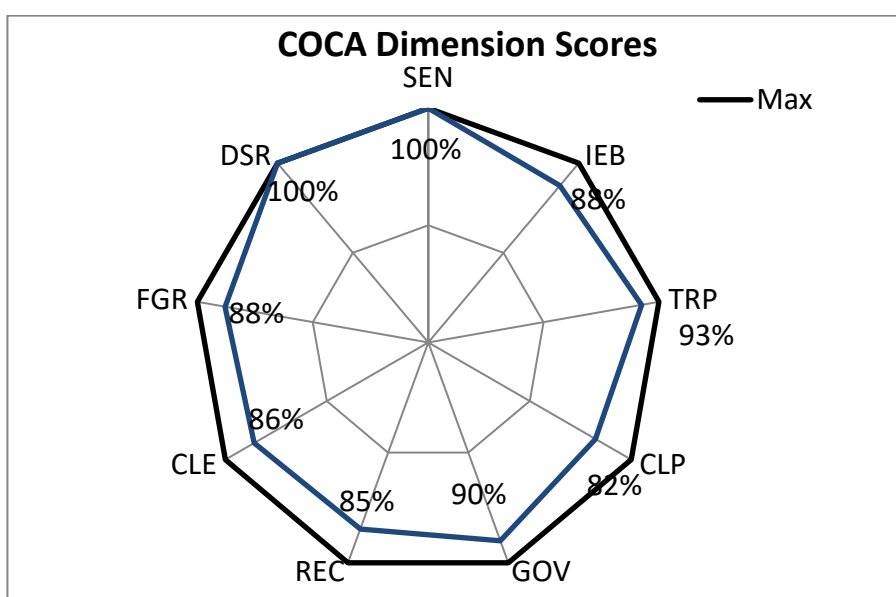


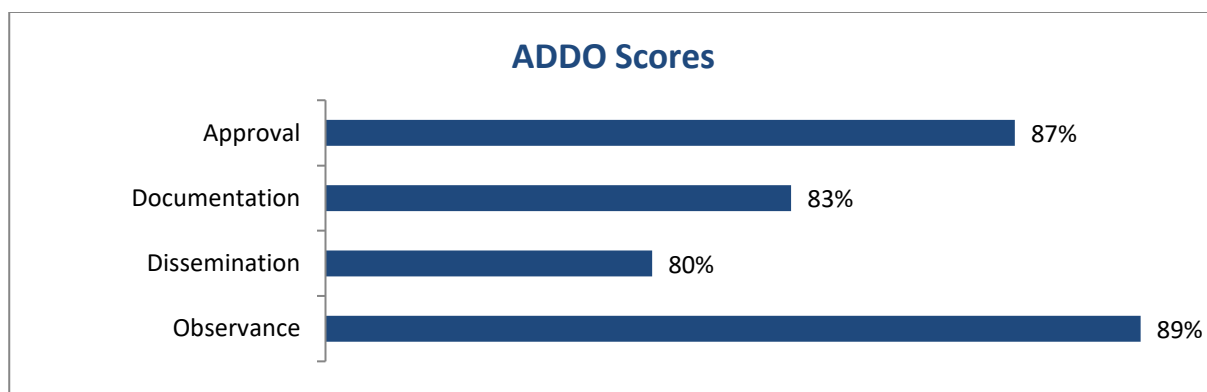
Section 2: Code of Conduct Assessment

COCA Grading - C2 (Good Performance on Code of Conduct dimensions)



SCORES ON PARAMETERS

Code of Conduct Parameters	Code	% Performance
Sensitive	SEN	100%
Integrity and Ethical Behavior	IEB	88%
Transparency	TRP	93%
Client Protection	CLP	82%
Governance	GOV	90%
Recruitment	REC	85%
Client Education	CLE	86%
Feedback & Grievance Redressal	FGR	88%
Data Sharing	DSR	100%



Share with an overall grade of “C2”, indicate **Good Performance on Code of Conduct dimensions**.

