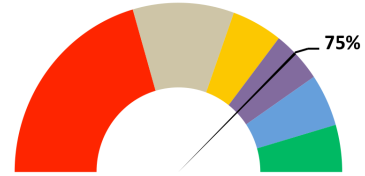
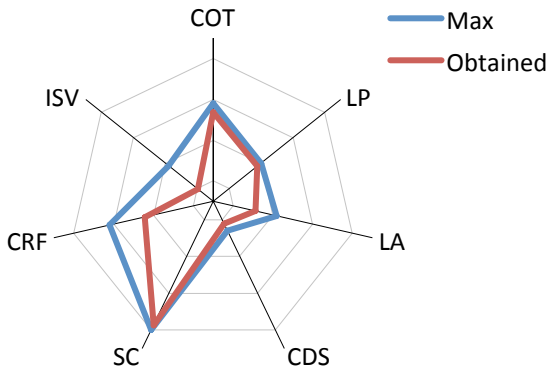


Nightingale Finvest Pvt. Ltd.
December 2015



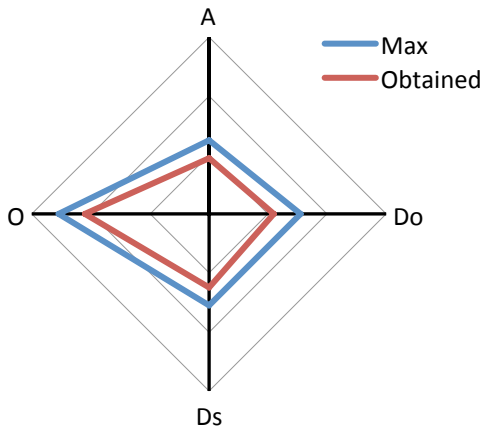
Composite COCA Score: 75%, Good level of adherence

Score on Dimensions



COT=Client Origination and Training, LP=Loan Pricing, LA = Loan Appraisal, CDS=Client Data Security, SC=Staff Conduct, CRF=Client Relationship and Feedback, ISV=Integrating Social Values into Operations

Score on Parameters



A= Approval, Do=Documentation, Ds=Dissemination, O=Observance
ADDO © Prime M2i Consulting Private Limited

Rationale

Nightingale receives a “good” overall score on account of its transparent loan pricing and professional staff-conduct. The organization has a well-defined and comprehensive fair practice code, which is effectively disseminated, across its branch offices. Nightingale undertakes an appraisal of clients by collecting information on their incomes, expenses, surpluses and indebtedness. However, the process needs to be strengthened by training field staff to effectively capture required information rather than enter the details mechanically. The organization also needs to better integrate social values into its operations.

Highlights

- Nightingale has developed a comprehensive fair practice code, which has been effectively disseminated across its branch offices.
- Nightingale charges interest on declining balance basis and maintains transparency in loan pricing.
- The staff was found to portray good standard of conduct while interacting with the clients.

Areas of improvement

- Nightingale needs to strengthen its governance by including more independent members in its Board.
- Organization should ensure participation of all board members in the board meetings to guide the organization.
- Nightingale should check grievance redressal, client awareness and staff conduct in its internal audit.









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 Nightingale Finvest Pvt. Ltd. In the last one year. Further, none of M2i's staffs or their relatives is represented in the Board of Nightingale Finvest Pvt. Ltd or related institutions.







Section 1: Scores¹ and facts

Code of Conduct dimensions ²	Maximum	Obtained	%
 Client Origination and Targeting	24	19.7	82%
 Loan Pricing	15	12.5	83%
 Loan Appraisal	16	10.6	66%
 Client Data Security	8	6.0	75%
 Staff Conduct	35	30.8	88%
 Client Relationship and Feedback	26	17.2	66%
 Integrating Social Values into Operations	14	7.0	50%
 Total	138	103.8	75%
RBI's Directions	12	12	100%

Compliance parameters	Maximum	Obtained	%
 Approval	25	19.0	76%
 Documentation	31	21.0	68%
 Dissemination	31	22.4	72%
 Observance	51	41.4	81%
 Total	138	103.8	75%

MFI's profile – September 2015

Name of the MFI	Nightingale Finvest Pvt. Ltd.
Legal form	NBFC-MFI
Operational Head	Mr Mantu Nath Sarma
Year of starting microfinance	2008
Branches	13
Operational area	Assam, Arunachal Pradesh, Meghalaya & Mizoram
Total number of staff involved in microfinance	60
Visit of the Assessment team	1 December 2015 – 9 December 2015
Correspondence address	Nightingale Finvest Pvt. Ltd., 1 st Floor, Chakradhar Villa (Opposite AIR), Chandmari, Guwahati – 781003

¹The scores have been colour coded as follows.  = Less than 41% (Very Weak);  = 41-60% (Weak);  = 61-70% (Reasonable);  = 71-80% (Good);  = 81-90% (Very Good);  = >90% (Excellent).

