



## Client Protection Assessment Report

### **Annapurna Microfinance Private Limited**

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<b>Annapurna Microfinance Private Limited</b>		
<b>Legal Form</b>	NBFC	<b>About AMPL</b>
<b>Date Established</b> <b>Initiation of Operations</b>	December 2009 March 2010	Annapurna Microfinance Pvt. Ltd. (AMPL) is registered as an NBFC with operations in Orissa. People's Forum, the parent institution and society, has been working towards socio-economic development since 1990 using the SHG lending model. After promoting the SHG-BLP programme in the late 90s and early 00s, People's Forum began lending directly to SHGs in 2006.  As microfinance become an increasingly important aspect of the programme's mission and vision, the management team decided to slowly transfer the loan portfolio to a newly acquired NBFC, known as Annapurna Microfinance Pvt. Ltd., which began operations in 2010. AMPL continues to employ the SHG lending model with 10-15 women forming a group. As on December 31, 2010, AMPL had loans outstanding worth INR 7.35 crores to 14,365 members in 1105 SHGs through 25 branches in Orissa.
<b>Operational Area</b>	<ul style="list-style-type: none"> <li>12 districts of Orissa</li> </ul>	
<b>Services and Products offered</b>	<ul style="list-style-type: none"> <li>Credit</li> </ul>	
<b>Lending Model</b>	<ul style="list-style-type: none"> <li>Self-Help Group (SHG)</li> </ul>	
<b>Average Score</b>	<b>Rating</b>	<b>Grade</b>
<b>3.70</b>	0.00-1.00	Weak
	1.00-2.00	Not Yet Adequate
	2.00-3.00	Adequate
	<b>3.00-4.00</b>	<b>Mostly Good</b>
	4.00-5.00	Good

<b>Key Performance Indicators *</b>	
	<b>December 2010</b>
<b>Active borrowers</b>	13,027
<b>Number of SHGs</b>	1105
<b>Gross Portfolio Outstanding (millions)</b>	73.5
<b>Portfolio Yield (nominal)</b>	13.78%
<b>Financial expense ratio</b>	4.87%
<b>Operating cost ratio</b>	8.65%
<b>Financial self-sufficiency</b>	106%
<b>Operational self-sufficiency</b>	173%
<b>Return on Assets</b>	0.39%
<b>Return on Equity</b>	10.78%
<b>Branches</b>	25
<b>Staff</b>	254

\* Source: MIX Market data for VFSPL.

Loan Products		
	SHG loan (1)	SHG loan (2)
Clientele	Self-Help Group	Self-Help Group
Utilization	Agriculture and allied services Micro-enterprise	Petty Business
Loan size	5,000-10,000	
Loan tenure	12-18 months	18-24 months
Guarantor	Group members	Group members
Collateral requirements	No	No
Repayment	Monthly	Monthly
Interest rate	12% p.a., flat	12% p.a., flat
Other charges	Rs. 105 as loan application fee	Rs. 105 as loan application fee
Processing fee	2% of loan	2% of loan
Security deposit	10% of loan	10% of loan

## Highlights

### Strengths

- Origin as a socially-oriented NGO (Society) has a positive impact on the delivery of financial services and facilitates a strong rapport with the clients
- Extensive research conducted before expanding operations
- Clients appreciate the convenience of doorstep delivery, lack of regular branch meetings, and frequent interactions with AMPL staff
- Experienced senior management team, many of whom have a background in mainstream finance
- Competitive and affordable pricing, in addition to high transparency
- Incentive system clearly values portfolio quality at all levels of administration
- Training materials cover a wide array of topics, and are customized for different field positions
- Comprehensive MIS purchased from software provider, updated at the end of each day
- Informal data sharing with regional MFIs to actively monitor risks
- Rigorous appraisal process and series of credit committee evaluations, from branch offices to upper management
- Mixture of hand-holding support and transfer of responsibility to SHG members and leadership

### Areas for Improvement

- Focused implementation and review of Code of Conduct, which has only been instituted as a reaction to events in late 2010
- Monitoring of individual clients, assessing personal creditworthiness and not just the group's ability to repay
- Uniform training sessions and materials for all SHG members, as mandated by the organization
- Expansion of Internal Audits' mandate to discussions with clients, evaluate client-staff interactions and behaviour and satisfaction
- Active efforts to promote client feedback
- Dedicated staff resources (time, training) to complaint consideration and resolution
- Opportunity to install practical systems and written policies that govern ethics and staff behaviour

## Client Protection Assessment Report for AMPL

### Summary of the study

The overall grade obtained by Annapurna Microfinance Private Limited is 3.70, falling in the category of "Mostly Good", which indicates that the organization has strong systems and dedicated policies to ensure the protection of clients. For the most part, the MFI has met the requirements of the principles, but there is room for improvement. More could be done to monitor levels of debt throughout the loan term, develop and generate value from a Code of Conduct, and ensure that feedback is actively collected and used for improvements.

