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CERISE SPI4



Sampurna Training and Entrepreneurship Programme (STEP)

Social Performance Audit Mission Report

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List of Acronyms

APR	Annual Percentage Rate
BoD	Board of Directors
BP	Business Plan
BDP	Business Development Program
BM	Branch Manager
CEO	Chief Executive Officer
CM	Collector Motivator
CoC	Code of Conduct
CP	Client Protection
EIR	Effective Interest Rate
FDP	Family Development Program
FSP	Financial Service Provider
HO	Head Office
HR	Human Resources
KYC	Know Your Customer
LLER	Loan Loss Expense Ratio
LPF	Loan Performer
MF	MicroFinance
MIS	Management Information System
NFS	Non-Financial Services
OER	Operating Expense Ratio
OSS	Operational Self-Sufficiency
PAR	Portfolio at Risk
PAT	Poverty Assessment Tool
ROA	Return On Assets
RBI	Reserve Bank of India
SMS	Social Monitoring System
SPI4	Social Performance Indicators 4 (social audit tool)
SPM	Social Performance Management
SPTF	Social Performance Task Force
STEP	Sampurna Training and Entrepreneurship Programme
USSPM	Universal Standards for Social Performance Management

In this report, the term “partners” refers to STEP’s borrowers.

Executive Summary

Sampurna Training and Entrepreneurship Programme (STEP) is a non-profit company registered in West Bengal, India, which offers a wide range of services, from financial to business development and social activities.

The social audit of STEP Microfinance was conducted in Kolkata (India) from January 15th to 19th 2018, using Cerise SPI4 (v.2.0.3), with the “pro-poor” TrueLift module.

Assessment – The assessment with the SPI4 questionnaire revealed that, on social goals, STEP has a clear line and currently focuses on the poorest living in slums of Kolkata and Howrah. STEP monitors poverty evolution by using a comprehensive Poverty Assessment Tool (PAT) upon each new loan. Management staff and employees seem very committed to social goals, but the commitment of the BoD could nevertheless be better (for example, one of the board members irregularly attends BoD meetings). STEP has no clear incentive scheme in place, but increase in remuneration may be granted annually based on financial and social assessments.

STEP has a clear business model and showed that it could create new products and improve its portfolio of partners. This may explain that STEP has not put in place any formal process nor policy challenging its existing products, delivery channels, barriers, etc. or to create new ones. Similarly, STEP only assesses adequacy of its products/delivery channels and client satisfaction through informal group discussions. That said, STEP’s range of products is quite diversified and offers some flexibility, but maximum amounts may prove too low.

Prevention of over-indebtedness seems well-managed thanks to a comprehensive operation manual. Loan approval and disbursement process are transparent and rapid (one week). Codes, manuals and trainings are in place to maximize fair and respectful treatment of clients. Complaint resolution mechanisms have been initiated, though STEP certainly has room for improvements.

STEP has a written human resources policy in place, covering a wide range of matters even if the assessments evidenced some areas not yet covered. Employee satisfaction is mainly addressed during personal assessment interviews. Turnover rates which remain low are monitored (6% in 2017) and analysed.

As to the balance between financial and social performance, target growth, as developed in the Business Proposal 2017-2021, is ambitious but, according to CEO, based on market research, credit bureau data and MFI implantation in the Kolkata area. STEP remains below the 1% limit advised by RBI for LLER. OER is at 8.8% for the period from April 2017 to December 2017. ROA for 2017 is at 1.6% (donations not included). OSS as at 31 Dec 2017 is declared to be 112%. But STEP has no clear incentive plan.

Main Recommendations – STEP should, on a regular basis, carry out a formal satisfaction survey with a relevant sample of active and, if possible, dropped-out partners, covering at least satisfaction with respect to past loan(s) and opinion of partners about design/adequacy of products and delivery channels.

In addition, the assessment of poverty level is made before the granting of any loan, so that the situation of partners subscribing several loans can be monitored throughout the relationship, but the impact in case of drop-out is not assessed. An assessment of partners a few weeks or months after repayment of the loan if no new loan has been made available would allow STEP to evaluate the impact of its activity even in case of drop-out.

Impact of internal audits may be another area of improvement for STEP. Once audit findings are reported to the senior management and to the BoD with recommendations, they may be discussed in management meetings and – to the extent possible – in BoD meetings, and corrective actions taken (or justification should be provided in the absence of corrective actions).

Finally, the increasing use of mobile devices will certainly bring substantial operational benefits.

I. Presentation of Sampurna Training and Entrepreneurship Programme (“STEP”)

Sampurna Training and Entrepreneurship Programme (STEP) is an Indian non-profit company registered in West Bengal under section 25 of the company Act 1956. It was incorporated in September 2010 and is located at 222/18, MC Garden Road, Kolkata 700030, West Bengal, India.

STEP originally started its activity in 2007 under the name of Navnirman Community Resource Centre (NCRC). NCRC was a social microfinance organization based in Mumbai which extended its support to start a microfinance project in West Bengal in 2007. It was thereafter decided that a specific entity in West Bengal would be registered under the name STEP and that under the new organization, STEP would acquire the whole activity in West Bengal.

In January 2011, STEP formally launched its wide range of socio-economic services including family counselling, social awareness and business management training, business counselling, etc. to uplift the socio-economic conditions of vulnerable people in the slums of Kolkata and Howrah.

In January 2014, STEP took over the microfinance program of NCRC along with the management staff and field officers.

Since the beginning STEP is receiving financial and technical support from Entrepreneurs du Monde.

