

**CONFIDENTIAL**



# **Code of Conduct Assessment Report**

**AROHAN FINANCIAL SERVICES  
PRIVATE LIMITED**

**January 2014**

**Conducted by:**

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## Disclaimer

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AROHAN FINANCIAL SERVICES PVT. LTD.		
<b>Legal Form</b>	NBFC	About Arohan Financial Services Pvt. Ltd.
<b>Date Established Initiation of Operations</b>	2006	Arohan Financial Services Pvt. Ltd. started off in 2006 with initial support from Bellwether, and then from India Financial Inclusion Fund and Michael & Susan Dell Foundation.
<b>Operational Area</b>	<ul style="list-style-type: none"> <li>63 branch offices spread across West Bengal (38), Bihar (17) and Assam (8)</li> </ul>	Arohan started its operations by offering micro-loans in West Bengal, and then expanded to Bihar and Assam. In Sep 2012, Intellecash, an incubation/capacity building company invested to take a controlling stake in Arohan along with Aavishkaar Goodwell, a microfinance focused fund.
<b>Services and Products offered</b>	<ul style="list-style-type: none"> <li>Saral Loan</li> <li>Bazaar Loan</li> <li>Pragati Loan</li> <li>Insurance</li> <li>Micro Pension</li> </ul>	With this investment, the first formal example of consolidation in the Indian microfinance sector, Arohan is now an integral part of the Intellecap Group which has over 10 years of business consulting, investment banking and research & events experience in development sector in India
<b>Lending Model</b>	<ul style="list-style-type: none"> <li>Joint Liability Groups</li> </ul>	
<b>Average Score</b>	<b>Rating</b>	<b>Grade</b>
3.18	3.50-4.00	AA
	<b>3.00-3.49</b>	<b>A</b>
	2.50-2.99	BB
	2.00-2.49	B
	1.50-1.99	CC
	1.00-1.49	C

Key Performance Indicators (Institutional reporting)				
Key Indicators	Apr 2009-Mar 2010	Apr 2010-Mar 2011	Apr 2011-Mar 2012	Apr 2012-Mar 2013
Number of Groups	37,725	45,521	24,363	26,686
Total number of Clients	187,754	214,059	107,612	113,665
Total number of Active Clients (loan)	187,754	214,059	107,612	113,665
Total Savings mobilized (of SHGs) (Rs. in Lakhs)	NA	NA	NA	NA
Share Capital (Rs. In Lakhs)	471.01	977.68	977.68	2,976.35
Average Savings mobilized per member per month	NA	NA	NA	NA
Average Savings per SHG (in Rupees)	NA	NA	NA	NA
Total Loan outstanding (Rs. In Lakhs)	9,779.54	8,984.44	5,393.71	9,042.72
Average Loan Outstanding (in Rupees)	5,209	4,197	5,012	7,956
Rate of Interest charged (by the NGO/MFI)	24.13%	24.13%	24.13%	26.00%
Repayment Rate	99.60%	99.49%	99.31%	99.41%
No of Villages	NA	NA	NA	NA
No of Districts	10	23	19	18
No of States	2	3	3	3
No. of Branch Offices	86	149	98	63
No. of Field offices	571	729	435	349
No. of Field staff / credit officers	571	729	435	349
Portfolio at Risk (>60 Days)%	0.66%	3.14%	0.58%	0.68%

### Loan Products

	SARAL		BAZAAR		PRAGATI
Lending Model	JLG	Individual	JLG	Individual	Individual
Clientele	Women	Women	Women/Men	Women/Men	Women/Men
Utilization	Income Generation	Income Generation	Income Generation	Income Generation	Income Generation
Loan size	Rs7,500-15,000	Rs20,000-50,000	Rs7,500-15,000	Rs20,000-50,000	Rs40,000-200,000
Loan tenure	12 Months	24 Months	12 Months	24 Months	36 Months
Collateral requirements	-	-	-	-	-
Repayment	Monthly	Monthly	Monthly	Monthly	Monthly
Interest rate	25.99%	25.99%	28.05%	28.77%	30.00%
Other charges (Insurance)	0.60%	0.60%	1.12%	1.12%	1.5%
Processing fee	1%	1%	1%	1%	2.5%
Security deposit / risk contribution	-	-	-	-	-

