

Sa-Dhan Code of Conduct

CORE VALUES,

CODE OF CONDUCT AND

COMPLIANCE MECHANISM



PREAMBLE

Microfinance institutions seek to create social benefits and promote financial inclusion by providing financial services to low income households. As these institutions build partnerships with their clients, it is getting increasingly important to define core values and fair practices, so as to ensure that Microfinance services are provided in a manner that benefits and respects clients. This document states core values for Microfinance (Part-I), a Code of Conduct for Microfinance institutions to abide by these values (Part-II) and a process of compliance (Part-III). We, **(insert your MFI name)** member of Sa-Dhan, unanimously and whole-heartedly agree to abide by the core values and the Code of Conduct as set out hereunder:

PART I

CORE VALUES IN MICROFINANCE

INTEGRITY

Our mission is to service low-income clients—women and men—and their families, providing them access to financial services, that are client focused, designed to enhance their well being, and delivered in a manner that is ethical, dignified, transparent, equitable and cost effective.

QUALITY OF SERVICE

We are committed to ensure quality services to clients, appropriate to their needs and delivered efficiently in a convenient and timely manner. While doing so, we agree to maintain high standards of professionalism based on honesty, equality and dedication to serve the poor.

TRANSPARENCY

We shall provide our clients complete and accurate information and educate them about the terms of financial services offered by us such as interest rates and all other charges as well as our policies and procedures in a manner that is understandable by them.

FAIR PRACTICES

We are committed to provide financial literacy to all our clients and ensure that our clients are protected against fraud and misrepresentation, deception or unethical practices. In providing Microfinance services including lending and collection of dues, we are committed to fair practices, which balance respect for client's dignity and an understanding of a client's vulnerable situation, with reasonable pursuit of recovery of loans.

PRIVACY OF CLIENT INFORMATION

We will safeguard personal information of clients, only allowing disclosures and exchange of such information to others who are authorized to see it, with the knowledge and consent of clients.

INTEGRATING SOCIAL VALUES INTO OPERATIONS

We believe that high standards of governance, participative management and reporting- that include social as well as financial data- are critical to our mission to serve our clients and to uphold core social values.

FEEDBACK MECHANISM

We shall provide our clients formal and informal channels for their feedback and suggestions and consistently assess the impact of our services with the object of building our competencies to serve our clients better.

PART II CODE OF CONDUCT

To ensure that all our activities and dealings with clients are in compliance with the above core values, we (insert your MFI name) agree to adopt and practice the Code of Conduct as elaborated hereunder in letter and spirit:

2.0 APPLICATION OF THE CODE:

This Code applies to following activities undertaken by us:

- a) Providing credit services to clients individually or in groups.

- b) Recovery of credit provided to clients.
- c) Collection of thrift from clients, where ever applicable.
- d) Providing insurance and pension services, remittance services or any other products and services that will reduce vulnerability of our clients.
- e) Formation of any type of community collectives including self-help groups, joint liability groups and their federations.
- f) Business development services including marketing of products or services made or extended by the eligible clients or for any other purpose for the welfare and benefit of clients.

2.1 We agree to—

- i. Promote and strengthen the Microfinance movement in the country by bringing the low-income clients to the mainstream financial sector.
- ii. Build progressive, sustainable and client-centric Microfinance institutions in the country to provide integrated financial services to our clients.
- iii. Promote cooperation and coordination among Microfinance institutions and other agencies to achieve higher operating standards and avoid unethical competition in order to serve our clients better.
- iv. Integrate this code into the operating guidelines & processes of our institution.

2.2 In order to achieve the aforesaid, we agree to follow the practices mentioned below:

2.2.1 INTEGRITY AND ETHICAL BEHAVIOUR

- i. Design appropriate policies and operating guidelines to treat our clients and employees with dignity.
- ii. Incorporate transparent and professional governance system to ensure that our staff and persons acting for us or on our behalf are oriented and trained to put this Code into practice.
- iii. Educate our clients of this Code of Conduct and its implementation.