In February 2014, STEP received permission from RBI to get external commercial borrowings. In April STEP received funding support from a French organization called Microfinance Solidaire. In October STEP entered into a partnership with MicroGraam, a foundation worked in collaboration with Kiva.

In January 2015, STEP received a loan from BNP Paribas.

STEP’s vision is:

A flourishing society where vulnerable families are empowered to improve and strengthen their standard of living.

Today, STEP has a wide range of services, financial but also business development and social activities. Non-financial services include business management training, social training, family development program, business counselling, vocational training programs, skill training workshops, business networking, cooperative development and social referrals.

II. Methodology

a. Audit tools

The social audit of STEP Microfinance was conducted using Cerise SPI4 (v.2.0.3), a social audit tool that allows FSPs to evaluate their level of implementation of the Universal Standards of Social Performance. The SPI4 assesses an FSP’s strengths and weaknesses with the goal of using this information to improve its social performance. The SPI4 includes a “core” module that consists of:

- The Universal Standards for Social Performance Management – a comprehensive manual of best practices created by and for people in microfinance as a resource to help financial institutions achieve their social goals.
- Smart Campaign Client Protection Certification Standards – the minimum standards that clients should expect to receive when doing business with a financial institution. All of the Smart certification standards and their associated indicators are incorporated into the USSPM.

This core module covers six dimensions: (1) defining and monitoring social goals, (2) ensuring board, management and employee commitment to social goals, (3) designing products, services and delivery channels that meet clients' needs and preferences, (4) treating clients responsibly, (5) treating employees responsibly and (6) balancing financial and social performance.

The optional "pro-poor" TrueLift module has also been used for the assessment of STEP.

The audit was carried out as an accompanied self-assessment.

b. Process

Before the field mission, we exchanged emails with Mr Abhijit Bera, CEO and Director of STEP, to establish a first agenda and obtain documents to prepare the mission.

The mission took place in Kolkata (India) from January 15th to 19th, 2018. After an introduction of the SPTF principles and the SPI4 questionnaire, we started interviews (for the list of interviewed people, please see Annex 1) and requested additional documents (the list and summary description of documents received from STEP is available in Annex 2).

The first two days of the mission were dedicated to interviews at STEP's HO.

On Wednesday, we visited a branch and met several "partners" (the term used by STEP to call their borrowers) at different stages of the loan process (two collections, a group visit and a home visit for the checking of information before granting of a loan), and could discuss with loan officers (called collector motivator or CM), a branch manager and the two MF coordinators, before pursuing interviews at the HO with the Fin-Admin manager and the CEO. We also had the chance to visit a vocational program training session which consisted in a hairdressing course to a dozen of individuals (not necessarily partners).

On Thursday, while STEP's staff attended a conference on microfinance held in Kolkata, we reviewed the SPI4 questionnaire and prepared the feedback meeting.

On Friday, we finalized the TrueLift questionnaire and made a feedback presentation to the HO staff and branch managers where we presented our conclusions and suggestions for open discussion.

Our schedule is attached as Annex 3.

III. Dashboards and Reports

a. SPI4 Social Dashboard

SPI4 SOCIAL DASHBOARD			CERISE			
STEP	India	Since 2010				
NGO	Non profit	As of date: 15-Jan-18				
Type of assessment: Accompanied Self-Assessment (ASA)			Organization of auditor: BNP PARIBAS			

MISSION STATEMENT
 To provide low income and disadvantaged families with sustainable adapted and innovative financial, business development, access to employment and social services, building their self-reliance and capacity to realize their wishes.

UNIVERSAL STANDARDS	80%	CLIENT PROTECTION STANDARDS (LIGHT ASSESSMENT)
<ul style="list-style-type: none"> 1 - Define and monitor social goals: 90 2 - Commitment to social goals: 87 3 - Design products that meet clients' needs: 65 4 - Treat clients responsibly: 88 5 - Treat employees responsibly: 70 6 - Balance social and financial performance: 90 		<p>This graph represents scores which does not include the compliance criteria required for a complete Client Protection Certification</p>
Comments on your adherence to Universal Standards		Comments on your adherence to Smart Campaign Principles

CONTEXT & FINANCIAL INFORMATION		Financial data on the date of: 15-Jan-18	
Total number of clients	8 820	Total Assets, volume, INR	108 361 642
Number of branches	8	Return on Assets	2%
Number of branches in rural areas	1	Return on Equity	10%
Number of active borrowers	8 820	Financial Expense Ratio (as a % of average GLP)	11,1% (borrowings) or
Number of outstanding loans	10 484	Operating Expense Ratio (as a % of average GLP)	9%
Amount of Gross Loan Portfolio in INR	96 280 800	Operational Self-Sufficiency	112%
Number of voluntary savers	0	Nominal Portfolio Yield	20%
Number of women voluntary savers	0	PAR >30 + rescheduled	0%
Amount of voluntary deposit in INR	0	Write-offs (during the period)	0%
Amount of total deposits in INR	0	Loan Loss Expense Ratio	0%




BOARD AND STAFF COMPOSITION	
Number of staff	49
Staff turnover rate	9,1%
Staff productivity (outstanding loans / field staff)	300
Social performance criteria in employee appraisals	Yes

Board	1	8
Management	4	2
Credit and front office	18	17
Total Staff	28	21
	Women	Men

KEY CHARACTERISTICS OF LOANS

Lending Methodology	Solidarity Group	
Outstanding loan balance per borrower	575,6%	of GNI/capita
Interest rate method	Declining balance interest method	
Average APR	30%	per year
Borrowers retention rate	73%	per year