²Scores have been reduced by a factor of 0.92 to reflect overall achievement on regulatory compliance.

Microfinance Methodology

Nightingale uses Joint Liability Group (JLG) model for its lending activities. It enrolls only women members and organizes them into groups of five. A Compulsory Group Training (CGT) of two days is provided to the clients prior to lending to them. CGT is followed by Group Recognition Test (GRT) and the Credit Bureau (CB) check. Only when a group qualifies the GRT and also the members qualify the lending criteria that loan is provided to them.

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 through cheque and the collections are undertaken in monthly centre meetings.

Details of the loan products - 30 September 2015

Product	Description	Loan size*	Interest Rate	APR (Interest Rate and Processing Fees)	% in portfolio
Income Generation loan (IGL)	Loans given to members of Joint Liability Groups of women. These loans are given for income generation activities.	Up to Rs.10,000 in first cycle and up to Rs.27,000 in subsequent cycles.	25% pa, reducing balance basis and 1% processing fees	27%	76.9%
Income Generation loan (IGL) – OBC	Loans given to Other Backward classes arranged in Joint Liability Groups of women. These loans are given for income generation activities.	Below Rs.15,000	4% pa reducing balance basis and 1% processing fees	6%	13.4%
Income Generation loan (IGL) – unserved and underserved areas	Loans given in areas where no MFI is providing Micro-credit (Un-served) or areas where only one or two MFIs provide micro-credit but fund is not adequate to meet client demands. These loans are given for income generation activities by arranging members into Joint Liability groups.	Below Rs.15,000	20% pa reducing balance basis and 1% processing fees	22%	9.7%

Notes:

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

Key facts and figures			
Parameters	31-Mar-14	31-Mar-15	30-Sep-15
Number of JLGs	3,879	4,135	4,113
JLG Members	19,395	20,675	20,564
Active borrowers	19,395	20,675	20,564
Branches	10	13	13
States	1	4	4
Number of districts	7	10	10
Total staffs	50	60	60
Number of loans disbursed for the FY ending	14,405	24,090	7,192
Amount of loan disbursed for the FY ending (Rs.mn)	184.1	242.7	107.6
Loan portfolio outstanding (Rs.mn)	152.5	195.4	197.2
PAR-30	0.0%	0.0%	0.0%
PAR-60	0.0%	0.0%	0.0%

Source: Data Provided by Nightingale Finvest Pvt. Ltd.

Nightingale Board Members – 30 September 2015	
Name	Profile
Mr. Mantu Nath Sarma	Mr. Mantu Nath Sarma, a postgraduate in commerce, possesses over 16 years of experience in the field of MSME and Microfinance. He is the co-founder of Nightingale Finvest and is currently involved in the organization as a Director and Chief Executive Officer.
Mr. Pratap Chakravarty	Mr. Pratap Chakravarty is an NGO activist with more than 14 years of experience in microfinance. He has been working for empowerment of the less privileged women in rural and urban areas. He is one of the co-founders of the company and is currently involved as a director of Nightingale Finvest Private Ltd.
Mr. Rukunuddin Ahmed	Mr. Rukunuddin Ahmed has a diploma in engineering, with over 16 years of experience in micro credit, financial structuring and administration. He is presently involved as a Director of the Company and is a part of the core team that initiated microfinance project.
Ms. Olee Bora	Ms. Olee Bora is a graduate from the University of Allahabad and an MBA from the University of Guwahati. She is the General Manager (MSE, MF, HRD & Administration) in North Eastern Development Finance Corporation Ltd. (NEDFi), Guwahati. She is a Nominee Director at Nightingale Finvest Private Ltd.
Mr. Kanchan Dutta	Mr. Kanchan Dutta is a practicing Chartered Accountant at Kolkata. He is associated with a number of leading microfinance institutions in India as an advisor and auditor. Mr. Dutta is an expert in governance, fund management, accounting and administration. He is currently involved with Nightingale Finvest Pvt. Ltd as an Independent Director.