2.2.2 TRANSPARENCY

- i. Disclose to clients all the terms and conditions (including changes if any) of our financial services offered in the language understood by the client.
- ii. Provide loan sanction letter or any other document clearly indicating the rate of interest, mode of charging interest, levy of any other charges, terms of repayment to the client against his/her acknowledgement.
- iii. Provide information to clients on the rate of interest offered on the thrift services, wherever applicable.
- iv. Provide information to clients related to the premium and other fees being charged on insurance and pension services.
- v. Provide periodical statements of their accounts by means of a passbook or any other mechanism to the clients.

2.2.3 CLIENT PROTECTION

a) Fair practices

- i. Committed to follow fair practices built on dignity, respect, fair treatment, persuasion and courtesy to clients.
- ii. Provide micro finance services to low income clients irrespective of caste or religion.
- iii. Provide services using efficient and cost effective methods.
- iv. Obtain no documents other than what are required as per KYC norms from clients.
- v. Obtain no tangible collateral security-except for housing loans under Microfinance- while granting loans under microfinance.
- vi. Release all securities on repayment of all dues by the client.

b) Avoiding Overindebtedness

- i. Take reasonable steps to ensure that credit services are based on the need and repayment capacity of the client and that this service will not put borrowers at significant risk of over-indebtedness.
- ii. Ensure that non-credit, financial products extended to low-income clients are appropriate and the terms are made known to the client.

c) Appropriate interaction and collection practices

- i. Interact with the clients in an acceptable language and dignified manner and spare no efforts in fostering clients' confidence and long-term relationship.
- ii. Have a clearly defined and phased procedure in case of client default.
- iii. Maintain decency and decorum during the visit to the clients' place for collection of dues.
- iv. Avoid inappropriate occasions such as bereavement in the family or such other calamitous occasions for making calls/visits to collect dues.
- v. Avoid any demeanor that would suggest any kind of threat or violence.
- vi. Emphasize using social collateral which includes various forms of peer assurance such as lending through groups and group guarantees at the village, hamlet or neighborhood level, or guarantees by relatives, friends, neighbors or business associates; and explain clearly to clients what the obligations of social collateral are.

d) Privacy of client information

- i. Keep personal client information strictly confidential except in the following circumstances:
 - a. Client has been informed about such disclosure and permission has been obtained.
 - b. It is legally required to do so.
 - c. The party in question has been authorized by the client.
 - d. This practice is customary amongst financial institutions and available for a close group on reciprocal basis (such as a credit bureau).

2.2.4 GOVERNANCE

- i. Observe high standards of governance, ensuring fairness, integrity and transparency by inducting persons with good and sound reputation and understanding of Microfinance as members of Board of Directors. Ensure that at least 1/3 members of the board of directors are independent directors and the board is actively involved in all policy formulations and other important decisions.
- ii. Ensure transparency in the maintenance of books of accounts and reporting/presentation and disclosure of financial statements by qualified auditor/s.
- iii. Put in best efforts to follow the Audit and Assurance Standards issued by the Institute of Chartered Accountants of India (ICAI).
- iv. Place before the Board of Directors, a compliance report indicating the extent of compliance with this Code of Conduct, specifically indicating any deviations and reasons therefore, at the end of every financial year.

2.2.5 CLIENT EDUCATION AND FINANCIAL LITERACY

Raise the client's awareness of the options, choices and responsibilities in the financial relations with us.

- i. Adequately inform clients about our policies and procedures in order to enable them to make informed choices and decisions.
- ii. Ensure regular checks on client awareness and understanding (as part of internal audit systems or through some other regular monitoring).

2.2.6 COMPETITION

- i. Develop regular interaction with other MFIs operating within the same area or in new areas where expansion is planned.
- ii. Follow fair and ethical practices while lending to clients of other MFIs and recruiting employees of other MFIs.
- iii. Explore other unserved and underserved areas for expansion, avoiding areas that are already adequately served.

2.2.7 FEEDBACK/ GRIEVANCE MECHANISM

- i. Establish effective and efficient feedback mechanisms.
- ii. Inform clients about the existence and purpose of these mechanisms and how to access them.
- iii. Designate an official to handle complaints and/ or note any suggestions from the clients and make his/ her contact numbers easily accessible to clients.