### Baseline Results for VFSP

Assessment Area	Score (out of 5.00)	Key Indicator(s) to be evaluated
Prevention of Over-indebtedness	3.60	<ul style="list-style-type: none"> <li>• The loan approval process requires evaluation of borrower repayment capacity &amp; loan affordability. Loan approval does not rely solely on guarantees as a substitute for good capacity analysis.</li> <li>• Productivity targets and incentive systems value portfolio quality at least as highly as other factors, such as disbursement or customer growth. Growth is rewarded only if portfolio quality is high.</li> </ul>

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### Baseline Results for VFSPL

Assessment Area	Score (out of 5.00)	Key Indicator(s) to be evaluated
Transparency	4.38	<ul style="list-style-type: none"> <li>Prices, terms and conditions of all financial products are fully disclosed to the customer prior to sale, including interest charges, insurance premiums, minimum balances, all fees, penalties, linked products, 3<sup>rd</sup> party fees, and whether those can change over time.</li> <li>Staff is trained to communicate effectively with all customers, ensuring that they understand the product, the terms of the contract, their rights and obligations. Communications techniques address literacy limitations.</li> </ul>
Responsible Pricing	4.15	<ul style="list-style-type: none"> <li>The financial institution does not charge customers for its own inefficiency, as demonstrated by a comparison of efficiency and profitability ratio of similar competitors.</li> </ul>
Ethical Staff Behaviour	3.75	<ul style="list-style-type: none"> <li>The organization’s corporate culture values and rewards high standards of ethical behaviour and customer service.</li> </ul>
Appropriate Collections Practices	3.90	<ul style="list-style-type: none"> <li>Acceptable and unacceptable debt collection practices are clearly spelled out in a code of ethics, book of staff rules or debt collection manual.</li> </ul>
Complaints Handling and Resolution	2.24	<ul style="list-style-type: none"> <li>A mechanism to handle customer complaints is in place, has dedicated staff resources, and is actively used (suggestion boxes alone are generally not adequate).</li> </ul>
Privacy of Client Data	4.55	<ul style="list-style-type: none"> <li>Customers know how their information will be used. Staff explains how data will be used and seeks permission for use.</li> </ul>

## Client Protection Assessment Results

The assessment revealed the following major observations and priority areas for client protection practices.

<b>1. Prevention of Over-indebtedness</b>	<b>3.60</b>
<b>Key Components:</b> Awareness and monitoring, Products, Loan approval policies, Incentives, Compliance	
<b>a. Level of awareness and monitoring of over-indebtedness</b>	

1. Prevention of Over-indebtedness	3.60
<b>Key Components:</b> Awareness and monitoring, Products, Loan approval policies, Incentives, Compliance	
<ul style="list-style-type: none"> <li>• SHGs are required to save for 6 months before credit can be extended, a practice that is meant to allow screening and monitoring of client’s financial situations</li> <li>• Clients are informed of the risks of over-indebtedness, although a small sample of clients showed instances of high credit exposure</li> <li>• Sample of documents indicated that although there is scope to evaluate debt, little heed is paid to existing levels of debt</li> <li>• No formal monitoring of debt during the loan tenure</li> <li>• Occasional mention of debt threshold of 2 loans, Rs. 25,000 outstanding</li> </ul>	
<b>b. Products</b>	
<ul style="list-style-type: none"> <li>• 2 loan products are currently tailored for different income-generating activities, with slight modifications</li> <li>• Numerous credit products are currently in development, including an individual lending programme, gold loans, housing and commodity finance</li> </ul>	
<b>c. Loan approval policies</b>	
<ul style="list-style-type: none"> <li>• Multi-step process including registration, application, and rating</li> <li>• Loan approval process collects information on household income, existing debt, but not yet expenditure</li> <li>• Creditworthiness is only measured superficially - verbal questionnaire, household visit, but no cross-checking and very limited verification</li> <li>• Evaluation is not based on the individual but on appraisal of the group’s performance (savings and loan history)</li> </ul>	
<b>d. Incentives</b>	
<ul style="list-style-type: none"> <li>• Incentive system is differentiated based upon seniority</li> <li>• All field staff (FCO, DO, ABM, BM) are rewarded for both group formation and disbursement, and substantially incentivized with 100% recovery</li> <li>• “Special incentive” also accounts for performance using a more subjective component</li> <li>• Area Manager (AM) is not rewarded for high recovery rate</li> </ul>	
<b>e. Compliance</b>	
<ul style="list-style-type: none"> <li>• Internal audit and control manual has been developed in collaboration with Microsave</li> <li>• Well-defined IA mandate includes SHG visits, random sampling according to numerous factors, and visits to all delinquent groups</li> <li>• Regular SHG visits focus on awareness and bookkeeping, but do not attempt to measure household debt exposure</li> </ul>	