RESPONSIBLE FINANCE INITIATIVES

	Endorser?	Yes
	Certified?	---
	Reporting of social data?	Quarterly reporting

SEGMENTATION OF LOAN PORTFOLIO



MOST RECENT SOCIAL RATING

Agency	Date	Result
---	N/A	---

CLIENT SATISFACTION

Number of complaints received in the last 3 months? N/A

Client satisfaction rate in recent satisfaction survey

FINANCIAL SERVICES

Loans	Yes
Microenterprise loans	Yes
SME loans	No
Loans for agriculture	No
Express loans	No

Loans for education	Yes
Housing loans	Yes
Emergency loans	Yes
Other microcredit for consumption	no

Deposits	no
Compulsory Insurance	Yes
Voluntary Insurance	no
Credit Life insurance	no
Life/accident insurance	no
Agriculture insurance	no
Health insurance	no

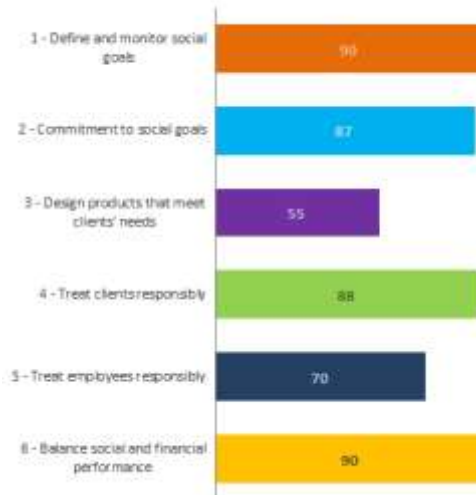
Other financial services	no
Debit / credit card	No
Scholarships/educational grants	no
Mobile banking services	no
Savings facilitation services	no
Remittance/money transfer services	no

NON FINANCIAL SERVICES

Enterprise services	3208 clients	Health services	5479 clients
Education services	19641 clients	Women's empowerment services	519 clients

b. Universal Standards Report

Universal Standards Score by dimensions



1 - Define and monitor social goals



2 - Commitment to social goals



3 - Design products that meet clients' needs



4 - Treat clients responsibly



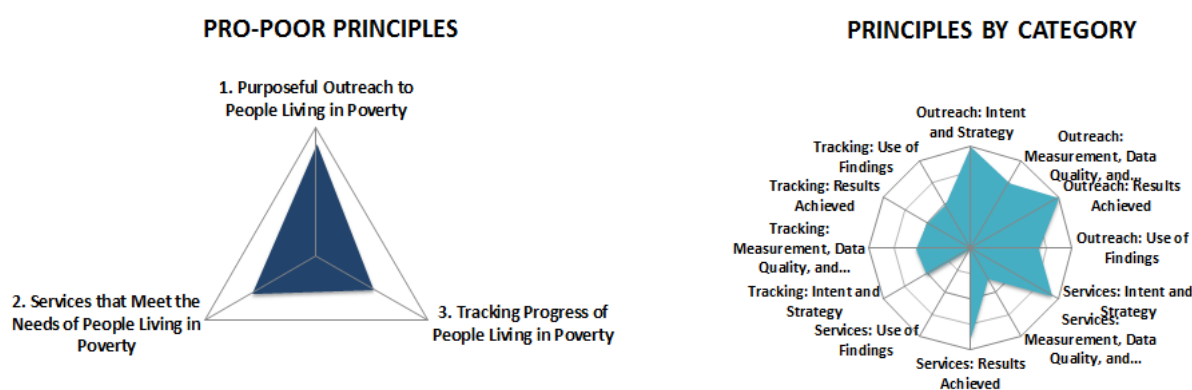
5 - Treat employees responsibly



6 - Balance social and financial performance



c. TrueLift Pro-poor Scores



IV. Universal standards results by dimensions and standards

a. Dimension 1: Define and monitor social goals (90%)

Standard 1A: The provider has a strategy to achieve its social goals (88%)

STEP's mission statement is clear and comprehensive, targeting low-income and disadvantaged families:

To provide low income and disadvantaged families with sustainable adapted and innovative financial, business development, access to employment and social services, building their self-reliance and capacity to realize their wishes.

In practice, STEP has a clear line and focuses on the poorest living in slums of Kolkata and Howrah, though a new branch in a rural area, still in West Bengal, is planned for opening in 2018.

The mission is disclosed to new staff and visible to staff and partners in branches as well as at HO.

STEP's strategy, as evidenced in the Business Proposal 2017-2021, defines STEP's vision, mission and core values, but targets and indicators for social goals could be defined more accurately.

STEP's strategy shows how STEP's action will reduce client vulnerability and, above all, promote economic opportunities, but the reduction of barriers to financial inclusion is induced and could be more properly targeted and documented.

Standard 1B: The provider collects and discloses accurate client data specific to its social goals (92%)

STEP has a formal management information system based, until recently, on two tools: SMS (Social Monitoring System, which was a software provided by *Entrepreneur du Monde*) and LPF (Loan Performer, i.e. a financial reporting tool). SMS software is designed to manage a wide range of data related to social missions: the poverty assessment questionnaires, the training services provided, as well as other non-financial services such as individualised follow-ups, counselling or referral services. SMS also includes a link feature with LPF in order to retrieve the list of partners of the institution and to maintain data consistency across systems.

SMS and LPF are gradually being replaced by Bijli – a tailor-made tool – since November 2017. Only LPF data will be migrated into Bijli.

The SMS, LPF and operation manuals set out the protocols for data collection and relevant staff is trained by the MIS manager.

