining cordial relations with the clients. None of the clients met by M2i team reported of any misconduct by GDFPL's staff. The salient aspects of appropriate staff conduct and communication with clients and other stakeholders followed by GDFPL are as follows:

- Maintain decency and decorum while interacting with clients.
- Interact with the clients in acceptable language and dignified manner with an intention to foster a long-term relationship with the clients.
- Staff should not indulge in any behavior that would suggest any kind of threat to the clients and not visit clients at odd hours.

The incentive policy followed by the organization is such that the incentive of the staff is dependent on the timely collection of loan installments from the clients. The organization has a well-documented overdue management policy, which does not allow any use of threat or force. The policy provides step-by-step details of the involvement of higher officials with passing days of overdue to convince the client to pay. As a last resort, GDFPL blacklists the client, which means that client will not be inducted in GDFPL in future. However, it was observed that guidelines on how to proceed in case of default are not well disseminated to the branches, as the awareness of the staff was low on the step-by-step process to be followed in case of default.

### 3.6 Client Relationship and Feedback (CRF)



GDFPL's score on client relationship and feedback is 'Good'. The organization has a Customer Service Helpline number mentioned on the loan cards and has distributed postage paid envelope to its client, which can be used for sending complaints. However, the organization has not defined any step-by-step procedures to be followed to resolve client complaint.

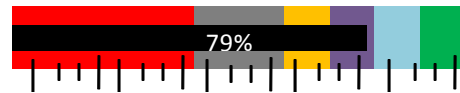
Approval (A)	Documentation (D)
<ul style="list-style-type: none"> <li>✓ The Board has approved a policy for redressal of its clients' grievances.</li> <li>✗ The mechanism for addressing client complaints is not reviewed by the board.</li> </ul>	<ul style="list-style-type: none"> <li>✓ Details of the grievance redressal mechanism are mentioned in the code of conduct.</li> <li>✗ The organization does not have step-by-step procedures to be followed and time frames in which to resolve client complaint.</li> </ul>
Dissemination (D)	Observance (O)
<ul style="list-style-type: none"> <li>✓ Branch Staffs have been provided training on collecting client complaints.</li> <li>✗ The awareness of the branch staff on the steps to follow in case of client complaint and the time frame in which the complaints should be resolved was low.</li> </ul>	<ul style="list-style-type: none"> <li>✓ The awareness of the clients towards grievance redressal mechanism was found to be average.</li> <li>✓ The clients have been provided with a Customer Service Helpline number mentioned on the loan cards and postage paid envelope, which can be used in case of complaints.</li> </ul>

GDFPL has incorporated details of the grievance redressal mechanism in its code of conduct. The clients can register their complaints by either calling the Customer Service Helpline number mentioned on the loan cards, customer complaint boxes kept at the branches or on pre-distributed postage paid envelopes.

The awareness of the clients on grievance redressal mechanism was found to be reasonable. Most of the clients were found to be aware that they could register a complaint using the number mentioned on the loan cards and the postage paid envelopes. The internal audit checks whether the concerned branches have redressed the lodged complaint, however, it does not specifically check the steps that have been taken to resolve the complaints. Further, as the organization has not defined any step-by-step procedures to be followed to resolve client complaints, the awareness of branch staff was also found to be low on the same. This limits the overall effectiveness of the grievance redressal mechanism.



**3.7 Integrating Social Values into Operations (ISV)**



*GDFPL has a ‘Good’ performance on ISV. This is on account of a number of social initiatives taken by the organization for supporting its members.*

Approval (A)	Documentation (D)
<ul style="list-style-type: none"> <li>✓ GDFPL’s mission is to provide quality and customer responsive financial services to the poor and the underserved sections of the society so as to support sustainable livelihood.</li> <li>✓ GDFPL’s board has adequate representation of independent members.</li> <li>✗ The organization does not have products outside of income generation to cater to other needs of its members.</li> </ul>	<ul style="list-style-type: none"> <li>✓ GDFPL’s vision, mission and value statements are well documented and reflect the organization’s social commitment.</li> <li>✗ The organization does not have any social performance management policy.</li> </ul>
Dissemination (D)	Observance (O)
<ul style="list-style-type: none"> <li>✓ GDFPL’s staff was aware of the target clientele of the organization.</li> <li>✓ Staff members were aware of organizational policies regarding the vision to bring about improvement in the lives of the clients.</li> </ul>	<ul style="list-style-type: none"> <li>✓ GDFPL offers various products targeted towards the low income clients.</li> </ul>