Share holding

Name of shareholder	% Share
Mantu Nath Sarma	17.0%
Pratap Chakravarty	12.8%
Rukunuddin Ahmed	10.4%
Other Individuals	43.6%
North Eastern Development Finance Corporation Ltd. (NEDFi)	16.2%
Total	100.0%

Section 2: Status of Regulatory Compliance

2.1 Compliance with regulations

Nightingale Finvest Pvt. Ltd. complies with all the guidelines issued by RBI regarding NBFC MFIs.

Capital requirement

As per Nightingale's audited financial statements, as on 31 March 2015, it had Net Equity of Rs.37.15 million. 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

Nightingale has obtained a CA certificate for its qualifying assets and income generation loans. As per the CA's certificate issued on 21 November 2015, Nightingale has 93.75% of its total assets as 'qualifying assets'. Further the CA has certified that the loans extended for income generation activities is more than 70% of the total loans given by the company. This is in compliance with the RBI's directions for MFIs. In fact according to the MIS reports of the organization as on 30 September 2015, all the loans extended by the organization are for income generation activities only.

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

- Loan size verification

Nightingale has not been offering any loan above Rs.27,000. Thus, it is in compliance with the RBI directions on maximum loan in first cycle of Rs.60,000 as well as maximum loan in any subsequent cycle of Rs.100,000.

Physical verification of over 200 loan documents as well as visits to 166 clients across eight branches of Nightingale corroborated this.

- Collateral verification

M2i has verified that Nightingale does not take any collateral on its loan, thus complying with RBI directions.

- Loan duration verification

M2i has verified that Nightingale's loans above Rs.15,000 have a loan term of 24 months. Thus the organization is compliant with RBI's directions on loan tenure.

- Household income

Nightingale Finvest Pvt. Ltd. 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 200 loan documents across 8 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 of Nightingale, it does not lend to any client who is a member of any other SHG or JLG. The company 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 Nightingale's compliance towards RBI's indebtedness guidelines. (i.e. total indebtedness of the client does not exceed Rs100,000).

Interest margin

Nightingale is in compliance with the interest rate margin of 12% for MFIs having loan portfolio of less than Rs100 crores. The organization has obtained a certificate from CA showing its interest rate margin between lending and borrowing rate as 11.13% for the period 1st April 2015 to 30th September 2015.

Capital adequacy

Nightingale maintains its capital adequacy ratio as per the guidelines of the RBI. As per the audited financial statements on 31st March 2015, Nightingale's CRAR was 18.6%.

Customer Protection Initiatives

Nightingale's Board of Directors has formally resolved to abide by the RBI Fair Practice Code. On the basis of this, the organization has also developed its own fair practice code accepted by the board, which is displayed in all its branches. Nightingale's board has also resolved to follow Sa-Dhan and MFIN's code of conduct.

Membership with SRO and credit bureau

Nightingale is a member of both MFIN and Sa-Dhan. It is a member of High mark Credit Information services and utilizes the credit bureau data to analyze clients' indebtedness levels and credit history. Credit bureau checks for all clients are undertaken compulsorily for each loan cycle.

Section 3: Observations

3.1 Client Origination and Targeting (COT)



Nightingale’s score on client origination and targeting is ‘very good’. Nightingale has defined its target client as those which fit into the RBI guidelines pertaining to income and indebtedness levels.

Approval (A)	Documentation (D)
<ul style="list-style-type: none"> ✓ Nightingale has an approved policy of targeting low-income clients as per RBI directed income criteria. 	<ul style="list-style-type: none"> ✓ The organization has a documented policy on area selection, client targeting, training of clients and group recognition tests. X Nightingale does not have a documented policy on avoiding any agents for originating clients.
Dissemination (D)	Observance (O)
<ul style="list-style-type: none"> ✓ Nightingale provides trainings to its staff on processes related to client origination. ✓ Fair practices concerning client origination and targeting are prominently displayed in each branch. X Operation manual describing client origination was not readily available in each branch. 	<ul style="list-style-type: none"> ✓ No evidence of involvement of any external agent or payment of unfair money for client origination observed. ✓ Nightingale operates in many areas not served by other Microfinance institutions. X Awareness of staff on the incentive policy was not found to be uniform.

Nightingale operates in areas generally not served by other Microfinance institutions. The organization started its operations in Assam, when there were not many MFIs. However as the competition increased, the organization expanded its operations in the hilly areas of Mizoram, Meghalaya and Arunachal Pradesh with the objective of providing services in financially excluded areas. Nightingale provides its field staff with incentives for originating new clients but the incentives are capped to avoid the risk of frivolous client enrollments. However, the awareness of the staff on incentive policy was not found to be uniform.