STEP monitors poverty evolution thanks to poverty assessments carried out with a Poverty Assessment Tool (PAT) upon each new loan. The PAT is a comprehensive questionnaire for the assessment of poverty level of

partners, covering health security, education, income security, housing and assets¹. However, the PAT is not used to monitor the situation of former partners in case of drop-out (this may be explained by a lack of resources at STEP and a lack of motivation on partners' side to share information once they are no longer borrowers), but STEP occasionally carried-out drop-out surveys on a sample basis.

STEP edits monthly reports and declares that it shares information with the MIX on a quarterly basis (though STEP does not appear in the MIX database).

b. Dimension 2: Ensure board, management and employees commitment to social goals (87%)

Commitment of BoD, management staff and employees to social goals seems high at STEP, but commitment of the BoD could nevertheless be better (for example, one of the board members irregularly attends BoD meetings) and STEP has no clear incentive scheme in place (though increase in remuneration may be granted annually based on financial and social assessments).

Standard 2A: Members of the board of directors hold the provider accountable to its mission and social goals (82%)

STEP's BoD has four members: two of them are employees (CEO and Operation Manager) and two are external directors. External directors may not be aware of developments on social performance management initiatives, and although they sign a commitment letter with respect to the roles and responsibilities of the BoD, they do not formally agree upon the CoC. In addition, out of the two external members, one is actively present on board meetings (quarterly), but the other one irregularly attends meetings because of other activities (but CEO currently considers a change in BoD to ensure a better commitment).

The document describing the roles and responsibilities of the BoD is comprehensive but does not seem to be fully implemented in practice. Decisions seem often taken at CEO level. However, BoD is involved on major issues and, though minutes of BoD meetings are concise, the CEO affirms that adequate information is shared with the BoD (provided such information is available: employee satisfaction surveys are for example not formalized).

Standard 2B: Senior management oversees implementation of the provider's strategy for achieving its social goals (96%)

The social strategy is described in the business plan and keeps focused on STEP's mission. Social performance reports are systematically reviewed by senior management. Social performance-related risks are discussed in coordination meetings, but some risks may not be discussed or irregularly (like employee dissatisfaction, which is not formally assessed, or gender equalities, not particularly relevant to STEP which model focuses on group lending to women).

Standard 2C: Employee recruitment and evaluation is based on both social and financial performance criteria (81%)

Though it is not formalized, interviews include questions related to social performance. Plus, partners have been recruited at STEP which shows commitment to social goal.

Assessment forms exist for CM, BM and management staff, and cover expressly financial and social performance for CM and BM (but categories are wider in management staff assessment form). However, employees are not directly incentivized in connection with financial and social performance, though increase in remuneration may be granted annually in connection with financial and social performance (but there is no "increase grid").

¹ See Annex 2 for more information.

We also note that several members of the organization, including branch managers or collector motivators used to be partners of STEP and have thus a practical knowledge of the social process.

c. Dimension 3: Design products that meet clients' needs (55%)

Standard 3A: The provider understands the needs and preferences of different types of clients (31%)

STEP has a clear business model and showed that it could create new products and improve its number of partners, and has therefore not put in place any formal process (like market research) to create or reconsider its products, delivery channels, barriers, etc., and only assesses products/delivery channels adequacy and client satisfaction through informal group discussions (except that drop-out surveys have been made, but not on a frequent and regular basis), which explains the low mark on this standard.

Standard 3B: The provider's products, services and delivery channels are designed to benefit clients, in line with the provider's social goals (78%)

STEP does not have a policy defining how to offer suitable products and services through appropriate channels. Design and improvements of products are based on group discussions. STEP's catalogue of products nevertheless offers flexibility and appears adequate for the targeted clients (4 business loan, education loan, medical loan and housing loan, but no products in connection with weddings and funerals), but maximum amounts remain low. Staff is trained to offer products based on clients' needs. Considering its status (NGO), STEP is not authorized to propose products like savings, and does not propose insurance other than bundled with the loans.

Though "aggressive sales" are not expressly defined in STEP's policies, the operational manual lists do's and don'ts for field staff, which in addition is regularly trained and not directly incentivized to sales.

d. Dimension 4: Treat clients responsibly (88%)

Standard 4A: Prevention of over-indebtedness (94%)

STEP has a comprehensive operational manual addressing in detail the whole relation with partners, from promotion to repayment, and providing for the repayment capacity analysis to be carried out before disbursement. The internal auditors and the MF coordinators ensure that these policies are complied with (and mistakes are reported to the HO).

Every loan is checked and submitted to credit bureau.

Quality of the portfolio is very good and over-indebtedness risk on business loans is addressed monthly at branches when exports are analysed.

Standard 4B: Transparency (100%)

Although partners do receive a key fact document before signing the loan contract (this is apparently not the practice in India), it seems that loan contracts contain all relevant information (based on interviews with the CEO, the agreements being in Hindi and Bengali) and the pre-disbursement process (promotion, orientation meeting, loan application workshop, home visit, general training), generally over one week, is such that partners normally understand the products. Transparency is supported by posters with APR, fees, products description on the wall of each branch and field staff receives initial 2-week training when joining and then training updates are made every month (routine programs).

Standard 4C: Fair and respectful treatment of clients (88%)

STEP promotes fair and respectful treatment of clients. The code of conduct and the HR manual list values and standards that must be complied with (but no sanctions are set out in connection with misconducts). The code of conduct and the operational manual, together with regular trainings provided to staff, aim at

ensuring that collection practices are appropriate. Complaint boxes are available to partners in all branches, but barely used. Management reviews results related to respectful treatment of clients (discussed in general meetings) but no formal surveys are carried out.