Code of Conduct Assessment Summary

The Code of Conduct report for Share Microfin Limited (Share) evaluates the company's adherence to various code of conduct parameters. The study examines and comments upon the common minimum indicators such as:

- Sensitive Indicators
- Integrity and Ethical Behaviour
- Transparency
- Client Protection
- Governance
- Recruitment
- Client Education
- Feedback and Grievance Redressal
- Data Sharing

SMERA believes that SHARE exhibits **Good** performance on COCA dimensions. This document details SMERA's approach and methodology for this study and gives observations of its assessment team while conducting the evaluation. The Approval; Documentation; Dissemination and Observance (ADDO) framework has been used for assessment and measuring Share's adherence towards ethical operational practices.

Strengths and weaknesses pertaining to Code of Conduct

Strengths	Weaknesses
<ul style="list-style-type: none"> • Board with rich experience from Microfinance and finance background. • Experienced and qualified management with more than three decades of experience in MFI industry. • SHARE has more than one-third of its board members as Independent directors. • Transparency in loan pricing and policies. • Adequate software based MIS to handle current scale of operations. • Compulsory training on products terms and conditions to client prior to every loan. • Compulsory check on over indebtedness of every borrower. • SHARE provides acknowledgement to the clients while they apply for loan. • SHARE also enters into loan agreement with the client and copy of the agreement is shared with the client with all terms and conditions of the loan including annualized interest rates. • Code of Conduct framed as per the SHARE's mission, vision, values and displayed in all branch offices & HO. • Membership with MFIN and Sa-Dhan. • Credit policies are well established documented and communicated. • Adequate loan appraisal & monitoring systems. • Efficient systems and strong internal audit team to check misappropriations and regular monitoring of compliance. • Data sharing with all four credit bureaus i.e. CIBIL, Experian, Equifax and High Mark. 	<ul style="list-style-type: none"> • Insurance claim settle process has taken longer than the standard time in the assessed branches; however the management has informed that the claim settlement is taken care by third party and there is no delay from the company end.

Significant Observations

HIGHER ORDER INDICATORS	
Integrity and Ethical Behaviour	<ul style="list-style-type: none"> • The MFI have the policy to place reports on COC compliance before the board at the end of every quarter. • The audit committee of the Board reviews the adequacy of audit staff strength and scope of Internal Audit. • Board has approved a policy of recovering delinquent loans. • MFI prepares monthly reports about the number, nature and resolution of grievances and feedback received for management review and same is presented to audit committee set up at board level. • The MFI has a practice that when it recruits staff from another MFI, the said staff will not be assigned to the same area he/she was serving at the previous employer for a period of one year; however the management has confirmed that the MFI is not recruiting any staff from other MFI. • In all the branches, the contact number and address of SRO nodal official was properly displayed. • Awareness among client and staff on SRO grievance redressal mechanism was found to be moderate to high. • The MFI have the policy to place reports on COC compliance before the board. • Fixed Component compensation of staff is not impacted in event of overdues. SHARE, in its fair practices code provides importance for transparency in pricing and clear communication to the clients.
Sensitive Indicators	<ul style="list-style-type: none"> • Awareness among the staff on RBI guidelines was found to be moderate to high. • There are no adverse observations in the Auditor's report regarding accounting standards followed by the MFI. • SHARE shares accurate data with all credit bureaus on a frequency prescribed by SRO. • SHARE does not charge any extra fees from client apart from processing fee and insurance premium. The loans are issued to the clients without any collateral and no security deposit is accepted. Further no penalty is charged for overdue and pre-closure of loans. The organization also has a well-documented policy on pre-payments. • The MFI gets an external CA agency to certify its compliance with RBI's directions for NBFC-MFIs.

