

Code of Conduct Assessment

Saija Finance Private Limited

Comprehensive Grade Assigned: C2

Date assigned: January 29, 2018

Scale	C1	C2	C3	C4	C5
M1					
M2+					
M2		M2* C2			
M3+					
M3					
M4+					
M4					
M5					

*Assigned by ICRA in December 2017

The MFI obtains code of conduct assessment grade of **C2**. This indicates that the MFI has good performance on code of conduct dimensions.

Rationale

Code of Conduct Assessment Grade	Saija Finance Private Limited obtains " C2 " as its Code of Conduct Assessment Grade which signifies good performance on COCA dimensions.
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*Assessment on Code of Conduct has been done on the indicators pertaining to **Transparency, Client Protection, Governance, Recruitment, Client Education, Feedback & Grievance Redressal and Data Sharing**. Some of these indicators have been categorized as Higher Order indicators consisting of indicators on **Integrity and Ethical Behaviour and Sensitive Indicators**.*

Conflict of Interest Declaration

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

Disclaimer

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

Code of Conduct Assessment scale and definitions

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

MFI's profile (September 30, 2017)	
Name of the MFI	Saija Finance Private Limited
Legal form	NBFC-MFI
Operational Head	Mr. S.R. Sinha
Year of starting microfinance	2008
Branches (September 30, 2017)	64
Active borrowers	1,99,805
Total staff	721
Operational area	Bihar, Jharkhand and Uttar Pradesh
Visit of the Assessment team	Bihar and Jharkhand
Correspondence address	F-128, 3 rd floor, Mohammadpur, Opposite Bari Parking, R.K. Puram, Behind Bhikaji Cama Place, New Delhi-110066

Details of Loan Products (October 01, 2017)				
Product	Description	Loan size (Rs)	Interest Rate	APR (Interest Rate and Processing fees)
Product 1	JLG	15,000	24.92%	24.92% + 1% (processing fees)
Product 2	JLG	20,000	24.92%	24.92% + 1% (processing fees)
Product 3	JLG	25,000	24.92%	24.92% + 1% (processing fees)

Ownership/Equity Structure

Shareholding Pattern (September 30, 2017)	
Shareholder	% Shareholding
Mr. S.R. Sinha and Ms. Rashmi Sinha (Promoters)	6.38%
Accion Gateway LLC	6.26%
Accion Africa Asia Investment Company	34.35%
Pragati India Fund Limited	34.28%
Saija Management & Employee Welfare Trust	18.73%
Total	100%

The company received Compulsorily Convertible Preference Share Capital of Rs. 15 crore as first tranche from existing investors (Rs. 7.5 crore each from Accion Africa Asia Investment Company and Pragati India Fund Limited) in December 2017, following which the shareholding pattern would change.

Board of Directors			
S. No.	Name	Position	Brief profile
1	Mr. S.R. Sinha	Chairman cum Managing Director	Mr. Sinha has over 37 years of experience in retail banking, housing finance and insurance. An alumnus of Faculty of Management Studies (FMS), Delhi University, and Mr. Sinha was the founding Managing Director of Maharishi Housing Development Finance Ltd (MHDFL), an NBFC, promoted by the Maharishi Foundation. MHDFL became a very strong player in the first 3 years of its operations with one of the best growth rate in the housing finance sector and a 100% recovery record.
2	Ms. Rashmi Sinha	Whole-time director	She has over 35 years of experience in the field of human resources and management education. For 18 of those years, she worked at the Steel Authority of India Limited, the leading public-sector steel giant, in the area of HR. Apart from exposure to the various areas of HR, Ms. Sinha participated as a member of the Core Team in Turn Around strategies for SAIL.
3	Mr. D. Ravishankar	Independent director	He is the Founder Director of Brickwork Ratings, a credit rating agency licensed by Securities & Exchange Board of India (SEBI) and approved by RBI. He is the Chairman of the Criteria Committee and a member of the Rating Committee. Ravishankar is a financial professional with a rich experience of over 25 years in BFSI segment. Until Dec '07, he was Managing Director of Asia-Pacific Risk Solutions Business of Standard and Poor's and was simultaneously heading the India Risk Solutions Business as Executive Director, CRISIL Limited.
4	Mr. Vishwanath Pratap Singh	Independent director	He has long exposure with international financial institutions including World Bank, Asian Development Bank, European Investment Bank, KFW, DEG, FMO, Japan Development Bank and JABIC in the areas of co-financing of infrastructure projects and institutional development. At present he is non-executive independent director of a few companies in infrastructure and financial services sectors.
5	Mr. Shaibal Gupta	Independent director	He is a social scientist, Founder Member-Secretary of Asian Development Research Institute in Patna, Bihar. The Asian Development Research Institute (ADRI) is a non-profit civil society organization, dedicated to social science research established in 1991. He is also the Director of the Centre for Economic Policy and Public Finance (CEPPF), which has been set-up in ADRI by the Government of Bihar as a dedicated centre for research on public finance. He is the best-known expert on the politics and economics of Bihar.
6	Mr. Carlos Eduardo Castello	Nominee Director - Accion	He manages Root Capital's global program operations, including lending, risk management, and financial advisory services. He brings 25 years of experience at ACCION International, having served most recently as executive managing director of global programs. In this position, he managed and coordinated ACCION's technical assistance and management services for more than 30 microfinance partner institutions in Africa, China, India, and Latin America.
7	Mr. Abhishek Agrawal	Nominee Director - Accion	He is currently heading Accion in India as Country Director and serves on the board of Swadhaar (MFI) and E-Vindhya Informatics (BPO employing differently-able staff). He is Ph.D. in Municipal financial reforms and Chartered Accountant (FCA) from ICAI. He did his Master of Business