## Highlights

### Strengths:

- Unified Code of Conduct customized as per the industry code of conduct (Sa-Dhan, MFIN and Smart Campaign Client Protection Principles) along with the institutional values, mission, vision and expectations.
- Strong laid down policies on staff conduct in operation manual.
- Toll Free helpline number for client feedback/grievances.
- Dedicated employee helpline number for dispute settlement and employee grievances and feedback
- Loan processes are easily acceptable by client with small group size (less time taken for meeting)
- Data sharing with credit bureau (Equifax and High Mark).
- Membership with Sa-Dhan and MFIN
- Sharing of pricing data with MIX Market for pricing transparency.
- A separate life insurance product available for the clients in collaboration with SBI Life.
- Micro pension is available as a product which enhances the product diversity.
- Unique loan product in the industry called “Bazaar Loan” which caters the need for both women and men.
- Proper web based MIS software exists in the system with continuous up gradation.
- Highly motivated staff with punctuality and dedication towards the work, as per the clients’ feedback.

### Areas to Strengthen:

- A complaint box can be introduced to incorporate a new dimension in the feedback/ grievances system.
- A separate HR and training manual can be developed for proper staff training.
- Client training on pricing terms and conditions and feedback mechanism with mechanisms to assess client awareness on a regular basis can be incorporated.
- Financial literacy program can be undertaken for the clients to make them understand their household cash flows and household planning as a part of the social intervention of Arohan
- Client drop-out survey / interview exists informally but no analysis has been done.
- Code of conduct compliance report can be presented and discussed in Board meeting.

## Code of Conduct Assessment Report for Arohan Financial Services Pvt. Ltd.

### **Summary of the study**

The overall grade obtained by Arohan Financial Services Pvt. Ltd. is **A**, with a composite score of **3.18**, which indicates that the organization has good appraisal systems, products and services, employee friendly HR policies to ensure alignment and adherence to a developed Code of Conduct. The client comprehension across Arohan Financial Services Pvt. Ltd. is good; more can be done to increase client awareness on pricing, terms and conditions with proper client education on the feedback mechanisms which exist in the system. Focus can be made on the implementation of the code of conduct principles through regular training.

The results of the ten broad assessment categories are summarized in the following table. Detailed analysis is provided in the body of the report.

Baseline Results for Arohan Financial Services Pvt. Ltd.		
Assessment Area	Score (out of 4.00)	Key Elements to be evaluated
Code of Conduct	3.09	<ul style="list-style-type: none"> <li>• Design</li> <li>• Visibility/ Dissemination</li> <li>• Training (Staff)</li> <li>• Refresher</li> <li>• Awareness (Staff)</li> <li>• Awareness (Client)</li> </ul>
Market Entry	3.00	<ul style="list-style-type: none"> <li>• Criteria for identification</li> <li>• Procedure</li> <li>• Saturation</li> <li>• Due diligence</li> </ul>
Appraisal Process	3.50	<ul style="list-style-type: none"> <li>• Client data collection</li> <li>• Repayment capacity</li> <li>• Debt thresholds</li> <li>• Loan History</li> <li>• Processing time</li> <li>• Approval</li> <li>• Verification</li> </ul>
Client Comprehension	3.21	<ul style="list-style-type: none"> <li>• Client Review Time</li> <li>• Explanatory Channels</li> <li>• Awareness</li> <li>• Disclosure of prices &amp; terms</li> <li>• Rights and obligations</li> <li>• Training (Staff)</li> </ul>
Products and Services	3.35	<ul style="list-style-type: none"> <li>• Design &amp; appropriateness</li> <li>• Review</li> <li>• Diversity</li> <li>• Convenience</li> <li>• Linkages</li> </ul>
Pricing	3.18	<ul style="list-style-type: none"> <li>• Competition</li> <li>• Transparency</li> <li>• Fees</li> <li>• Security Deposits</li> <li>• Prepayment</li> <li>• Default</li> </ul>
Feedback Mechanisms	2.55	<ul style="list-style-type: none"> <li>• Existence</li> <li>• Training (Staff)</li> <li>• Client awareness</li> <li>• Usage</li> <li>• Checking</li> <li>• Staff Resources</li> <li>• Client Exit Interviews/ Drop-out surveys</li> </ul>