The income details of the clients are obtained at the time of loan application. Also a self-declaration of income is obtained from all borrowers to ensure that only those borrowers whose incomes are within the stipulated guidelines of RBI will be eligible for a loan. 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 in to the microfinance program of the organization.

Nightingale obtains the KYC documents and conducts physical verification of client's residence to ensure client identity. Although the MFI does not have a documented policy on avoidance of unauthorized agents, the field staffs of Nightingale were found to be aware of the need to discourage the involvement of any external agent in the client origination process. Moreover, the MFI has not faced any problems related to unauthorized agents so far because of the fact that it operates in areas, which are not served by other MFIs. The organization is also careful to avoid unauthorized persons from taking deposits in the name of the company and has issued notices in its branches to this effect.



3.2 Loan Pricing (LP)

Nightingale’s score on loan pricing is ‘Very good’. The organization charges interest on declining balance basis and follows RBI’s guidelines in this regard. Its pricing is transparently displayed at all branches and also communicated to clients. The repayment schedules issued to the clients mention details of interest rate on declining balance, loan tenure, principal and interest breakup and insurance details. The clients are issued receipts for payment of both installments as well as insurance charges.

Approval (A)	Documentation (D)
<ul style="list-style-type: none"> ✓ Nightingale, in its fair practices code provides for transparent pricing and the importance of clear communication to the clients. 	<ul style="list-style-type: none"> ✓ Nightingale has documented the pricing of its loan products in its process notes. X Prepayment policy on loans is not documented.
Dissemination (D)	Observance (O)
<ul style="list-style-type: none"> ✓ Staffs are trained on loan pricing through formal trainings. During the formal trainings. ✓ Pricing policy of loans is prominently displayed in branch offices of Nightingale. X Sampled branches did not have records that clearly identify the Do’s and Dont’s for informing loan-pricing details to the clients. 	<ul style="list-style-type: none"> ✓ The loan interest rate and processing fees is mentioned on the repayment schedule, sanction letters and loan agreement provided to the client. The loan pricing is also communicated to the clients during CGT. ✓ The repayment schedule has a breakup of principal and interest payments for each installment. ✓ Nightingale issues receipts for payment of each installment by the client. ✓ Nightingales does not charge any penalty or interest for unexpired period of loan in case of pre-closure of loan X Awareness of the clients on the annualized interest rates was found to be low.

Nightingale charges interest rate on declining balance basis. In addition, it charges processing fees of 1% on all its products. Insurance premium is collected on actual basis. Apart from processing fee and insurance premium, no other fee is charged from the clients. The loans are issued to the clients without any collateral and no security deposit is taken on any loan. Also no penalty is charged for overdue and pre-closure of loans. The organization however, does not have a well-documented policy on pre-payments.

Loan pricing is communicated to the clients through CGT and also through printed means as mentioned on the loan application letter, sanction letter, loan agreement and the loan repayment schedule provided to the clients. No mismatch in stated policy on pricing and actual practice on field was found during the assessment.

3.3 Loan Appraisal (LA)



Nightingale’s score on loan appraisal is ‘Reasonable’. The organization’s policy is to ensure that loans are provided to the borrowers in accordance to their capacity to repay as well as in accordance with RBI guidelines. The organization records borrowers’ incomes, expenditures, surplus and other borrowings. However, review of loan files indicate that the cash flows of the clients are recorded in a mechanical manner and recorded household surplus has no bearing on the loan size and loan tenure.

Approval (A)	Documentation (D)
<ul style="list-style-type: none"> ✓ Nightingale has a policy of collecting data pertaining to client’s income, expenses, surpluses and indebtedness, in order to analyze the repayment capacity. 	<ul style="list-style-type: none"> ✓ The loan application form allows capturing of income, expenses, surplus and indebtedness related details of clients in order to ascertain the repayment capacity. X Policies regarding loan decision-making based on client data gathered during loan application are not documented.
Dissemination (D)	Observance (O)
<ul style="list-style-type: none"> ✓ Nightingale provides trainings to its field staff on collecting information related to client’s income and indebtedness levels. 	<ul style="list-style-type: none"> ✓ Nightingale assesses the repayment capacity of the clients and also seeks a self-declaration from the clients in order to make sure that the incomes and indebtedness levels of the clients are as per RBI directions. ✓ Nightingale performs compulsory credit bureau checks for all its clients. X It was observed that the recording of income, expenses and cash flow analysis was more of a mechanical process. X The appraisal criterion does not clearly link the loan amount and tenure with the client’s cash flow analysis.