BUILDING BLOCKS	
Transparency	<ul style="list-style-type: none"> • Awareness among the staff on RBI guidelines was found to be moderate to high. • SHARE has documented the pricing of its loan products in its operational manual. In the branches visited loan documents had been maintained in local languages. • Circulars of the most recent RBI directions are available in the form of office orders in the visited branches. • SHARE, in its fair practices code provides importance for transparency in pricing and clear communication to the clients. • The loan interest rate and processing fees is mentioned on the loan passbook provided to the client. • SHARE also enters into loan agreement with the client and copy of the agreement is shared with the client. • Currently the company is furnishing a fact sheet to the clients as per latest RBI directions. • The loan card provides complete repayment schedule with interest and principal separately mentioned. • Clients interviewed were aware of the charges and price for all services availed. • In each of the branches visited, loan documents were maintained in the local language. • SHARE displays the effective rate of interest on its products, at all its branches. • Audit committee verifies through the audit reports whether all clients have received the necessary loan documents. • Pricing policy of loans is displayed in branches visited. • SHARE does not charge any extra fees from client apart from processing fee and insurance premium. The loans are issued to the clients without any collateral and no security deposit is accepted. Further no penalty is charged for overdue and pre-closure of loans. • Previous year's Code of conduct compliance report of SHARE is not available in the public domain.
Client Protection	<ul style="list-style-type: none"> • SHARE has a board-approved policy regarding client data security. • SHARE has documented policy on client data security which forms part of its fair practice code. • Employees are trained on aspects of appropriate behavior with the clients. • SHARE 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"> • The operational manual clearly states that all the information pertaining to a member will be filed and kept at the branch. No visitor is allowed to check the client information without permission from HO. • No instance of fine or penalty being levied or collected from the borrowers. • No instance was observed of borrowers being charged processing fee in excess of 1%. • There had been no instances of a loan classified as qualifying microfinance loan, where the identity proof had not been obtained. SHARE accepts Voter ID Card as primary KYCs and ration card, Aadhaar card as Secondary KYC. • There was no instance of a client being charged additionally for insurance beyond the premium payable to an IRDA approved insurer. • A review of loan files indicates that CB checks were made not more than 14 days prior to disbursement in all cases. SHARE's manual mandates CB checks for capturing overall indebtedness. The checks are automated and conducted centrally. • No instance was observed of borrower indebtedness being more than that stipulated by the RBI. • SHARE has framed a Fair Practice Code and has also adopted the RBI fair practices code. • Employees are trained on aspects of appropriate behavior with the clients. • Staffs were found to be aware of the need to have professional conduct with the clients. • Borrowers confirmed that they receive accurate receipts for all payments made to SHARE. • No incidence of unauthorized sharing of client data by SHARE has been observed during the visits.
Governance	<ul style="list-style-type: none"> • MFIs maintain high standards of governance by inducting persons with good and sound reputation as members of Board of Directors/Governing body. • SHARE has its board with rich experience from Banking and Microfinance sector. SHARE has more than one-third of its board members as Independent directors. • SHARE discloses its MD's compensation in its audited reports (Ref. Audit Report 2023). • An audit committee of the Board with a non-executive director as chairperson. • The MFI has got its accounts audited in a timely manner after the end of the most relevant financial year.

	<ul style="list-style-type: none"> No adverse observations in the Auditor's report regarding accounting standards followed by the MFI.
Recruitment	<ul style="list-style-type: none"> SHARE's board has reviewed its recruitment policies at least once annually. The MFI has a defined and documented process for responding to reference check requests. There is documentary evidence to suggest that MFI has honored the notice period for all employees who have left it. SHARE obtains NOC or relieving letter from the previous employee, in case employees are recruited from other MFIs. The MFI has a practice that when it recruits staff from another MFI, the said staff will not be assigned to the same area he/she was serving at the previous employer for a period of one year; however the management has confirmed that the MFI is not recruiting any staff from other MFI.
Client Education	<ul style="list-style-type: none"> SHARE in its fair practices code provides importance for raising clients' awareness of the options, choices and responsibilities regarding financial products and services SHARE does not charge clients for the trainings provided to clients, itself or through a related party. Awareness among client on annualized Interest rate & Insurance claim settlement process was found to be moderate. SHARE has recently introduced mobile app for Clients and staffs for immediate real-time data access.
Feedback and Grievance Redressal	<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. MFI prepares monthly reports about the number, nature and resolution of grievances and feedback received for management review and same is presented to audit committee set up at board level. SHARE has a policy on time frame and process for client's complaint resolution. Clients were found to be moderately aware of the helpline number. Feedback mechanisms are regularly tracked and monitored. In all the branches, the contact number and address of SRO nodal official was properly displayed. It has an effective system to record complaints received at the toll free number. However, very limited entries were observed in complaint registers maintained at the branch level. Awareness among client and staff on SRO grievance redressal mechanism was found to be moderate to high.