Board of Directors			
S. No.	Name	Position	Brief profile
			Administration (MBA) with a specialization in finance at Rai International University.
8	Mr. Bhanu Prakash Verma	Nominee Director - SIDBI	He graduated from Commerce College and obtained his master's Degree in accountancy & Business Statistics, from University of Rajasthan, India. Mr. Verma has 23 years of experience in the field of Development Banking, Promotion & Financing of MSMEs and Micro finance. He has served the Bank in different capacities including Branch Head of important Branches and has rich experience in project finance, Forex operations, receivable financing, equity financing, Indirect Finance etc.
9	Mr. Ashutosh Binayake	Nominee Director - Pragati	He joined UTI in 2008. He has over fifteen years of experience in India across project finance, private equity and corporate finance. He has strong infrastructure expertise and at UTI Capital he focuses on originating and evaluating equity investments, over-seeing the portfolio and creating exit opportunities within the private equity business.

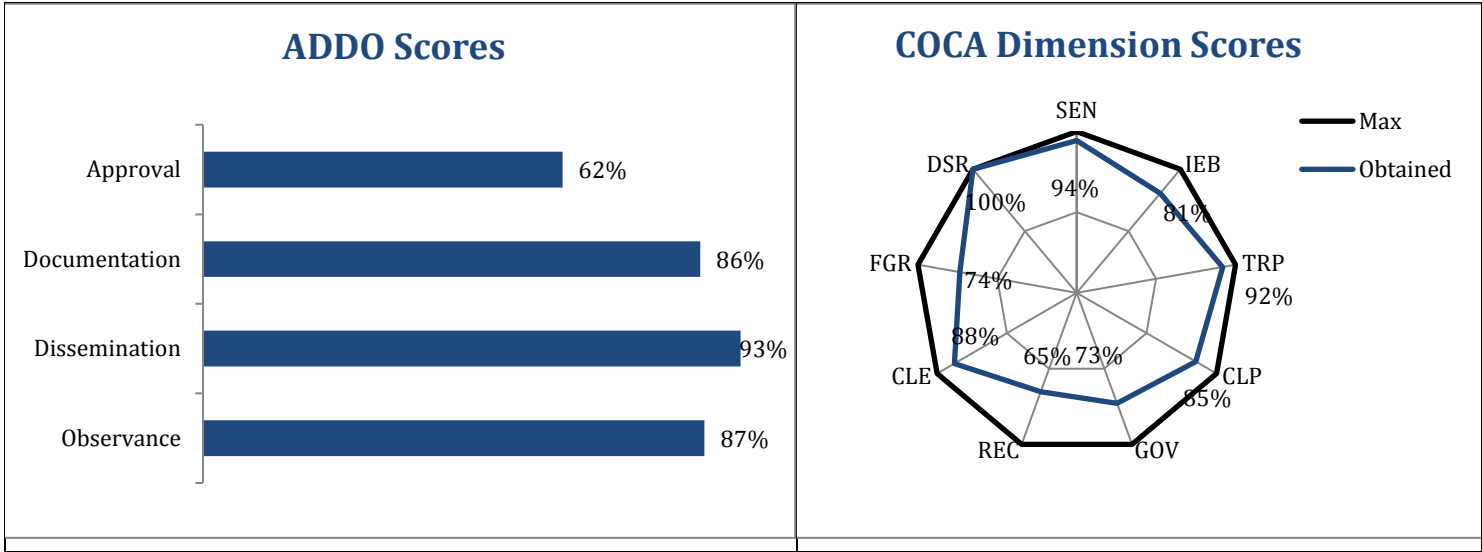
Key Performance Ratios		
	March 2017	September 2017
Portfolio at Risk (>30 days)	7.9%	7.1%
Capital to Risk Weighted Capital Adequacy Ratio (CRAR)	16.10%	10.85%
Operating Expense Ratio (OER)	6.76%	7.35%
Funding Expense Ratio (FER)	15.60%	15.00%
Write-offs to average portfolio	0.00%	0.00%
Return on Assets (RoA)	0.7%	(2.4)%
Return on Equity (RoE)	7.41%	(55.95)%
Active borrowers per staff	303	277
Active borrowers per branch	3,389	3,122