The loan application form of Nightingale 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. A review of the loan files indicated that the recording of incomes and expenditure is undertaken as a mechanical process. As it was found, that same amounts for incomes and expenses were recorded for different clients.

For subsequent loan cycles, the appraisal process is based on a member's performance in previous loan cycle mainly on attendance in centres meetings and repayment history. While data on household cash flow is collected in all loan cycles the organization does not have objective criteria for determining the loan amount or tenure based on a client's cash flow analysis and surpluses.

The loan application forms are forwarded to the Head Office by the branch manager with his/her recommendation for the final approval. In order to avoid over-indebtedness the organization captures the indebtedness data in the application form and seeks a self-declaration from the borrower on the same. Credit Bureau check for each client is also undertaken at the Head Office before the commencement of CGT and GRT process. The loan size of Nightingale is also restricted to a maximum of Rs.10,000 in the first cycle and up to Rs.27,000 in the subsequent cycles.

3.4 Client Data Security (CDS)



Nightingale’s score on client data security is ‘Good’. Ensuring privacy of clients’ data and documents is one of the main aspects of the code of conduct adopted by the organization. Nightingale has adopted maintenance of client data security and privacy as part of its code of conduct, which is displayed at all its branches.

Approval (A)	Documentation (D)
<ul style="list-style-type: none"> ✓ Nightingale has a board-approved policy regarding client data security. ✗ Board has not approved any IT policy to ensure electronic data security. 	<ul style="list-style-type: none"> ✓ Nightingale has documented policy on client data security which forms part of its fair practice code ✗ The organization does not have a documented policy for security of data maintained in electronic form.
Dissemination (D)	Observance (O)
<ul style="list-style-type: none"> ✓ Nightingale’s policy on client data security is well communicated by displaying its fair practice code in the branch offices. ✓ Interaction with branch staff showed that the staffs were sensitized to keeping the client data safe and private. 	<ul style="list-style-type: none"> ✓ The access rights to the MIS software at branch offices are restricted to the branch managers, who are also responsible for entering client information in the software. ✓ The rights regarding modification of MIS data are restricted to the team at the head office. ✗ Physical documents were found to be stored in open making them susceptible to manipulations.

Nightingale has adopted client data security and privacy as part of its code of conduct, which is displayed in all its branches. Branch staff was also found to be aware of the need to keep client documents safe. Clients’ documents are required to be kept in the steel cupboard in lock and key under the supervision of the Branch heads. However, in some branches client’s documents, were found to be stored in the open without adequate oversight from the branch heads. Moreover, Nightingale stores all client documents at branch level and not at a centralized location, which makes documents susceptible to manipulation or loss.

The client application details are also maintained in the MIS software. The branch manager is responsible for making designated entries into the software. Each branch manager can access the details of only his/her branch and cannot modify a client’s data once entered. The organization however, does not have a documented IT policy to ensure digital data security, access rights, and back-up processes.

3.5 Staff Conduct (SC)



Nightingale’s score on staff conduct is ‘Very good’. Nightingale has adopted professional staff behavior and client interaction as part of its fair practice code. The staffs are also trained on the importance of good conduct with clients through formal trainings. 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"> ✓ Nightingale has framed a Fair Practice Code and has also adopted the RBI fair practices code, which includes policies on the expected staff conduct with clients. 	<ul style="list-style-type: none"> ✓ Nightingale’s fair practice code promotes fair and cordial relation with the clients and also affirms to provide proper training to the staff so as to ensure appropriate staff conducts. X Internal audit function does not specifically check issues of staff conduct.
Dissemination (D)	Observance (O)
<ul style="list-style-type: none"> ✓ Fair Practice Code is displayed across all branches very prominently. ✓ Employees are trained on aspects of appropriate behavior with the clients. 	<ul style="list-style-type: none"> ✓ Staffs were found to be aware of the need to have professional conduct with the clients. ✓ Staff incentives at Nightingale are not based on the on timely repayments or overdue recoveries from the clients. ✓ Visited clients did not report any incidence of staff misconduct or coercion.

Nightingale has adopted a fair practice code, which requires its staff to be fair and cordial with the clients. Other requirements from staff are to:

- Tell all terms and conditions of loans in the vernacular language to the clients
- Protect information of the clients and maintain its confidentiality
- Not use coercive method for recovery of loans
- Inform clients about the grievance redressal mechanism

A copy of the fair practice code is displayed at all branches prominently. The fair practice code also promotes the importance of training to personnel dealing with clients so as to ensure appropriate staff conducts. It was observed that the staff was empathetic towards clients. In addition none of the client met by M2i team reported of any misconduct by Nightingale’s staff.