<b>Baseline Results for Arohan Financial Services Pvt. Ltd.</b>		
<b>Assessment Area</b>	<b>Score (out of 4.00)</b>	<b>Key Elements to be evaluated</b>
<b>Staff Conduct</b>	<b>3.30</b>	<ul style="list-style-type: none"><li>• Rule Book</li><li>• General training</li><li>• Induction</li><li>• Evaluation</li><li>• Review of conduct</li><li>• Incentive/ Disincentive</li><li>• Recovery/ defaults</li></ul>
<b>Governance</b>	<b>3.00</b>	<ul style="list-style-type: none"><li>• Responsibility</li><li>• Member experience/ exposure/ reputation in MF</li><li>• Composition</li><li>• Role</li><li>• Code of Conduct Compliance Report</li><li>• Member attendance in meeting</li></ul>
<b>Human Resources</b>	<b>3.31</b>	<ul style="list-style-type: none"><li>• Field staff experience/ exposure in MF</li><li>• Recruitment</li><li>• Staff Exit</li><li>• Complaint Redressal</li></ul>



## Code of Conduct Assessment Results

CoCA revealed the following major observations and priority areas under each component.

1. Code of Conduct	Score : 3.09
<b>Key Elements:</b> Design, Visibility, Training, Refreshment, Awareness	
<b>a. Design</b>	
<ul style="list-style-type: none"><li>•The Code of Conduct of Arohan Financial Services Pvt. Ltd is customized as per the industry code of conduct in adherence with Sa-Dhan, MFIN and Smart Campaign Client Protection Principles along with the institutional values, mission, vision and expectations.</li></ul>	
<b>b. Visibility</b>	
<ul style="list-style-type: none"><li>•Code of Conduct is displayed in all the branch offices in English and local language and included in most of the documents (operation manual, client materials).</li></ul>	
<b>c. Training</b>	
<ul style="list-style-type: none"><li>•There has been training program conducted on Code of Conduct, mission, vision, and other key organizational principles for the existing staff at all levels. However, for the new staff at any levels, they are briefed during the induction about the Code of Conduct and its aspects.</li></ul>	
<b>d. Refresher</b>	
<ul style="list-style-type: none"><li>•Arohan Financial Services Pvt. Ltd has made efforts to refresh staff about the Code of Conduct during meetings by Branch Heads, Area Managers and the Human Resource Team.</li></ul>	
<b>e. Awareness (Staff and Client)</b>	
<ul style="list-style-type: none"><li>•Almost 80% staffs have very good understanding of overall code, details and expectations. During the meeting with branch office staff, maximum members were aware of the Code of Conduct and its aspects.</li><li>•Almost 70% clients have very good understanding of overall code, details and expectations.</li></ul>	

2. Market Entry	Score : 3.00
<b>Key Elements:</b> Identification, Procedure, Saturation, Due Diligence	
<b>a. Identification</b>	
<ul style="list-style-type: none"><li>•The target segment is men and women who struggle to enhance the prosperity of their families, but still have strong determination and perseverance to strive for a better livelihood opportunity. Arohan caters to the financial needs of those people in the eastern part of the country who have limited access to financial services and with very low monthly income. Arohan Financial Services Pvt. Ltd works for the betterment of the poor community in general, and considers it a prime focus in its operations. Organization has defined a target population which is helpless and poor.</li></ul>	
<b>b. Procedure</b>	
<ul style="list-style-type: none"><li>•Arohan Financial Services Pvt. Ltd utilises the Credit Bureau information (number of MFIs present, number of active clients, number of overdue clients, total outstanding amount, total overdue amount, among others) for market entry; it also utilises a Area Lucrativeness Index (ALI) Tool which is based on primary and secondary data (demographic-total population, total rural population, population density, sex ratio; economic-per capita income, work participation rate, BPL population; social-literacy, SC/ST population; infrastructure-electrification and road network; other market information-number of MFIs, percentage MFI clients).</li></ul>	
<b>c. Saturation</b>	
<ul style="list-style-type: none"><li>•During the area identification procedure, Arohan Financial Services Pvt. Ltd does identify the number of MFIs working in the potential area and accordingly takes a decision based on the number of MFIs operating in the area.</li></ul>	
<b>d. Due Diligence</b>	
<ul style="list-style-type: none"><li>• Due diligence for new area is done by 2 departments of Arohan Financial Services Pvt. Ltd. – Field Team, , Operations Team and gets finally approved by the Senior Management of Arohan Financial Services Pvt. Ltd.</li></ul>	