Compliance with RBI's Directions for MFIs

S. No	RBI's Direction	Status
1	85% of total assets to be in the nature of qualifying assets	Complied as per Internal Audit Report by an external CA agency
2	Net worth to be in excess of Rs 5 Crore	Complied
3	Income of borrower not to exceed Rs 100,000 in the rural areas and Rs 160,000 in the urban and semi-urban areas*	Complied
4	Loans size not to exceed Rs 60,000 in first cycle and Rs 100,000 in subsequent cycles*	Complied
5	Total indebtedness of the borrower not to exceed Rs 100,000 (excl medical and education loans)*	Complied
6	Tenure of loans not to be less than 24 months for loan amount in excess of Rs 30,000, with prepayment without penalty*	Complied
7	Pricing guidelines are to be followed	Complied. Interest rate charged is 24.92% w.e.f. Oct 01, 2017
8	Transparency in interest rates to be maintained	Complied
9	Not more than two MFIs lend to the same client	Complied

* For the assets classified as qualifying

Section 1: Code of Conduct Assessment



Code of Conduct Assessment Summary

Saija’s performance on the code of conduct takes into account MFI's strong performance on Data sharing, Transparency, Client Education and Sensitive parameters. The overall score is further enhanced by Saija's high score on Client Protection and Integrity & Ethical Behavior indicators. There is scope of improvement across Feedback & Grievance Redressal and Governance parameters. Saija's overall score is impacted by low scores on Recruitment parameters.

MFI Strengths and weaknesses pertaining to Code of Conduct

Strengths
<ul style="list-style-type: none"> • Saija communicates with borrowers in a transparent and professional manner with use of single effective interest rates and receipts issued for all payments. All loan forms and communication are done in vernacular • The operational staff is punctual and courteous towards the borrowers with none of the borrowers complaining about the operational staff's behavior • Saija disseminates a single, effective annual rate to its borrowers of 24.92% (w.e.f. October 1, 2017) on group loans. The processing fees charged is 1%, which is in line with the prescribed guidelines. • All the first cycle borrowers need to undergo two-day CGT training and one day GRT for where they are informed about the products offered by the company, terms and conditions, responsibilities and so on. This is generally done for the first loan cycle. • No instances of collateral or security deposit being taken from the borrowers were observed. The same has been documented in the operational manual as well. Interviewed branch managers were aware regarding the guidelines. An external CA agency tracks company's compliance on the same every quarter. • Saija reviews its margin and interest rate once quarterly after seeking recommendations from ALCO (Asset Liability Committee) • Saija has a fortnightly repayment cycle to have a better connect with borrowers, who were satisfied with the repayment frequency of loans • Saija shares data with credit bureaus and there was no case observed from the sample where a credit bureau had been mad more than 15 days prior to disbursement • Saija has an internal monitoring and compliance team who is responsible for branch audits. The team is involved in concurrent/regular audit of the branches. The head of Internal Audit department report to the audit committee and to the Board. • During the assessment, no case was seen wherein a commission was paid to an agent/field officer to get a loan.