2a. Transparency	4.38
<b>Key Components:</b> Pricing and terms, Staff communication with customers, Materials	
<b>a. Pricing and terms</b>	

2a. Transparency	4.38
<b>Key Components:</b> Pricing and terms, Staff communication with customers, Materials	
<ul style="list-style-type: none"> <li>• Interest rate, loan application fee, processing fee, and security deposit are fully disclosed to the customer during orientation, classroom sessions, and other fora</li> <li>• Customers are provided ample opportunity to review the terms, and are gradually introduced to credit during the 6 month probationary savings period</li> <li>• Prices have been reported to MF Transparency</li> <li>• Passbooks do not contain loan pricing information, but do include rules</li> </ul>	
<b>b. Staff communication with customers</b>	
<ul style="list-style-type: none"> <li>• Staff are provided both classroom training and on-the-job induction to effectively communicate with customers in a comprehensible manner</li> <li>• Written materials are reinforced through verbal communication with both borrower and guarantor (other SHG members)</li> <li>• Frequent local meetings between customers and staff ensure that interactions are regular</li> </ul>	
<b>c. Materials</b>	
<ul style="list-style-type: none"> <li>• Passbooks are up-to-date, registers are well-maintained, and clients are aware of their outstanding balance</li> <li>• Loan pricing is displayed in the branch office, but clients very rarely, if ever, visit the branch</li> <li>• Website is not maintained and does not currently contain any pricing information</li> </ul>	

2b. Responsible Pricing	4.15
<b>Key Components:</b> Efficiency, profitability and competitiveness, Financial relationship with clients	
<b>a. Efficiency, profitability and competitiveness</b>	
<ul style="list-style-type: none"> <li>• Competitive pricing compares favourably with other MFIs in the area</li> <li>• <b>Efficiency?</b></li> <li>• <b>ROA / ROE?</b></li> <li>• Clients are now provided with a repayment schedule that includes the APR, inclusive of fees, and also separates repayments into principal / interest / fees</li> <li>• Clients are not entirely clear why they are asked to pay 10% up-front</li> </ul>	
<b>b. Financial relationships with clients</b>	
<ul style="list-style-type: none"> <li>• Interest rate reduction from 13 to 12%, to maintain competitive pricing</li> <li>• Pre-payment is not penalized</li> </ul>	

3. Ethical Staff Behaviour	3.75
<b>Key Components:</b> Code of Conduct, Rewards mechanisms, Monitoring	
<b>a. Code of Conduct</b>	
<ul style="list-style-type: none"> <li>Detailed Code of Conduct has only been introduced via email circular in December 2010, as a reaction to ongoing problems in the sector</li> <li>Need to state the importance, intention, and expectations that are outlined in the Code of Conduct; AMPL should consider introductory and refresher sessions, as well as the input of the Board (and possibly Committee)</li> <li>Social background of parent Society creates an inherent willingness to behave ethically and for the client's benefit</li> </ul>	
<b>b. Rewards mechanisms</b>	
<ul style="list-style-type: none"> <li>360° appraisal process accounts for ethics, especially during the evaluation of one's superior</li> <li>Annual performance review is a component of incremental bonus, as well as potential for promotion</li> <li>Monthly performance appraisal has only the most basic metric on behaviour - Good/Satisfactory/Bad - and no prescribed room for notes</li> </ul>	
<b>c. Monitoring</b>	
<ul style="list-style-type: none"> <li>Internal audit is very robust and monitors fraud or corruption, as well as observation of the staff</li> <li>Internal audits also conduct home visits to SHG members, and look into the conduct of field staff during their interactions</li> </ul>	

4. Appropriate Collections Practices	3.90
<b>Key Components:</b> Code of Conduct, Collection policies and procedures, Borrower interactions	
<b>a. Code of Conduct</b>	
<ul style="list-style-type: none"> <li>Code of Conduct has only been introduced via email circular in December 2010, as a reaction to ongoing problems in the sector</li> <li>In email circular format, the importance of the Code is only minimally important and it is unlikely that staff will feel obligated to adhere to the Code; alignment between staff and the Code is crucial</li> <li>Code of Conduct is ambitious, but does not make clear how policies will be implemented or who is in charge of ensuring that changes are made</li> </ul>	
<b>b. Collections policies and procedures</b>	
<ul style="list-style-type: none"> <li>Collections take place during the SHG meeting, on a monthly basis</li> <li>Meeting time and place is determined by the group, ensuring that it is convenient and appropriate</li> <li>Sample of clients reported 100% on-time attendance by field staff</li> </ul>	
<b>c. Borrower interactions</b>	
<ul style="list-style-type: none"> <li>Induction training involves job-specific training that uses different tools, including ethical dilemmas, "do's and don'ts", and role playing to demonstrate both acceptable and unacceptable practices</li> <li>Rescheduling is very flexible and is conducted on a case-by-case basis that allows the client to justify their situation - explanations are reviewed by field staff (FCO, BM) and if necessary, head office personnel</li> </ul>	