Standard 4D: Privacy of client data (79%)

Confidentiality principles appear in code of conduct “privacy of client information” and operational manual (“values”), however it does not state how to actually achieve it. Nevertheless, MIS requires individual credentials for login and data storage is outsourced and backed up.

Clients are informed about data privacy at different steps of the process. Information about data sharing is given orally at application, and consent is also verbal at this stage. Written consent is in the loan contract, which is signed after disclosure of information to credit bureau.

Standard 4E: Mechanisms for complaint resolution (79%)

We have seen a complaint box available at the entrance of the branch we visited and the management staff confirmed that complaint boxes were available outside each branch. Clients can also talk to branch manager and even contact HO staff and come to HO (most of the time, partners address their complaint over the phone, directly with the branch manager). However, there is no secure system so that complaints concerning agents or branches are handled by relevant HO staff; complaints are solved at branch level and discussed at head office if necessary. In practice, it seems that complaints are extremely rare and, according to HO staff, solved within 15 days, which explains that no prioritization has been put in place.

Clients are informed about the internal complaint process (which, according to HO staff, is also mentioned in the loan contract) but not about an external complaint possibility. There is no system of notification for received/resolved complaints. Such a process may be too burdensome considering STEP’s activity and number of complaints. Similarly, STEP’s size and low volume of complaints are such that analysis of complaints and corrective actions to improve operations and products are limited. That said, STEP has implemented a process of complaint management, but it is not used by partners who prefer to complain orally or by phone. STEP has no bonus system directly linked to performance/non-performance but complaints are taken into account within performance evaluation and staff appraisals. The analysis of complaints data and satisfaction surveys is handled during general meetings but not formalized. Finally, complaint handling is described in operation manual as well as in the code of conduct but no training is delivered on this subject, though a training on code of conduct exists.

e. Dimension 5: Treat employees responsibly (70%)

Standard 5A: HR Policy (52%)

STEP has a written human resources policy in place (HR manual) which, to our understanding, complies with applicable laws. Relatively low mark on this standard can be explained by the following:

- (i) Safety at work, whistleblowing, anti-harassment safeguards and freedom of association and provision of any collective bargaining agreements, and anti-discrimination with respect to social orientation, political affiliation/opinion and participation in trade union are not covered in the HR policy;
- (ii) STEP has no formal grievance mechanism. During an interview, the HR manager described a process of complaints (escalation and issue solving) which is not formalized, and confidentiality cannot be ensured;
- (iii) There is no assessment of health and safety risks at work. According to HR manager, work-related injuries are very rare; solutions are studied on case by case and solved consequently (e.g. a CM had a cycle accident: salary and medical help were paid by STEP), but this is not formalized in any document.

Previous comments have to be understood taking into account the specificity of India where work laws, HR policies or way of working may widely vary from other parts of the world.

STEP has a transparent salary scale (HR manual). Informal comparisons are made with local organizations, area or government statistics. Starting wage at STEP is 7500 INR/month including compensation (like traffic allowance).

Standard 5B: Communication of Terms of Employment (100%)

Employment conditions and job description seem adequately explained in the employment contracts and/or the HR manual. Job training is also covered by the HR manual.

Standard 5C: Employee Satisfaction (58%)

STEP does not formally monitor employee satisfaction on regular basis, for example through satisfaction surveys (last satisfaction survey was carried out in 2012). Employee satisfaction is mainly addressed during personal assessment interviews.

Turnover rates remain low and are monitored (8% in 2016, 6% in 2017) as well as analysed, together with reasons for employee exit (examples taken include new job, relocation, health) and, in case of high turnover, other parameters like gender, position, branch may be taken into account.

HO staff regularly conducts audits at branches to attest HR policy application.

f. Dimension 6: Balance financial and social performance (90%)

Standard 6A: Growth rates (100%)

Target growth, as developed in the Business Proposal 2017-2021, is ambitious but, according to CEO, based on market research, credit bureau data and MFI implantation in the Kolkata area.

STEP demonstrates that it monitors growth and enhances internal capacity according to needs.

Standard 6B: Alignment of objectives (89%)

STEP's targets are defined in the Business Proposal 2017-2021. STEP's main indicator is OSS.

As a non-profit organization, STEP has no discussions with equity investors but holds discussions with lenders.

STEP's audited financial statements are available on its website.

Standard 6C: Profits (93%)

OSS as at 31 Dec 2017 is declared to be 112%.

The pricing policy is discussed during BoD meetings and appears in the minutes but it is not formalized in a dedicated document (except the pricing table). Pricing are reasonable, using declining balance, with an average APR at 30%. No undue fees are charged (INR 10 when passbook is lost, not prepayment fee).

STEP remains below the 1% limit advised by RBI for LLER. OER is at 8.8% for the period from April 2017 to December 2017. ROA for 2017 is at 1.6% (donations not included).

Standard 6D: Compensation (78%)

Achievement of social performance targets is considered for remuneration (CEO according to business plan and other senior management staff according to STEP's mission and their job description), but STEP has no clear incentive plan. CEO affirms that senior management's remuneration is addressed in BoD meetings but this does not appear in minutes.

CEO salary is approximately 6 times the salary of field staff, but it is not clear whether this information is taken into account in the remuneration policy.

V. Findings & Recommendations / Suggestions

Based on the interviews, the review of documents and the SPI4 questionnaire, our findings and recommendations or suggestions are the followings. These findings and recommendations are not displayed by dimension but in different categories so that section IV (Universal standards results by dimensions and standards) and section V (Findings & Recommendations / Suggestions) of this report offer two different approaches of STEP's social performance. The categories below are close to those used for the feedback meeting at STEP (chosen to identify the most relevant addressees within STEP's organization).