- iv. Set up complaint handling systems which will take steps to correct any error and handle/receive complaints speedily and efficiently.
- v. Where complainants are not satisfied with the outcome of the investigation into their complaint, they shall be notified of their right to refer the matter to the Ethics & Grievance Redressal Committee constituted by Sa-Dhan.
- vi. Conduct an annual client survey in order to gauge the effectiveness of our practices and client satisfaction levels.
- vii. Monitor client exit rate and conduct regular exit surveys to understand reasons for leaving MFI program.

PART III

COMPLIANCE MECHANISM

- 3.1 The Board of Directors of Sa-Dhan shall nominate an independent Ethics and Grievance Redressal Committee to facilitate compliance with this Code. The committee shall be constituted of two experts from the sector and three other independent persons nominated by the board of directors of Sa-Dhan. They should be respected and trusted persons from the Microfinance sector and other social development sectors, providing guidance and help in resolving disputes.
- 3.2 The Board of the member Microfinance institutions should adopt the core values and the Code of Conduct on an annual basis.
- 3.3 Disclosure: Independent of any complaints, all members of Sa-Dhan will report regularly on indicators derived from this Code. The analysis of this report will be published on the Sa-Dhan website and the Annual Microfinance Report of Sa-Dhan.
- 3.4 In case of a written complaint received by the Ethics and Grievance Redressal Committee regarding non-compliance with the Code of any member Microfinance institution, the committee shall take the following steps:
- (i) Assist in compliance by giving an opportunity to the member to explain its position by way documents and/or a presentation before the committee. The committee thereafter shall pass its observation and advise corrective measures in case the member is found deficient.

- (ii) In case the member does not respond to the complaint or does not take corrective measures advised by the committee as per step (i) above, shall proceed as follows:
- a. Formally write to the Chief Executive of that member Microfinance institution to respond to the complaint within 15 days.
 - b. If the Chief Executive of that member Microfinance institution fails to respond or on failure to respond satisfactorily within 15 days of the receipt of the communication, the matter will be formally communicated to the board of that Microfinance institution in writing to seek a response.
 - c. If the board does not respond or on failure to respond satisfactorily within the 15 days of the receipt of the communication, the membership of that Microfinance institution shall be suspended till further decision of the committee.
 - d. If the committee decides after scrutiny it is necessary to expel the Microfinance institution from the membership of Sa-Dhan, it shall recommend the expulsion to the Board of Directors of Sa-Dhan.
 - e. The Board of Directors of Sa-Dhan shall then take appropriate action and if they decide to expel the member, the name of the expelled member will be published on the website of Sa-Dhan and shall take any other appropriate step/steps deemed fit to inform such expulsion to other stakeholders.

ANNEXURE

—**Clients** refers to those served by the microfinance institutions - women and men from socially, economically and politically disadvantaged sections of society, including small and marginal farmers, oral lessees, tenants, sharecroppers, disadvantaged social groups, artisans, and persons engaged in small and tiny economic activities.

—**Independent director** means, that apart from receiving director’s remuneration, the individual does not have any material pecuniary relationships or transactions with the company/ organization, its promoters, its senior management or its holding company, its subsidiaries and associated companies:

- is not related to promoters or management at the board level.
- has not been an executive of the company/ organization in the preceding three financial years;
- is not a substantial shareholder of the company, i.e. owning two percent or more of the block of voting shares.

—Documents under Know Your Customer (KYC) norms:

Features	Documents
Accounts of individuals Legal name and any other names used Correct permanent address	(i) Passport (ii) PAN card (iii) Voter’s Identity Card (iv) Driving license (v) Identity card (subject to the MFI’s satisfaction) (vi) Letter from a recognized public authority or public servant verifying the identity and residence of the customer to the satisfaction of the MFI (i) Telephone bill (ii) Bank account statement (iii) Letter from any recognized public authority (iv) Electricity bill (v) Ration card (vi) Letter from employer (subject to satisfaction of the MFI) (any one document which provides customer information to the satisfaction of the MFI will suffice)