GDFPL has a mission to provide high quality and customer responsive financial services to the poor and the underserved sections of the society with an aim to provide for sustainable livelihood. The vision, mission and value statements of the organization have been widely disseminated across its branches in order to sensitize its staff members. The staff members were found to be aware of the impact the organization desires to create in the lives of its clients. The organization undertakes various awareness activities for the benefit of its clients, such as the microenterprise awareness program and financial literacy program. GDFPL collects PPI data of its client as part of its loan application process, but the data collected is currently not analyzed to capture the impact of its services on clients.

The board of the organization comprises of five members with two independent members. The organization has constituted board-level audit committee, sexual harassment committee, and Grievance Redressal Committee. The board actively monitors the performance of the organization on business as well as social aspects. The minutes of the meeting indicate focus on social aspects and code of conduct aspects of operations.

### Annexure 1: Matrix of Score Obtained<sup>3</sup>

Indicators	A		Do		Ds		O		Total	
	Max	Obt	Max	Obt	Max	Obt	Max	Obt	Max	Obt
Client origination and targeting	7	5.0	7	5.0	5	4.0	11	9.0	30	23.0
Loan Pricing	3	3.0	1	1.0	2	2.0	10	6.9	16	12.9
Loan Appraisal	5	4.0	7	5.0	3	3.0	8	7.8	23	19.8
Client Data Security	1	1.0	4	1.0	2	1.0	4	3.8	11	6.8
Staff Conduct	8	8.0	7	7.0	10	7.0	11	9.7	36	31.7
Client Relationship and Feedback	2	1.0	8	6.0	6	4.0	10	8.3	26	19.3
Integrating Social Values into Operations	4	2.0	3	3.0	3	3.0	5	3.8	15	11.8
<b>Total*</b>	<b>30</b>	<b>24.0</b>	<b>37</b>	<b>28.0</b>	<b>31</b>	<b>24.0</b>	<b>59</b>	<b>49.3</b>	<b>157</b>	<b>125.3</b>

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

<sup>3</sup> 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 157 indicators<sup>4</sup> 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	30
Loan Pricing	16
Loan Appraisal	23
Client Data Security	11
Staff Conduct	36
Client Relationship and Feedback	26
Integrating Social Values into Operations	15
<b>Total</b>	<b>157</b>

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

<sup>4</sup> Integrating Social Values into Operations with 14 indicators was added to tool in September 2012. Subsequently one more indicator was included in December 2015 to ISV.

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.

### **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	District	No of clients interviewed
1	Chhaygaon	Assam	Kamrup	30
2	Azra	Assam	Kamrup, Metro politan	33
3	Beltola	Assam	Kamrup, Metro politan	32
4	Shillong	Meghalaya	East Khasi Hills	38
5	Dhupdhara	Assam	Goalpara	30
6	Dudnoi	Assam	Goalpara	40
7	Lokhara	Assam	Kamrup, Metro politan	31
8	Garchuk	Assam	Kamrup, Metro politan	28
<b>Total</b>				<b>262</b>

## 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	4.5%	4.5%	3.2%	7%	<b>19%</b>
Loan Pricing	1.9%	0.6%	1.3%	6.4%	<b>10%</b>
Loan Appraisal	3.2%	4.5%	1.9%	5.1%	<b>15%</b>
Client Data Security	0.6%	2.5%	1.3%	2.5%	<b>7%</b>
Staff Conduct	5.1%	4.5%	6.4%	7%	<b>23%</b>
Client Relationship and Feedback	1.3%	5.1%	3.8%	6.4%	<b>17%</b>
Integrating Social Values into Operations	2.5%	1.9%	1.9%	3.2%	<b>10%</b>
<b>Totals</b>	<b>19%</b>	<b>24%</b>	<b>20%</b>	<b>38%</b>	<b>100%</b>

## 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.