For the sake of clarity, in this section, the term "Recommendation" refers to a higher level of importance and priority than "Suggestion".

a. Strategy & Communication

Communicate on financial inclusion

Findings: STEP's activity helps its partners (borrowers) accessing the financial systems (access to credit, funds more and more disbursed on a bank account) but financial inclusion is not much mentioned in STEP's documents.

Suggestion: work on drop-outs and refusals to improve financial inclusion and mention/develop financial inclusion in STEP's annual report.

Incorporate environmental issues to STEP's value

Findings: protection of environment is currently not a concern to STEP, which is very much focused on poverty alleviation, firstly through business micro-credit and vocational training.

Suggestion: protection of environment may not appear as a priority for the poorest but they often are the first to suffer from pollution and other environmental issues. As a long term vision, STEP may incorporate in its mission or in its vision the protection of environment.

b. Reporting

Ensure systematic drafting of minutes and actions follow-ups for all important meetings

Findings: most of the issues arising in STEP's activity are discussed in different meetings (like coordination meeting) but decisions, follow-up and impact of actions are not always recorded. While being aware that drafting minutes and follow-up takes time, they offer interesting insight to third parties and help insuring that discussions are actually transformed into actions.

Recommendation: ensure systematic drafting of minutes of meetings, including actions to be taken and follow-up of previous meetings/decisions.

Strengthen information of the BoD

Findings: we understand from interviews with the CEO that Board members have access to client level data on social indicators but no management report containing such data is delivered to the BoD, and minutes of BoD meetings do not mention precise information disclosed to BoD members on this matter.

Recommendation: inform BoD members, in particular members who are not managers at STEP (2 upon 4 at the date hereof), more precisely on information produced by STEP or third parties on social performance, for example by inserting such information in a formalized management report circulated to BoD members

before BoD meetings. More generally, STEP should strengthen information formalization of the minutes of meetings.

c. Operations

Ensure client satisfaction

Findings: client satisfaction seems good (interviews with employees, meeting with partners, low level of drop-outs) but STEP does not carry out formal satisfaction surveys.

Recommendations:

- (1) On a regular basis / annually carry out a formal satisfaction survey with a representative sample (i.e. percentage of total partners to be determined by STEP but all branches should be targeted) of active and, if possible, dropped-out partners, covering at least satisfaction with respect to past loan(s) and opinion of partners about design/adequacy of products and delivery channels.
- (2) Use new technology to get and monitor those statistics: phone survey, enter data in Bijli.
- (3) Monitor regularly results of satisfaction and quality rate.

Improve client confidentiality

Findings #1: loan contracts contain provisions allowing STEP to disclose confidential information (cf. interviews with HR manager, loan contracts being in Hindi and Bengali only) but client data is shared with Equifax and Credit Bureau before the execution of the loan contract.

Recommendation: STEP should obtain before any disclosure of client data to third parties (like Equifax or Credit Bureau) an authorization in writing from each partner.

Findings #2: electronic data are stored in dedicated software with individual access and credentials, and are stored on-line. However, paper data relating to clients are not always securely stored in branches.

Recommendations:

- (1) Keep client data in a safe, or a closed cabinet or drawer.
- (2) Describe in the operational manual the practical steps taken to protect the integrity and confidentiality of client data (whether in electronic or paper form).

Understand drop-outs and loan refusal to reduce them – Assess poverty impact including for dropped-out partners

Finding #1: the assessment of poverty level is made systematically before the granting of loans, so that the situation of partners subscribing several loans can be monitored throughout the relationship with STEP, but impact of loans in case of drop-out is not assessed.

Recommendation: STEP may carry out an assessment of partners a few weeks or months after repayment of the loan if no new loan have been made available, so that STEP can evaluate the impact of its activity even in case of drop-out. However, having in mind that drop-outs may be the result of issues or questions in the relationship with STEP and that post-repayment assessment would need additional resources, such assessment may be made on a sample of dropped-out partners. A simplified questionnaire may also be envisaged but for statistics/benchmark purposes, these post-repayment assessments should preferably be made with the Poverty Assessment Tool. Data collected through those surveys may be analyzed and lead to actions.

Findings #2: STEP reports loan refusals but does not capitalize on the reasons for such refusals.

Recommendation: STEP may use generic data collected in connection with loan refusals to minimize the refusal risk by making potential partners aware of pitfalls and issues that may lead to refusal.

Clarify and formalize CM productivity

Findings: collector motivators currently have approximately 350 partners, which is in line with the Smart Campaign guidelines on productivity levels for solidarity group lending:

Green Zone: below 350

Yellow Zone: 350-500

Red Zone: > 500

However, no limit is expressly set out in a policy and BoD minutes show that, for productivity reasons, caseload for CM may be increased up to 450 partners.

Recommendations:

- (1) STEP should state in its operational manual the maximum number of partners for each collection motivator, and such number should remain below 500 partners, and if possible below 450 (subject to clear productivity constraints and provided that senior management monitors the impact of this decision on the relationship with partners).
- (2) The actual caseload of collection managers should be reported to the BoD.

Improve follow-up of partners' trainings

Findings: STEP is highly involved in short and medium-term training as part of its mission towards low income and disadvantaged families (such as vocational training), and plans to develop its activities in this field, for example by proposing different levels for a given course (beginner / intermediate / advanced).

Suggestions: as part of the development of training cursus, STEP should:

- (1) monitor and investigate non-validation of trainings to be able to take corrective actions and foster participation at all levels;
- (2) Focus on related job rate after validation to revise trainings.

d. Internal

Incorporate breach of Code of conduct into the HR manual

Findings: STEP has adopted a comprehensive code of conduct but no sanctions are expressly set out in case of breach of this code.