3. Appraisal Process	Score : 3.50
<b>Key Elements:</b> Client Data Collection, Repayment Capacity, Debt Thresholds, Loan History, Processing Time, Approval, Verification	
<b>a. Client Data Collection</b>	
<ul style="list-style-type: none"><li>•The Field Officers who are called Customer Service Representatives (CSR) undertakes a survey for a potential area and identifies prospective clients who are willing to be a member of the organization. The CSR arranges a meeting in a common place to discuss the important and necessary things related to group formation followed by group training by CSR and Branch Manager. Then a Group consisting of five members is formed. There is use of peer verification across groups, information collection from neighbours/household members and Credit Bureau Checks before sanctioning of the loan. However, only primary information about the member is captured in the database along with the KYC documents. Cross-verification from group members is also done.</li></ul>	
<b>b. Repayment Capacity</b>	
<ul style="list-style-type: none"><li>•Repayment Capacity is assessed during the individual primary evaluation by the CSR; critically evaluated by Branch Manager on door-to-door basis; information collection on household incomes, expenditures, assets and liabilities</li></ul>	
<b>c. Debt Thresholds</b>	
<ul style="list-style-type: none"><li>• Debt thresholds limits are calculated on the basis of at least 2 parameters, including income&amp; expenditure and assets &amp; loans outstanding.</li></ul>	
<b>d. Loan History</b>	
<ul style="list-style-type: none"><li>• Loan history of the client also captured in the loan application form and it is checked and kept available during and throughout the appraisal process. Credit Information Reports from the Credit Bureaus is also availed to check the credit history of the client during the loan appraisal process.</li></ul>	
<b>e. Processing Time</b>	
<ul style="list-style-type: none"><li>•It was observed through the interaction with the staff members and clients in the field that the loan processing time of Arohan Financial Services Pvt. Ltd is very quick and it requires 7 to 10 working days of processing time.</li></ul>	
<b>f. Approval</b>	
<ul style="list-style-type: none"><li>• After all the due diligence in the field, all the loan applications are presented and discussed in the loan committee in the branch office and gets approved accordingly.</li></ul>	
<b>g. Verification</b>	
<ul style="list-style-type: none"><li>•An Internal Control and Risk Management (IC &amp; RM) department exists in the organization who conducts internal audit by Monitoring Officers for all the branch offices regularly. IC &amp; RM team verify loan documents, client enrolment documents, transaction related documents, bank documents and conducts the field audit by attending group meetings during field visit and also does the loan utilization check during their field visit. The IC &amp; RM team submits their compliance report to concerned branch office. The IC checklist has mechanisms to check aspects of adherence of RBI guidelines by the staff members.</li></ul>	