5. Complaints Handling and Resolution	2.24
<b>Key Components:</b> Mechanisms, Adherence, Use of information	
<b>a. Mechanisms</b>	
<ul style="list-style-type: none"> <li>• Toll-free number is being implemented to ensure a free, anonymous mechanism for complaints</li> <li>• Head office number is provided on the passbook and in registers</li> <li>• Field offices have posted a document that explains the feedback mechanisms and client’s right to complain; unfortunately, clients only visit the branch once a year and thus need to better informed through other channels</li> <li>• Ongoing development of “surprise visits” to field offices to expand the mission of internal audits</li> </ul>	
<b>b. Adherence</b>	
<ul style="list-style-type: none"> <li>• All clients are familiar with the branch office details, in case they would like to speak directly with the BM</li> <li>• As of yet, staff resources have not been dedicated to addressing complaints or grievances</li> <li>• Most clients are unfamiliar with head office details in case of serious problems</li> <li>• Clients should be informed of their right to complain, as the institution can best grow if it effectively addressing the specific needs of its customer base</li> </ul>	
<b>c. Use of information</b>	
<ul style="list-style-type: none"> <li>• Mandate of internal audits could be expanded to scrutinize client satisfaction, and feedback that may not be provided directly to field staff</li> <li>• Need for formal policies to govern the use of complaints and feedback</li> </ul>	

6. Privacy of Client Data	4.55
<b>Key Components:</b> Protection of personal and financial information, Informing Clients, Consent	
<b>a. Protection of personal and financial information</b>	
<ul style="list-style-type: none"> <li>• SHG application and contract includes a disclaimer on the disclosure of loan account details to other MFIs, financial institutions, etc.</li> <li>• Application also permits the release of personal data, demographic information, and other metrics</li> <li>• Usage of information is used to flag problematic areas, or those localities were they is a possibility of over-indebtedness and over-penetration by MFIs</li> </ul>	
<b>b. Informing clients</b>	
<ul style="list-style-type: none"> <li>• Clients are informed of how their information may be used</li> <li>• Explanation of risks is meant to forewarn customers, so that they are aware that their ongoing creditworthiness is important</li> </ul>	
<b>c. Consent</b>	

6. Privacy of Client Data	4.55
<b>Key Components:</b> Protection of personal and financial information, Informing Clients, Consent	
<ul style="list-style-type: none"> <li>Information rights are explained to SHG members during the application process, and they are required to sign if the terms are acceptable</li> </ul>	

## Conclusion

Annapurna Microfinance Private Limited (AMPL) has achieved a composite score of 3.70, with an overall grade of “Mostly Good.” The score reflects strong client protection systems that have already been developed, although there are areas - particularly with respect to the Code of Conduct - that require further involvement by everyone from the Board to the FCO.

The SHG model inherently provides lesser need for client protection. Groups of 10-15 women have a natural strength in numbers that would give them a defensive edge. Additionally, institutions that promote the SHG model are generally driven by social development and not purely financial dealings. The SHG is indicative of a greater effort to empower women, generate an impact in the community, and create able and capable individuals.

Over-indebtedness is not considered in proportion to the size of the problem. Many of the clients have taken one or two loans from another MFI (SKS, Spandana, Asmitha) and cannot necessarily rely on their monthly household income. Since expenditure data is only now being collected, it is unclear how a proper assessment of repayment capacity can be carried out. Given the size of the SHG and the diversity of its members, the group’s overall profile tends to trump the circumstances of the actual members.

In terms of ethical staff behaviour and appropriate collections practice, the staff are polite, soft-spoken, and friendly. No problems have been reported to date, and the clients expressed unanimous approval of the loan officer and their regular attendance. The frequency of visits - thrice a month - means that any problem would be compounded, but there seems to be no instances of wrongdoing. The recent implementation of a Voluntary Code of Conduct will serve to formalise the ethical requirements of staff members, and also to outline acceptable and unacceptable practices in a visible way.

AMPL is a young MFI, and are working in an area of high literacy and good comprehension. So far, there have been good efforts to focus on the client and provide convenient, respectful services that meet the client’s needs. Loan default is currently not a matter of concern nor are complaints; but if these were ever to emerge as problems, the institution should have procedures and policies to effectively deal with the concerns.

Average Score	Rating	Grade
<b>3.70</b>	0.00-1.00	Weak
	1.00-2.00	Not Yet Adequate
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