Recommendations: the HR manual should expressly set out sanctions in connection with non-compliance with the rules and principles set out in the CoC.

Enhance employee protection

Findings: although dissatisfaction seems to be very limited at STEP (cf. interviews, low turnover), anti-grievance protections and complaints reporting and resolution appear insufficiently documented.

Recommendations:

- (1) Grievance resolution appears in employment contracts (which is good) but should also appear in the HR manual, together with anti-grievance and anti-harassment principles.
- (2) The HR manual should contain mechanisms allowing employees to raise workplace concerns, if possible in a confidential or anonymous manner.

- (3) To the extent possible, a system of anonymous complaint box (whether real or virtual) should be implemented.

Communicate and implement corrective actions in connection with findings and recommendations of internal audits

Findings: we have found limited evidence of findings, recommendations and implementation of corrective actions following internal audits.

Recommendation: Audit findings may be reported to the senior management and to the BoD with recommendations. Recommendations may be discussed in management meetings and, to the extent possible, in BoD meetings and corrective actions taken (or justification should be provided in the absence of corrective actions).

e. Information system

Promote digitalization of processes

Findings: documents to be provided by partners before obtaining a loan are photocopied.

Recommendations: Implement automatic on-field procedures:

- (1) Electronic form fill-up (for example on mobile app version of Bijli).
- (2) Immediate mobile scan of documents.

Annex 1 – STEP’s employees met

Interviews:

Mr Abhijit BERA, CEO

Ms Arati SHAW, Operation Manager

Ms Mousumi MAJUMBAR, Admin/Fin Manager (incl. HR)

Ms Suparna DAS, NFS Manager

Ms Ruma DEB, Coordinator of MIS

Mr Satki Nath Halder, Internal Auditor

Ms Indira Roy, MF Coordinator

Ms Alpana Sil, MF Coordinator

During field visit:

One BM

Two CM

The social worker

One person in charge of training

During feedback meeting:

All branch managers (including the BM for the newly created rural branch)

Annex 2 – List and summary description of reviewed documents

(In alphabetical order)

Activity Report – 31 March 2017.

Annual Report 2014-2015.

Articles of Association, dated 2 June 2010.

APR Table: table showing the interest rates, processing fees, insurance fees, tenure, number of instalments and APR for each loan product (7) of STEP.

Assessment form for Branch Managers: assessment form for BM covering the following criteria (figures between brackets are marks):

- Financial services: active borrower (5), loyalty rate (4), repayment rate (3), PAR 7+30 (3);
- Non-financial services: reaching target population (5), NFS meetings and workshops conducted in the branch (5), any innovative initiatives/ strategies taken for social mission of the organization (5);
- Leadership and staff management: imparting training to staffs and keeping regular follow up for their overall development (4), planning and organizing (3), conflict management and maintaining team spirit (3);
- Code of conduct: punctuality, following rules and maintaining discipline (4), social behaviour with partners (3), social behaviour with staff (3).

Assessment form for Collector Motivator: assessment form for CM covering the following criteria (figures between brackets are marks):

- Financial services: PAR 7 + 30 (3), maintaining RR (3), level of autonomy in Defaulter management & Collection Process (3), promotion and maintaining active borrower (3), loyalty rate (3);
- Non-financial services: social referral to FDP + networking (3), number of trainings given (3), targeting poor populations (3), follow-up of business (3), any initiative or idea for the welfare of partners (3);
- Code of conduct and team spirit: social behaviour with partners (3), social behaviour with staff (3), follow-up of rules and regulations & punctuality (1);
- Contribution and support in other organisational activities: contribution in branch meetings, workshops, trainings or any other activities (2), contribution in staff meetings and trainings (1), initiative to take responsibility and to fulfil it (2);
- Quality of work: quality of meetings, LUV, business follow up, workshop, referrals etc... (4), updating and neatness of documents (3), planning and organising work (2), time management (1);

Only for BDP staffs:

- VT service : 10 VTC/month maintained – at least 4 different topics out of 10 VTC running (2), 4 meetings conducted for each VTC and 4 TOT/year – quality of VTC visits and TOT (1.5), at least 90% students completed the courses (1.5);
- BC service: 8 BC visits/month – all the steps of BC have been followed (2), quarterly 3 objectives achieved (1.5);
- Others: quality of documents maintained & updated (1.5).

Assessment form for managerial staff: recall of the previous year objectives (major achievements and failures), personal satisfaction on this post, support received from superiors, general assessment, objectives of the year (priority objectives and personal development objectives).

Board Minutes – 15 Sept. 2017: example of minutes of BoD meeting, covering presentation of performance for financial and non-financial, update on policy change (fortnightly collection), operational policy (increase of CM productivity to 450 (caseload) due to STEP's operating expenses higher than average industry level), new MIS (Bijli) and fund raising.

Business Proposal 2017-2021.

Calculating transparent pricing tool: basic tool from MicroFinance Transparency (www.mftransparency.org) to help MFI understand the factors influencing the Effective Interest Rate (EIR) and the Annual Percentage Rate (APR) formulas used in the financial world to calculate comparative costs of different loan products.

Code of conduct: code of conduct for microfinance institutions in India, which includes:

Part I: The Core Values of Microfinance: integrity, quality of service, transparency, fair practices, privacy of client information, feedback and grievance redressal mechanism.