Weaknesses
<ul style="list-style-type: none"> • Of the ADDO parameters, the company scores lowest on approval indicating that the company needs to improve on what is reported to the board. Annual review of Code of conduct compliance report and critical internal documents, recruitment policy and credit bureau checks post disbursement would help the company increase score on the same. • Clients' awareness was low on rate of interest charged as nearly 61% of the borrowers knew the annualized interest rate. However most of the borrowers could recollect the monthly interest they had to pay. In addition, nearly one-third of the clients interacted were not aware about the processing charges, insurance premium, and grievance redressal mechanism of MFIN and sharing of their data for authorized purposes. • While Saija as a policy collects Aadhar card and voter I-card mandatorily from its borrowers, there were instances as per the sample files seen where no ID proofs were obtained for the repeat borrowers. • Before entering a state or district, Saija performs state, district and village surveys where micro credit saturation profile of the area is analyzed. Additionally, Saija also tracks caste, employment and region dynamics of the potential areas. However, there was no review/presentation of such reports by the board in the past one year. • Saija currently does not have any formal policy restricting the posting of new joiners at the same geography where they were associated with their previous organization (if recruited from an MFI). During the visits, there was one instance in one of the field staff recruited from another MFI but posted in a different area. • The company is yet to evolve a definite process of responding to reference check requests. In most of the sample files seen, the same was missing • The proportion of clients aware of the grievance redressal mechanism was nearly 26%. However, there has been regular track of complaints, which are recorded at the HO and action taken at respective branches

Other observations
<ul style="list-style-type: none"> • While the company has 7 of the 9 board members as independent/nominee directors signifying better discussion/participation on topics included in board agenda, the approving authority of Chairman of the Board and the Managing Director is held by a single person. • There is scope for improvement in Branch managers' awareness with respect to RBI directions regarding loan sizes, loan tenures, loan purpose, income level of borrowers and KYC norms was moderate.

Significant observations - Higher Order Indicators

1. Integrity and Ethical Behavior

Strengths
<ul style="list-style-type: none"> • Saija has a policy of providing notice period of 30 days to any employee. However, there was no formal policy on notice period for noted cases of breach of code of conduct. • The staff members were trained by senior branch staff on the various processes to be followed including CGT and GRT and the disclosures to be made to the borrowers. • The branch managers and staff members were aware of the need to communicate in a transparent manner with the borrowers and were given training on the same. • The operational staff confirmed that they have received training on the following: <ul style="list-style-type: none"> ○ Conducting client meetings ○ Collecting repayments ○ Recovering overdue loans ○ Feedback and grievance redressal ○ Appropriate documentation and vouching • The members of staff confirmed receiving training from seniors on the grievance redressal mechanism. • Internal audit report by an external CA agency tracks if borrowers get proper documents. The staff confirmed that they had been trained on providing accurate receipts to clients. • Interviews with staff members revealed they were aware of the process to be followed with delinquent clients. • In the sample of branches visited, MFI has displayed the grievance redressal mechanism with contact details of the grievance redressal officer • The staff incentive is fixed at 60% of the overdue collections and 40% of the current recovery rate, capped at a maximum of Rs. 2,500 in a month. • The board has reviewed MFI's recruitment policies during the last one year. Discussions with management indicated changes in the recruitment policy are reviewed by the board.

Weaknesses
<ul style="list-style-type: none"> • The audit committee has not reviewed the adequacy of strength of the monitoring and compliance team and the scope of audit conducted in the past one year. • Staff satisfaction related to compensation and incentive is not covered by internal audit. • There is no documented HR policy addressing the shortfall in collections and the cases in which it must retrieve from the employees. • Grievance redressal mechanism established by industry associations is disseminated to the borrowers. However, most of the sample of borrowers were not aware of the same • In some of the sample files checked, Saija has not provided NOC and relieving letter to the employees who had given adequate notice period before quitting.

Other observations
<ul style="list-style-type: none"> • While data of customer complaints is maintained by the Grievance Redressal Department, but instance of the same being presented to the board was not seen. The management, however, stated mostly the complaints are resolved at branch level and only critical cases requiring board attention are included in the board agenda.