	<ul style="list-style-type: none"> • Dedicated team at HO level to documents and follow up on the client complaints.
Data Sharing	<ul style="list-style-type: none"> • Operational and financial data for FY 2023 is available on the website of SHARE. • MFI has a well-defined process for sharing data with the credit bureaus. • MFI has provided data called for by MFIN and RBI as and when required as per compliance. • SHARE shares accurate data with all credit bureaus on daily basis from Head-office. • SHARE performs compulsory credit bureau checks for all its clients.

ANNEXURES

Microfinance Grading Methodology

A) Operational Track Record

Business Orientation and Outreach of the MFI is an important parameter to gauge the growth strategies of the MFI and to assess its strategies for development. This parameter is analysed using the following sub-parameters.

- Direction & Clarity
- Ability to raise funds
- Degree of association with promoter institution
- Alternate avenues for funds
- Outreach (No. of offices, No. of clients, No. of employees, Portfolio diversification)

B) Promoters & Management Profile

The elements in this parameter helps in assessing the Promoter & management quality evaluated on the basis of the basic educational qualification, professional experience of the entrepreneur; and business attitude that is related to the motivation of carrying out the business and pursuing business strategies. This parameter is analysed using the following sub-parameters.

- Past experience of the management
- Vision and mission of the management
- Profile of the Board Members
- Policies and Processes
- Transparency and corporate governance

C) Financial Performance

SMERA analyses the credit worthiness of the organization through the following financial parameters. Various financial adjustments are done to get more accurate ratios for comparison. Financial analysis helps the MFI to know its financial sustainability. This parameter is analysed using the following sub-parameters.

- Capital adequacy
- Profitability/Sustainability ratios
- Productivity and efficiency ratios
- Gearing and Liquidity ratios

D) Asset Quality

The loan portfolio is the most important asset for any MFI. SMERA analyses the portfolio quality of the MFIs by doing ageing analysis, sectoral analysis, product wise analysis etc. SMERA compares the portfolio management system with organizational guidelines and generally accepted best practices. This parameter is analysed using the following sub-parameters.

- Ageing schedule
- Arrears Rate / Past Due Rate
- Repayment Rate
- Annual Loan Loss Rate

E) System & Processes

SMERA analyses the policies and processes followed by the MFIs, their ability to handle volume of financial transactions, legal issue and disputes, attrition among the employees and client drop out which impact the productivity of the organization. SMERA also analyses asset liability maturity profile of the MFI, liquidity risk and interest rate risk. This parameter is analysed using the following sub-parameters.

- Operational Control
- Management Information System
- Planning & Budgeting
- Asset Liability Mismatch

F) Financial Performance

SMERA analyses the credit worthiness of the organization through the following financial parameters. Various financial adjustments are done to get more accurate ratios for comparison. Financial analysis helps the MFI to know its financial sustainability. This parameter is analysed using the following sub-parameters.

- Capital adequacy
- Profitability/Sustainability ratios
- Productivity and efficiency ratios
- Gearing and Liquidity ratios

Thus an evaluation of MFI would be comprehensive assessment based on the financial and non-financial parameters of any MFI.

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-SRO) 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 Behaviour	
Building Blocks	
Governance	Client Protection, Recruitment
Transparency	Feedback/Grievance Redressal
Client Education	Data Sharing

Chart: COCA Indicators Framework