

CORE VALUES
AND
VOLUNTARY MUTUAL CODE OF CONDUCT
FOR MICRO FINANCE INSTITUTIONS



INTRODUCTION

Microfinance institutions seek to create social benefits and promote financial inclusion by providing financial services to low income households, including those who were previously excluded. As these institutions build partnerships with their clients and the microfinance sector grows more complex, 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 voluntary mutual code of conduct for microfinance institutions to abide by these values (Part-II) and a process of compliance (Part-III). All microfinance institutions, which are members 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 short term and/or long-term 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 believe that our clients deserve fair and efficient microfinance services. We will provide these services to them in as convenient, participatory and timely manner as possible.

TRANSPARENCY

We shall give our clients complete and accurate information and educate them about the terms of financial services offered by us in a manner that is understandable by them.

FAIR PRACTICES

We are committed to ensure that our services to our clients are not unethical and deceptive. 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, participation, management and reporting 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 for building our competencies to serve our clients better.

Part-II

VOLUNTARY MUTUAL CODE OF CONDUCT

To ensure that all our activities and dealings with clients are in compliance with the above core values, we all agree to adopt the code of conduct as elaborated hereunder:

2.0 APPLICATION OF THE CODE:

- i) This code applies to all categories of member microfinance institutions - irrespective of their constitution (a society or a trust or company or cooperative society under any state enactment or Multi-State Cooperative Societies Act) - whose principal activity is microfinance.
- ii) This code applies to following activities undertaken by member microfinance institutions:
 - a) Formation of any type of community collectives including self-help groups, Joint liability groups and their federations.
 - b) Providing financial literacy to the clients.
 - c) Collection of thrift from clients.
 - d) Making arrangement for remittance of funds collected from clients through banking channels or by any other means.
 - e) Providing credit services to clients individually or in groups;
 - f) Recovery of credit provided to clients for economic activities or for any other purpose for the welfare and benefit of clients.
 - g) Business development services including marketing products or services made or extended by the eligible clients or for any other purpose for the welfare and benefit of clients.
 - h) Providing insurance or pension benefit products as partners or agents of insurance companies, or pension or mutual fund schemes duly licensed to undertake microfinance or insurance or pensioners' benefit schemes by a competent authority.
- iii) Certain key words used in this code are defined in the Annexure at the end of this code.
- iv) This code comes into effect from 18 January 2007 unless otherwise indicated.

2.1 We all 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.

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

2.2.1 INTEGRITY

We agree to—

- i) Act honestly, fairly and reasonably in conducting microfinance activities.
- ii) Conduct our microfinance activities by means of fair competition, not seeking competitive advantages through illegal or unethical microfinance practices. No officer, employee, agent or other person acting on our behalf shall take unfair advantage of anyone by manipulation, concealment, abuse of privileged information, misrepresentation of material facts or any other unfair practice.
- iii) Prominently display the core values and code of conduct on the notice board of head office and all branches, and put systems in place to ensure compliance.
- iv) Ensure that our staff and any person acting for us or on our behalf, are trained or oriented to put these values into practice.

2.2.2 TRANSPARENCY

We agree to—

- i) Disclose to clients all the terms and conditions of our financial services offered in the language understood by the client.
- ii) Disclose the source of funds, costs of funds and use of surpluses to provide truthful information to clients.

- iii) Provide information to clients on the rate of interest levied on the loan, calculation of interest (monthly/quarterly/half-yearly), terms of repayment, and any other information related to interest rates and other charges
- iv) Provide information to clients on the rate of interest offered on the thrift services provided by us.
- v) Provide information to clients related to the premium and other fees being charged on insurance and pension services offered by us as intermediaries.
- vi) Provide periodical statements of our accounts to the clients.