2. Sensitive Indicators

Strengths
<ul style="list-style-type: none"> • Most of the borrowers were aware of the amount and number of instalments they were required to pay. • No instances were observed where a borrower had been made to pay for a service or product as a precondition for loan. • No instances of fine or penalty being levied or collected from the borrowers were observed. The borrowers also confirmed that no fine has been paid by them. • No instances of collateral or security deposit being taken from the borrowers came to notice during the field visit. • During the field visits, ICRA did not come across incidence of borrowers being charged processing fee in excess of 1%. • Despite the company having multiple products: Saija Mahila Rin (SMR), Saija Karobar Rin (SKR), loan for the solar lamps/lights and loan for mobile, there is no variation in the interest rates as it charges 24.92% (w.e.f. Oct 1, 2017) on all loans. • Saija communicates the terms and conditions through its loan forms and loan cards in vernacular. It has a formal loan agreement and Loan cards that state the important terms and conditions • During interviews with borrowers, loan utilisation was found to be in line with RBI's directions. Most of the loans were taken for income generation purpose; however, some clients had taken loans for renovation of their home. • Saija follows a fortnightly repayment cycle and most of the borrowers were comfortable with the existing repayment schedule. • Saija has a clear policy regarding documents to be collected for identity and address proof. The company requires borrowers to have both Aadhar Card and Voter ID. The copy of KYC collected from clients will need to be verified with original documents by the Branch Manager. Not a single instance was observed where for a loan classified as qualifying microfinance loan, identity proof (with a verified with original declaration) had not been obtained. • No instances were observed where clients were charged additionally for insurance, apart from premium payable. • Review of loan files indicated that credit bureau checks had been made not more than 15 days prior to disbursement in all cases. • For around 86% of the borrower's indebtedness of borrower was within the stipulated limit by RBI at the time of disbursements. • Saija has a clear policy regarding documents to be collected for identity and address proof. The company requires borrowers to mandatorily have both Aadhar Card and Voter ID. • Interviews with borrowers revealed no instances of the following: <ul style="list-style-type: none"> ○ Abusive language or threats ○ Visiting borrowers at odd hours ○ Forcible entry into dwelling and forced seizure of property without the legal orders. • The loan agreement forms take consent from clients that her data can be shared by Saija. • There were no adverse observations in the Auditor's report for the year 2016-2017 regarding accounting standards followed by the MFI.

Weaknesses
<ul style="list-style-type: none"> • Aadhar card is not obtained for most of the repeat borrowers in the sample of cases checked. However, Aadhar number from the previous record is used for the next loan cycle.

Other observations
<ul style="list-style-type: none"> • During the field visits, nearly 22% borrowers were found to have an economic status different with respect to the RBI guidelines. This may be a result of favourable change in livelihood of the borrowers. • Saija primarily uses Hi-Mark and Equifax for checking the credit history of the clients. However, it shares data with the four major credit bureaus.

Significant observations – Building Blocks

1. Transparency

Strengths
<ul style="list-style-type: none"> • Saija has adopted the guidelines and directions issued by Reserve Bank of India (RBI) with respect to vernacular language being used in communication, use of only single and effective interest rate, issue of receipt for any payments. • Circulars with the most recent directions were available in the branches visited. • A large proportion of the branch managers and staff members were aware of the need to communicate in a transparent manner with the borrowers and were given training on the same. • Majority of the field staff interviewed was aware of the terms and conditions that need to be communicated to the borrowers. • The borrowers confirmed that they had been communicated all terms and conditions such as interest rates, loan tenure, processing fee etc during the group training prior to disbursement. • Forms and documents used by Saija are in vernacular for the borrowers to have easy understanding; however, the same has not been reviewed by the board in the past 1 year. • The branches maintained the formats in vernacular approved by the board. • The loan card issued to clients provides the complete repayment schedule with interest, principal, insurance and processing charges mentioned separately. • The interest rate and charges applicable are communicated to the client in writing on a loan agreement. Almost all borrowers were aware of the amount and number of instalments they were required to pay but very few about the interest rate to be paid. • Discussions with clients revealed that they or someone in their families were able to read and understand the text in documents, such as loan cards, loan agreements etc, shared by the company • Despite multiple products in its portfolio, Saija has a single, effective annual rate for all loans. The processing fees charged is 1%, which is in line with the prescribed guidelines. • No instances of fine or penalty being levied or collected from the borrowers were observed. The borrowers also confirmed that no fine has been paid by them. • Saija has a board approved policy stating that no security deposit will be collected, or collateral will be obtained for loans meant to qualify under priority sector classification and company's position on the same has been reviewed by the board in the past year. The same has been documented in the operational manual as well. Interviewed branch managers were aware regarding the guidelines. No instances of collateral or security deposit being taken from the borrowers came to notice during the field visit. • Saija reviews the interest rate and is kept in line with RBI's pricing guidelines and the same was confirmed by an external CA agency. Any changes in its interest rate are documented through formal circulars and branches have access to the same. • Review of latest loan files revealed that the loans had been disbursed at the most recent rate of interest at the time of document collection and disbursement. • ICRA did not come across incidence of borrowers being charged processing fee more than 1%. • With JLG loans, it did not have any difference in the interest rates for its different products. The MFI charged 24.92% w.e.f. Oct 1, 2017. • Clients receive acknowledgement with expected turn-around-time for loan disbursal. • MFI takes record of the cases and reasons of why a loan has not been sanctioned against an approved loan • Recent financial and operational data and latest code of conduct compliance report was available in public domain on the company's website
Weaknesses
<ul style="list-style-type: none"> • Saija's Board has not reviewed whether the formats in use are understandable by MFI's clients particularly in new areas of operations in the past year. However, documents have been adopted in vernacular in all branches visited.