The operational monitoring and internal audit guidelines, however, do not specifically require monitoring or internal audit staff to check and report issues of staff behavior towards clients. This will become necessary as the organization increases its scale of operations further.

3.6 Client Relationship and Feedback (CRF)



Nightingale’s score on client relationship and feedback is ‘Reasonable’. Clients of Nightingale can provide their feedback or lodge complaints through the use of complaint boxes made available at the branches or through the helpline number of Head Office. However, the organization does not undertake any analysis of the complaints/ grievances received.

Approval (A)	Documentation (D)
<ul style="list-style-type: none"> ✓ The Board has approved a policy for redressal of its clients’ grievances, which requires board to be updated on the functioning of grievance redressal mechanism. X Currently, Board is not updated on status of grievances in the organization. 	<ul style="list-style-type: none"> ✓ Details of the grievance redressal mechanism are mentioned in the fair practice code.
Dissemination (D)	Observance (O)
<ul style="list-style-type: none"> ✓ Staffs are aware of the grievance redressal forum i.e. the complaint box at branches and the helpline number. 	<ul style="list-style-type: none"> ✓ Clients were found to be aware of the helpline number. ✓ The helpline number is printed on the repayment schedule provided to the clients. The Grievance redressal officer receives the calls on the helpline number. X The awareness among clients about the availability of complaint boxes at the branches was low. X The organization does not maintain an updated record of the grievances received from the clients.

Nightingale has incorporated details of the grievance redressal mechanism in its fair practice code. The organization has appointed a Grievance Redressal Officer for resolution of grievances. Phone number of the grievance redressal officer is mentioned on the loan cards provided to the clients as well in the branch premises. Important complaints are recorded in a complaint register maintained at the Head Office. M2i team observed that there were very few entries in the complaint register. There has not been any entry since April 2015. According to the organization, it makes entries only of the serious complaints received while most of the calls pertain to enquiries about pending loan applications.

Complaint boxes have also been put in the branches since 2011, but no complaint has been received so far. The clients were found to be aware of the helpline number available of the repayment sheet. However the awareness of clients on the availability of complaint boxes in the branch office was found to be low.

It is apparent that although a grievance redressal mechanism has been put in place no serious attempt is being made by the organization to encourage clients to use this mechanism.

Review of minutes of the Board meetings also indicate that the Board has also not been updated about functioning of the grievance redressal mechanism, although this is a requirement as per the grievance redressal policy.

3.7 Integrating Social Values into Operations (ISV)



Nightingale has a ‘weak’ performance on ISV. This is on account of a weak board structure with inadequate number of independent directors and their limited participation in functioning. The organization also does not track the socio-economic progress of its clients.

Approval (A)	Documentation (D)
<ul style="list-style-type: none"> ✓ Nightingale’s mission is to economically empower the low-income segment by providing them access to need based financial services. X The organization does not have adequate number of independent directors on the board. X Nightingale does not have products outside of income generation to cater to other needs of its members. 	<ul style="list-style-type: none"> ✓ Nightingale’s vision, mission and value statements are well documented and reflect the organization’s social commitment. X The organization does not have any social performance management policy.
Dissemination (D)	Observance (O)
<ul style="list-style-type: none"> ✓ The vision, mission and values of Nightingale are displayed in all its branches. 	<ul style="list-style-type: none"> ✓ Nightingale has developed products targeted specifically to backward classes and for un-served areas. X Nightingale does not undertake an impact assessment of its activities. X Independent directors and nominee director do not participate in all Board meetings.

Nightingale has a mission to economically empower the low-income segment (especially women) by providing them access to need based financial services. 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. However, currently the organization does not have a systematic process to capture the impact of its services on its clients. The organization has also not prepared and documented any social performance management policy

The organization has a five-member board of directors with one independent director and one nominee director from NEDFi. Most of the Board meetings however, are attended by the Executive Directors. Review of the Board meeting minutes indicates that of the previous five board meetings, the independent director and nominee director had attended only one meeting.

Review of the board minutes also indicate that most of the meetings focus on business performance and status of funding. There is limited focus on social aspects or code of conduct aspects of operations.

NFL has taken over the operations of Nightingale Service society, which was involved in a number of activities relating to livelihood, health and community development. However, by March 2015, entire loan portfolio of the society had been transferred to the NBFC and subsequently all social and community development activities of the organisation were stopped. According to the organisation, in the recent years focus has moved to ensuring sustainability of operations. From the next year onwards the organization plans to undertake some social activities using its own funds.