2.2.3 FAIR PRACTICES

We are committed to follow fair practices built on dignity, respect, fair treatment, persuasion and courtesy to clients. We agree to-

- i) Provide micro finance services to low income clients irrespective of gender, race, caste, religion or language.
- ii) Ensure that the services are provided using the most efficient methods possible to enable access to financial services by low income households at reasonable cost.
- iii) Recognize our responsibility to provide financial services to clients based upon their needs and repayment capacity.
- iv) Promise that, in case of loans to individual clients below Rs 25,000, the clients shall not be asked to hand over original land titles, house pattas, ration cards, etc as collateral security for loans except when obtaining copies of these for fulfilling “know your customers” norms of the RBI. Only in case of loan to individual clients of Rs 25,000/- and above can land titles, house pattas, vehicle RC books, etc. be taken as collateral security.
- v) Interact with the clients in an acceptable language and dignified manner and spare no efforts in fostering clients’ confidence and long-term relationship.
- vi) Maintain decency and decorum during the visit to the clients’ place for collection of dues.
- vii) Avoid inappropriate occasions such as bereavement in the family or such other calamitous occasions for making calls/visits to collect dues.
- viii) Scrupulously avoid any demeanour that would suggest any kind of threat or violence.

- ix) Emphasize using social collateral which includes various forms of peer assurance such as lending through groups and group guarantees at the village, hamlet or neighbourhood level, or guarantees by relatives, friends, neighbours or business associates; and explain clearly to clients what are the obligations of social collateral.

2.2.4 GOVERNANCE

We agree to—

- i) Observe high standards of governance, ensuring fairness, integrity and transparency by inducting persons with good and sound reputation, as members of Board of Directors. We shall ensure that the majority of the directors are independent directors and/or duly elected representatives of the community we serve, and that we will involve the Board in all policy formulation 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 our 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 Voluntary Mutual Code of Conduct, specifically indicating any deviations and reasons therefore, at the end of every half financial year.

2.2.5 FEEDBACK/ GRIEVANCE MECHANISMS

We agree to—

- i) Establish effective and efficient feedback mechanism
- ii) Take steps to correct any errors and handle complaints speedily and efficiently.
- iii) Provide; where a complainant is not satisfied with the outcome of the investigation into her complaint, she shall be notified of her right to refer the matter to the Ethics and Grievance Redressal Committee constituted by Sa-Dhan.

Part-III

COMPLIANCE MECHANISM

- 3.1** The Board of Directors of Sa-Dhan shall form an independent Ethics and Grievance Redressal Committee to facilitate compliance with this code. The committee shall be constituted of respected and trusted persons from the microfinance sector and other social development sectors, providing guidance and help in resolving any 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** In case of a written complaint received by the Ethics and Grievance Redressal Committee regarding non-compliance with the code by any member microfinance institution, the committee shall take the following steps:
- i) Assist in compliance.
 - ii) Failing which—
 - 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 within **15** days of the receipt of the communiqué, 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 within the **15** days of the receipt of the communiqué, the membership of that microfinance institution shall be suspended till further decision of the committee.
 - d) If the committee decides 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 the appropriate decision and if they decide to expel the member, the name of the expelled member will be published on the website of Sa-Dhan.

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.

“Microfinance Services” means the following activities undertaken by Sa-Dhan’s member microfinance institutions:

- i) Formation of any type of community collectives including self-help groups, Joint liability groups and their federations;
- ii) Collection of thrift from clients;
- iii) Making arrangement for remittance of funds collected from clients, through banking channels or by any other means;
- iv) Providing credit services to clients, individually or in groups.;
- v) Recovery of credit provided to clients for economic activities or for any other purpose for the welfare and benefit of clients;
- vi) Business development services including marketing products or services made or extended by the eligible clients or for any other purpose for the welfare and benefit of clients.
- vii) Providing insurance or pension benefit products as partners or agents of insurance companies or pension or mutual fund schemes duly licensed to undertake micro finance or insurance or pensioners’ benefit schemes by a competent authority

“Thrift” means savings of clients, who have become members of self-help groups, other than public deposits.