2. Client Protection

Strengths
<ul style="list-style-type: none"> • Saija's board reviews the proportion of qualifying loan assets to total assets quarterly. • Saija's board has reviewed the performance with respect to loan sizes, loan tenure and loan purpose. It also reviewed the credit appraisal guidelines followed by the company in the previous year. • The norms regarding loan size, loan tenure and turnaround times have been documented in operating manuals/ circulars. • Internal audit report by an external CA agency keeps track of the following parameters and their compliance with RBI directions: <ul style="list-style-type: none"> ○ loan sizes of qualifying loan assets ○ loan tenure of qualifying loans ○ loan purpose of qualifying loans ○ income of borrowers • Internal audit report keeps track of indebtedness of borrowers and whether compliance with RBI's directions is being met. Also, it keeps track of the KYC status of the clients. • No instances of the following were observed: <ul style="list-style-type: none"> ○ Loan size or tenure being in non-compliance with RBI directions. ○ Clients being deliberately made to pre-pay. ○ The MFI offering any un-approved product/service. ○ A party other than the MFI staff or client (and her family member), was involved in filling up her loan application. ○ MFI charging clients additionally for insurance, apart from premium payable. ○ Indebtedness of borrower was more than that stipulated by RBI. ○ Unauthorised sharing of client data by the MFI • During interviews with borrowers, loan utilisation was found to be in line with RBI's directions. Most of the loans were taken for income generation purpose. • There was consistency in repayment observed and repayment as per the loan contract among the client sample. • Saija has a fortnightly repayment cycle to have a better connect with borrowers, who were satisfied with the repayment frequency of loans. • Saija has a clear policy regarding documents to be collected for identity and address proof that the board has reviewed in the previous year. The company requires borrowers to mandatorily have both Aadhar Card and Voter ID to avail loan. The copies of KYC documents collected from clients are verified by the branch manager after seeing the original. Not a single instance was observed where for a loan classified as qualifying microfinance loan, identity proof (with a verified with original declaration) had not been obtained. • Saija has a stated turn-around time of up to 15 days for loan disbursement; however, most borrowers stated that they had been disbursed loans within 7-10 days. • Mostly, the operational team of the sample branches was aware of the turn-around-time. Also, largely all clients confirmed that the loans were disbursed within the specified timelines. • Saija has a policy stating that any non-credit product offered will be voluntary for the client and would not be a precondition for loans and the same has been documented in its operational manuals. The branch staff was aware of the same and no instance of the sampled clients stated a deviation from the policy. • Saija provides insurance to its clients through IRDA approved agency – Life Insurance Corporation of India. Review of insurance claims settled by the MFI revealed that most sample claims had been settled within a period of 45 days. Also, Saija does not write-off the loan in case of death of the client. • Saija's operational manual presents how the loan officers will assess the repayment capacity of the clients. However, the operational manual does not have a clear linkage between loan sizes, loan duration with the assessment of the repayment capacity. • The operational staff revealed that they had been trained on how to assess repayment capacity of borrowers which includes housing surveys, talking to neighbours and cash flow analysis done on the loan form. • Saija's loan application form enables it to record borrower's household income, expenses and indebtedness.

Strengths

- Internal audit checklist mentions checking the credit bureau report. No cases were out of sample files checked where the credit bureau was done more than 15 days prior to disbursement.
- Saija's incentive structure specifies an upper limit for incentives related to recovery, overdue collection and audit grade of the branch.
- Saija has documented guidelines regarding credit bureau checks to be performed on loan applications to check indebtedness of the client.
- There are documented guidelines of not using credit bureau reports, if they are found to be inaccurate. With regard to this, Saija has enrolled borrowers who had provided NOC from other MFI's even though the credit bureau report was showing otherwise.
- The maximum loan given by Saija under JLG loans does not exceed Rs 60,000. The company as per policy does not lend as a third lender. The operational staff interviewed confirmed that they have received training on RBI's guidelines regarding maximum indebtedness of clients.
- The operational manual specifies guidelines for the following:
 - Informing the clients regarding the product and services of the MFI, particularly the interest rates and other costs
 - Conducting client meetings
 - Collecting repayments
 - Recovering overdue loans
- Borrowers reported that MFI staff arrives on time for client meetings and staff conduct is professional. Borrowers do not find the process of making repayments inconvenient or risky.
- Interviews with borrowers revealed that the staff did not indulge in the following:
 - Abusive language or threats
 - Visiting borrowers at odd hours
 - Forcible entry into dwelling and forced seizure of property without the legal orders.
- The MFI staff confirmed that they had received training regarding the policy of not visiting borrowers at odd hours, appropriate vouching and not to forcibly enter into dwelling and seize client property without the legal orders.
- The sampled MFI branches had an employee code of conduct that clearly present guidelines to prevent unacceptable behaviour
- Loan receipts were given at group level and not individually to all clients. Same was attached in the register/note-book maintained with the center leader.
- Interviews with staff members revealed they were aware of the process to be followed with delinquent clients.
- Saija has the policy of maintaining privacy and security of the client data. Permission from the clients has been taken in the loan forms.
- The IT manual of the company clearly defines how the client data will be maintained and also defines the individuals to access the same.