Annexure 1: Matrix of Score Obtained³

Indicators	A		Do		Ds		O		Total	
	Max	Obt	Max	Obt	Max	Obt	Max	Obt	Max	Obt
Client origination and targeting	5	3.0	5	5.0	5	3.4	9	8.3	24	19.7
Loan Pricing	3	3.0	1	1.0	2	1.0	9	7.5	15	12.5
Loan Appraisal	4	2.0	4	2.0	3	2.0	5	4.6	16	10.6
Client Data Security	1	1.0	3	2.0	2	1.0	2	2.0	8	6.0
Staff Conduct	7	7.0	7	6.0	10	8.0	11	9.8	35	30.8
Client Relationship and Feedback	2	2.0	8	4.0	6	5.0	10	6.2	26	17.2
Integrating Social Values into Operations	3	1.0	3	1.0	3	2.0	5	3.0	14	7.0
Total*	25	19.0	31	21.0	31	22.4	51	41.4	138	103.8

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

³ ADDO © Prime M2i Consulting Private Limited

Annexure 2: Tool Development, Methodology and List of Branches Visited

The code of conduct compliance assessment tool was developed as a response to the need expressed in a meeting of stakeholders in Indian microfinance by the Small Industries Development Bank of India (SIDBI) and the World Bank in December 2009. The code of conduct dimensions were identified by reviewing the various norms for ethical finance. These included RBI's fair practices guidelines for Non Banking Financial Companies, industry code of conduct (Sadhan-MFIN) and CGAP's client protection principles. The most important challenge for M2i was to create objective indicators which could comprehensively measure the seven dimensions. A total of 138 indicators⁴ were developed across these dimensions, so that subjectivity in measurement could be minimized. The numbers of indicators for each dimension are presented below.

Dimension	Nos. of Indicators
Client origination and targeting	24
Loan Pricing	15
Loan Appraisal	16
Client Data Security	8
Staff Conduct	35
Client Relationship and Feedback	26
Integrating Social Values into Operations	14
Total	138

In order to make the measurement comprehensive and objective, a method of scoring was developed so that:

1. Measurements on the indicators are taken on the dimensions across the four parameters within an MFI – Approval, Documentation, Dissemination and Observance
2. Indicators are mapped to underlying characteristics, which can be objectively measured. This is illustrated in the box below.

Illustration

One of the indicators developed to measure the dissemination of guidelines related to staff conduct is:

Has the MFI provided training to its operational staff on their conduct with clients, particularly relating to:

- A. Conducting client meetings
- B. Collecting repayments
- C. Recovering overdue loans

The basis of scoring this indicator is the proportion of operational staff interviewed who have received training on these specific aspects. In case all the staff members have received trainings on each of these aspects then the score is 1 on each of these indicators, totaling to 3. If only 50% of the operational staff members interviewed have received training on these specific aspects then the score totals to 1.5 (0.5+0.5+0.5).

⁴ Integrating Social Values into Operations with 14 indicators was added to tool in September 2012.

The Code of conduct assessment tool was tested on four MFIs during its portfolio audit and best practices validation engagements. M2i formally presented the code of conduct assessment tool at a microfinance lender's forum meeting held in Mumbai at SIDBI's office in June 2010.

RBI's Directions and Guidelines

With RBI issuing various specific guidelines for MFIs, M2i started scoring MFI's compliance to regulatory guidelines from 2012 onwards. The scores obtained by MFI on various COCA dimensions are scaled down in proportion to the score obtained in regulatory compliance.

Methodology

The code of conduct exercise is spread over four to eight days. The first day is spent at the head office. The assessment team visits the branches over the next three to eight days. Depending upon the size and the operational area of the MFI, three to fifteen branches and between 120 and 200 clients are sampled for primary survey.

Key Aspects

- Duration of the exercise: Four to eight days
- Nos. of branches to be visited: Eight to Fifteen
- Nos. of MFI clients to be interviewed: 120-200

This exercise requires:

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

As part of this assessment, we visited. The details of the project offices (branch) visited are provided below.