Part II: Code of Conduct for Microfinance Institutions (The Code): integrity and ethical behaviour, transparency, client protection, governance, recruitment, client education, data sharing, feedback / grievance redressal mechanism,

Part III: Client Protection Guidelines

Part IV: Institutional Conduct Guidelines

Contract Letter: 1year employment contract.

Core Committee Meeting Minutes July 2016: agenda of the meeting (with main HO members (7)) was 1. double collection during Bakri idd, 2. Follow of over-indebtedness cases, 3. Disbursement strategy of the month, 4. Training Topics for BM, 5. Staff Meeting planning, 6. Planning for Annual Award, 7. Monitoring & Review meeting and 8. Dress Code & internet policy

Drop-out Study Report 2011.

Drop-out Survey: report on the dropout survey conducted by STEP in 2015 by interviewing a sample of 197 partners who dropped out (on 2,132 partners who dropped out between January and December 2014). Drop-out reasons were the following: No need of loan (31%), Group methodology (18%), Insufficient loan amount (13%), Business Collapse/Not well run (11%), Refused by STEP (9%), Illness or pregnancy (5%), Other reasons (13%). The report further investigates each category and sets out recommendations.

FDP Monthly Report Dec-17: report of family development program initiatives over 2017 (number of sessions / subject matter, available by branches).

Financial Statements Dec. 2017: balance sheet, profit & loss statement, cash flow statement, borrowing details and portfolio quality.

HR Manual (2017): covers organization, recruitment procedure, contracts, policy for handling new recruits, trainings, code of conduct, work schedules and holidays, salary, profession tax, leave, transfer policy, promotion policy, resignation, staff welfare scheme (current and under consideration), job description (detailed responsibilities/role and work assessment for CM, BM, BDP in charge, FDP coordinator, accounts & logistics manager, internal auditor, encoding coordinator, social motivator, finance and administrative management, coordinator – microfinance, encoder).

Internal audit report – June 2017.

Loan Application Form.

Loan Contract (Hindi/Bengali).

LPF Manual: installation and user manual of the Loan Performer tool.

Memorandum of Association: documents describing main and incidental objects of STEP, some principles applicable to STEP's object and activities and principles as to members' liabilities.

Non-Financial Service Report Dec-17: report of non-financial services initiatives over 2017 (number of sessions and participants / subject matter, available by branches).

Operational Manual: credit & policy manual covering STEP's microfinance programme (including mission, vision and values), organization structure for microfinance, client targeting and credit methodology (incl. KYC and excluded activities), products and procedures (incl. detailed description of promotion, orientation meeting, loan application workshop, home visit, general training, loan disbursement and repayment collection procedures, loan utilisation and re-loan policy), expected behaviour from staff, credit discipline and monitoring and client grievance redressal policy.

Organization Chart STEP.

Particulars of senior management.

Passbook: booklet (partially in English and otherwise in Hindi/Bengali) showing the main features of a loan and containing a schedule where CM and partners mention payments and balance. Passbooks remain with the partners.

Poverty Assessment Tool: questionnaire for the assessment of poverty level of partners, covering health security (dairy products, fruit, health-insurance, dependency), education (schooling of 3-14 year-old children, highest education of the adults), income security (number of earning persons >14y), housing (number of persons above 10 years/ room, cooking fuel, access to electricity and drinking water, walls, internal environment, housing status), assets.

Roles and responsibilities of the Board of Directors: document describing the role and responsibilities of the BoD on governance, strategy, policies (incl. on remuneration and guidelines on incentives), audit, finance, operations and compliance.

Sanction Letters: loan agreement whereby STEP borrows money to microfinance or financial counterparties.

SMS Manual: installation and user manual SMS software, designed to manage a wide range of data related to social missions.

Annex 3 – Actual schedule

			Monday	Tuesday	Wednesday	Thursday	Friday
M o r n i n g	9h30	10h30	Introductory meeting with CEO and managers / coordinators to introduce ourselves and present the purpose and operation of the mission - Confirmation of planning / interviews	9.30 - 10.30 am: Meeting with - Suparna Das (NFS)	9.00 am - 12.30 pm: branch/field visit - visit of a branch and meeting with a branch manager - field visit with collection motivators / meeting partners (borrowers)	Questionnaire review Recommendations listing File cleaning Report writing	9.30 am: Truelift questionnaire
	10h30	11h30		10.30 - 11.30 am: Meeting with Ruma Deb (coordinator of the MIS)			10.30 am: Overall questionnaire review with Abhijit Bera
	11h30	12h30		11.30 am: Meeting with Abhijit Bera schedule definition (CEO)			11.30 am: Presentation finalization
	12h30	13h30		<i>blank for adjustment</i>			
Lunch	13h30	14h30	Lunch	Lunch	12.30 - 2:00 pm: Meeting with Indira Roy and/or Alpana Sil (MF coordinators)		Lunch
A f t e r n o o n	14h30	15h30	2.30 - 7.00 pm: Meeting with Arati Shaw (operation manager) and Abhijit Bera (CEO)	2.30 - 3.00 pm: blank slot	Vocational Training visit	Lunch	3.00 pm: <u>Feedback meeting</u> : feedback on audit and discussion with CEO and main personnel on results and recommendations
	15h30	16h30			Lunch	Questionnaire review Recommendations listing File cleaning Report writing	Head Office staff + BM = 18 people
	16h30	17h30		3.00 - 7.30 pm: Meeting with Mousumi Majumbar (Financial / Administrative manager) incl. on HR matters	4.00 - 9.30 pm: Meeting with Mousumi Majumbar (Financial) / Abhijit Bera (CEO) to finalize questionnaire		
	17h30	18h30					
	18h30	19h30					6.00 - 7.00 pm = Questionnaire BNPP