Weaknesses

- Branch managers' awareness of RBI guidelines was average. While most branch managers were aware of the RBI's directions regarding loan sizes, loan purpose and KYC norms, nearly 25% were not aware of RBI's directions regarding loan tenure, nearly 22% were aware of RBI's directions regarding income level of borrowers and turn-around-time limits.
- Saija's board has not reviewed, in the past year, MFI's performance with respect to the income level of borrowers, turnaround times for loan sanction and disbursement and indebtedness of the borrower.
- Before entering a state or a district, Saija performs state, district and village surveys where micro credit saturation profile of the area is analysed. Additionally, Saija also tracks socio economic status, employment and region dynamics of the potential areas. However, report regarding the saturation profile of the areas the MFI operates in was not reviewed by the board in the past one year.
- The company does not have a policy of carrying out credit bureau checks on a sample of clients after loan disbursement and the same have not been put before the board.
- Saija's board has not reviewed progress made by the company in collecting Aadhar of clients

Weaknesses

in the past year. In addition, KYC is not mandatory for the repeat borrowers and same was evident in the sample files checked at branches

- Saija's board has not reviewed MFI's performance on the following in the past year:
 - Informing the clients regarding the product and services of the MFI, particularly the interest rates and other costs
 - Conducting client meetings
- Client awareness of the fact that their data can only be shared for authorized purposes was low as only 22% of the borrowers interacted were aware about the same; however, permission had been obtained for the same from each borrower.
- Neither the HR manual nor the operations manual stated explicitly on collection of shortfall not to be recovered from employees; however, none of the employees are made to pay for shortfall in collections.

Other observations

- During the field visits, nearly 22% borrowers were found to have an economic status different with respect to the RBI guidelines. This may be a result of favourable change in livelihood of the borrowers.

3. Governance

Strengths
<ul style="list-style-type: none">• Members of the board have a sound reputation and adequate knowledge to guide the MFI.• The board meets at least once every quarter and the minutes of the meetings are maintained by the MFI.• Summary of key changes in the operational manual is provided to the Board of Directors.• Saija's board consists of 9 directors of which 3 are independent directors, 4 are nominee directors and remaining are executive directors. Thus, one-third of the board comprises of independent directors.• The policies and procedure of the MFI and any subsequent changes to the same are approved by the board. The meeting agenda contains the key operational and financial information of the MFI.• The MFI transparently discloses CEO's compensation in its audited report.• Concurrent audit of branches are carried out as per a predefined checklist at regular intervals to understand the gaps between stated and followed policies. Finding from such audits are recorded in the branches and sent to Head Office through e-mail.• Minutes of the audit committee have been maintained.• The audit committee has reviewed the adequacy of strength of the monitoring and compliance teams and the scope of audit conducted in the past one year.• Report on Code of Compliance has been placed before the board and action initiated in areas of weakness.

Weaknesses
<ul style="list-style-type: none">• Saija does not have a board approved policy for restructuring loans of borrowers facing repayment stress.• There is no stated policy for debt restructuring for clients facing repayment stress.• The audit committee has not reviewed the adequacy of the staff in its internal audit team in the past one year• As per the internal audit checklist, staff satisfaction in relation to compensation and incentives is not checked.• Saija has an internal monitoring and compliance team that conducts branch audits at least on a quarterly basis for each branch. However, action taken report based on the last audit report was not available in nearly one-third of the total branches visited.• In a limited review for the six months ended September 30, 2017, the auditor highlighted CRAR of 10.85% against the regulatory levels of 15%. However, with recent Compulsorily Convertible Preference Share capital infusion of Rs. 15 crore in the first week of December 2017, CRAR is expected to be above the regulatory levels.