Sr No	Branch*	State	No of clients interviewed
1	Chandmari	Assam	5
2	Beltola	Assam	5
3	Maligaon	Assam	28
4	Kalapahar	Assam	27
5	Marigaon	Assam	18
6	Howly	Assam	28
7	Mangaldoi	Assam	27
8	Shillong	Meghalaya	28
Total			166

Annexure 3: Code of Conduct Assessment – Framework

Code of conduct dimensions

- Client origination and targeting: Client origination is central to ethical microfinance operations. The code of conduct requires MFIs to practice ethical client origination which results in greater access to financial services. Also, an MFI's commitment to target the low income clients demonstrates its social mission. The way an MFI identifies its clientele and goes about growing a clientele must be approved by the board, which should also see to it that there is adequate attempt by the MFI to ensure that its product and services reach the appropriate clientele.
- Loan pricing: The scientific determination of loan price (interest rates) reflects well on the MFI's management and it also shows how effective the MFI is in providing loans to the clients at the least possible cost. The way its loan products are priced should be approved by the board. Ideally the board members should be aware of the cost of the loan products to the clients.
- Loan appraisal: The lending to a client should be in accordance to her repayment capacity or else she may get over-indebted and her economic situation may deteriorate. The loan appraisal should take into account the repayment capacity of the clients given the loan sizes and the duration of the loan. These are important client protection principles.
- Client data security: The privacy of sensitive data of individual clients regarding their demographic details should be adequately secured so that it is not used by unauthorized parties to cause stress to the clients. For this purpose, MFIs need to define explicitly access rights to all the demographic data pertaining to clients sex, race, age, income, disabilities, mobility (in terms of travel time to work or number of vehicles available), educational attainment, home ownership, employment status, and location.
- Staff conduct: All the staff members of an MFI should treat its clients with respect and dignity. The two important aspects of staff behavior are:
 1. Communication with clients – There should be guidelines for staff to deal with specific situations involving their interface with the clients such as group meetings, loan disbursements and collections. These should ensure that customers with low levels of financial literacy understand the product, the terms of the contract, and their rights and responsibilities. Clients should also be aware of the debt recovery practices of the MFI. They should be aware of what to expect in case there is a delayed payment or a default. Clients should be encouraged to ask questions regarding the product and policies. Also, the staff should ensure that arrive for meeting in time.
 2. Loan collection and recovery process - MFIs should evolve collection practices that require all clients to be treated with dignity and respect, even when they fail to meet their contractual commitments. The following should be strictly avoided:
 - Abusive language or threats
 - Harassing borrowers at odd hours
 - Forcible entry into dwelling and forced seizure of property without the legal orders
- Relationship management and feedback mechanism: It is important for MFIs to build sustainable and long term relationship with clients. Sound relationship management enhances the quality of the clients' experience with the MFI. It also allows the MFI to

better understand clients’ needs and grievances. MFIs need to have formal mechanisms to get feedback and complaints from the clients. Customer complaints need to be taken seriously, investigated and resolved in a timely manner. The responsibilities relating to receiving client grievance and feedback and acting upon them need to be clearly identified and allocated.

- Integrating Social Values into Operations: It is necessary to have high standards of governance and to have client focused social mission. It is also necessary to measure the socio-economic changes that MFIs’ efforts are bringing in the lives of its clients and to compare it against the mission.

Compliance

In order to fully integrate operations with the principles presented above, MFIs need to adopt a comprehensive approach involving the board, the management as well as other staff members and clients. This tool measures the adherence to these principles on four parameters – Approval, Documentation, Dissemination, Observance (ADDO). This ADDO framework has been developed by M2i and is summarized below:

1. Approval at the policy level from the board
2. Documentation of the guidelines and procedures that emerge from the policy
3. Dissemination of the guidelines and procedures across the organization
4. Observance in practice of these guidelines and procedures.

Weights

The following matrix presents the weights given to the various dimensions and parameters in the tool.

Weight Matrix	Approval	Documentation	Dissemination	Observance	Totals
Client Origination	4%	4%	4%	7%	19%
Loan Pricing	2%	1%	1%	7%	11%
Loan Appraisal	3%	3%	2%	4%	12%
Client Data Security	1%	2%	1%	1%	5%
Staff Conduct	5%	5%	7%	8%	25%
Client Relationship and Feedback	1%	6%	4%	7%	18%
Integrating Social Values into Operations	2%	2%	2%	4%	10%
Totals	18%	23%	21%	38%	100%

Regulatory compliance (ReC)

Since it is mandatory for MFIs to comply with the guidelines given by the regulator, the MFIs are assessed for their compliance with these regulations. The level of compliance of an MFI to regulations is scored and this is factored-in in COCA by scaling down the scores on various COCA dimensions in proportion to the score obtained on ReC. In total there 12 indicators have been used to measure ReC.