Other observations
<ul style="list-style-type: none">• Saija does not have a written policy on constitution of the board and efficacy of its members. However, the management stated that since the company abides by the Companies Act, which in-turn mandates the companies to have a board with a sound reputation.• While the company has 7 of the 9 board members as independent/nominee directors signifying better discussion/participation on topics included in board agenda, the approving authority of Chairman of the Board and the Managing Director is held by a single person.

4. Recruitment

Strengths

- Saija's board has reviewed its documented guidelines regarding recruitment once in the previous year
- Saija has a policy of providing notice period of 30 days to the exiting employees and conducting reference checks for all joining employees

Weaknesses

- Saija currently does not have any stated policy restricting the posting of new joiners at the same geography where they were associated with their previous organization (if recruited from an MFI). While there were cases of recruitment from other MFI, the area assigned was different
- While Saija has a policy of seeking reference check from previous employer, documentary evidence was missing in some files. In addition, in some of the sample files checked, it had not provided NOC/relieving letter to people who served notice period in the organization

5. Client Education

Strengths

- Saija's manual mandates CGT and GRT for all first cycle borrowers which include informing the borrower about the product, joint liability, meeting process, organisation policy, interest rates, fees and charges etc. The whole process takes three days to complete.
- Borrowers confirmed receiving detailed trainings (compulsory group training and group recognition test) on the product and organisation policy. The borrowers further confirmed that no payment has been made for these trainings.
- The staff members were trained by senior branch staff on the various processes to be followed including CGT and GRT and the disclosures to be made to the borrowers.
- Internal audit checklist includes assessment of clients' awareness and understanding on aspects like interest rates and other charges, products, choices and responsibilities and so on.

Other observations

- There is scope for improving client awareness as the proportion of clients who were found to be aware of each of the terms and conditions is as follows:
 - Annualized Interest rate - ~61%
 - Processing fees - ~60%
 - Insurance claim settlement process - ~67%
 - Any other product/service - ~78% (knew about loans for solar products)
 - Insurance charges - ~67%

6. Feedback & Grievance Redressal

Strengths
<ul style="list-style-type: none"> • Saija has a formal grievance redressal as well as escalation mechanism along with time frame for grievance resolution. • The members of staff confirmed receiving training from seniors on the grievance redressal mechanism. • The borrowers confirmed that the grievance redressal mechanism was explained to them during the loan disbursement, however, nearly 30% of the borrowers interacted were not aware of the process to be followed in case of any grievance except reaching out to the field officer and branch manager • Saija has designated a grievance redressal official, whose number is provided to all clients in their loan cards. • As documented, complaints are recorded at the branch and further escalated to HO, if required. All registered complaints are to be resolved within 21 days as per policy. • There was a response when a surprise call was made on the number provided. • In the sample branches visited, Saija clearly displayed the grievance redressal mechanism and contact details of the concerned person/authority

Weaknesses
<ul style="list-style-type: none"> • While the complaints are recorded at the field level, there were some instances of register not maintained at branch and record not maintained for complaints being escalated to higher authorities. • No acknowledgement was given to clients regarding their complaints. • While the MFI takes responsibility of its staff conduct but nothing is stated on fair treatment to be given to its staff in case of a complaint received against him/her. • While the sample of borrowers stated that they were informed about the grievance redressal mechanism during CGT and GRT, nearly 30% of the borrowers interacted were aware of the grievance redressal mechanism. • There were instances where complaint registers were not maintained at branches and no instance of complaints being escalated to higher authority.

7. Data Sharing

Strengths
<ul style="list-style-type: none"> • Consent from clients is taken in loan agreement regarding sharing of their data as per their loan forms, which are in vernacular • Saija checks data primarily from Hi-Mark and Equifax but shares data with all four major credit bureaus • Saija discloses the latest operational and financial data on its website. • Saija has provided data when called for by RBI or MFIN.

COCA Methodology

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

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

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

Chart: COCA Indicators Framework

Number of indicators in each category is presented below

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

Methodology

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

eight to fifteen branches and between 120 and 300 clients are sampled for primary survey (except in cases where number of branches in an MFI is less than eight).

Sampling guidelines

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

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

Code of Conduct Assessment exercise requires:

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

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

As part of this assessment, we visited eight branches of the MFI. The details of the branches visited are provided below.

S. No.	Branch	State	No of clients interviewed
1	Muzzaffarpur	Bihar	41
2	Mohua	Bihar	38
3	Samastipur	Bihar	42
4	Darbhangha	Bihar	44
5	Patna city	Bihar	22
6	Dhigwara	Bihar	11
7	Hajipur	Bihar	17
8	Ranchi	Jharkhand	20
Total			235