4. Client Comprehension	Score : 3.21
<b>Key Elements:</b> Client Review Time, Explanatory Channels, Disclosure of Price and Terms, Rights and Obligations, Staff Training	
<b>a. Client Review Time</b>	
<ul style="list-style-type: none"><li>• In Arohan Financial Services Pvt. Ltd. the client review time is more than a week since the terms and conditions of the products and services offered by Arohan Financial Services Pvt. Ltd. are mentioned during the CGT and GRT along with appraisal and evaluation by Branch Manager, post which the loan is sanctioned.</li></ul>	
<b>b. Explanatory Channels</b>	
<ul style="list-style-type: none"><li>• In Arohan Financial Services Pvt. Ltd there are two channels used to educate and explain loan pricing information including processing charges, interest rates, among others. There is use of verbal explanation and written documentation to inform the members.</li></ul>	
<b>c. Awareness</b>	
<ul style="list-style-type: none"><li>• During the field visit, it was found that 60% of the clients have a fair idea and knowledge of the rate of interest (flat rate of interest); the upfront processing fee of 1% of the total loan amount and insurance charges of 0.60 and 1.12% of total loan amount. The awareness is within the literacy limits but there has to be a continuous effort by the field staffs to refresh the clients to increase their awareness level.</li></ul>	
<b>d. Disclosure of Price and Terms</b>	
<ul style="list-style-type: none"><li>• The price and terms of the loan are clearly disclosed to all the clients during their personal form filling, group meetings, appraisal and disbursement. Whenever there is a change/modification, thorough and detailed with both verbal and written materials are supplied to the client. Arohan reports to Mix for pricing transparency.</li></ul>	
<b>e. Rights and Obligations</b>	
<ul style="list-style-type: none"><li>• Identification of group representative is done by the group members whereas Arohan Financial Services Pvt. Ltd. staff acts as a facilitator. The roles and responsibilities of the group representative and clients/members are discussed during the group meetings and fully explained and reviewed with each client of each group. The client is given loan if and only if she agrees for the terms and conditions and there is no scope for any other negotiation or discussion.</li></ul>	
<b>f. Staff Training</b>	
<ul style="list-style-type: none"><li>• Training is provided by Arohan Financial Services Pvt. Ltd to its field staff about the importance of making sure that the client understands the information. The roles and responsibilities of all staff levels and do's &amp; don'ts to be followed by the staff while interacting with the clients are also being part of the training process and written down well in the operation policy.</li></ul>	

5. Products and Services	Score : 3.35
<b>Key Elements:</b> Design and Appropriateness, Review, Diversity, Convenience, Linkages	
<b>a. Design and Appropriateness</b>	
<ul style="list-style-type: none"><li>•Arohan Financial Services Pvt. Ltd's loan products for the clients are designed to suit specific needs of the community and it has been modified as per the guidelines issued by Reserve Bank of India (RBI). Many features of the products are similar but the major differences are in terms of size, tenure and purpose.</li></ul>	
<b>b. Review</b>	
<ul style="list-style-type: none"><li>•Review of products conducted annually with suggestions / recommendations from the field and middle management. The suggestions / recommendations are then reviewed by the senior management and decisions regarding product feature modifications are taken accordingly.</li></ul>	
<b>c. Diversity</b>	
<ul style="list-style-type: none"><li>•Arohan Financial Services Pvt. Ltd offers three different loan products and the loan products have diverse features in terms of loan size, repayment tenure, target clientele, interest rate. The over-arching aspect across all products is group guarantee. Arohan also offers separate non-credit products like insurance and micro pension.</li></ul>	
<b>d. Convenience</b>	
<ul style="list-style-type: none"><li>•Arohan Financial Services Pvt. Ltd's loan is highly convenient which was also shared by clients during the client visits. The clients need to attend monthly group meetings which are held for 20-30 minutes and recoveries take place in the group meetings.</li></ul>	
<b>e. Linkages</b>	
<ul style="list-style-type: none"><li>•Micro-insurance is provided to the clients along with the loan which creates a risk mitigation mechanism and security in case of death of its clients during the loan tenure. Apart from that, a separate insurance product in collaboration with SBI Life Insurance is offered to its clients by Arohan Financial Services Pvt. Ltd. Micro pension is also offered to its clients in collaboration with Invest India Micro Pension Services (IIMPS).</li></ul>	

6. Pricing	Score : 3.18
<b>Key Elements:</b> Competition, Transparency, Fees, Security Deposit, Prepayment, Default	
<b>a. Competition</b>	
<ul style="list-style-type: none"><li>• Pricing of the loan product of Arohan Financial Services Pvt. Ltd is competitive, and the organization has consistently reduced interest rates. Arohan Financial Services Pvt. Ltd has kept the interest rates for its products maximum at 25.99% for Saral, 28.05% - 28.77% for Bazaar Loans and 30.00 % for Pragati loans.</li></ul>	
<b>b. Transparency</b>	
<ul style="list-style-type: none"><li>•Pricing of Arohan Financial Services Pvt. Ltd products are highly transparent. The pricing information is mentioned in details on all individual loan passbooks. Further, pricing information breakup is made available to the client in the form of total interest amount, processing fee and insurance charges during the group formation and loan appraisal process. Arohan Financial Services Pvt. Ltd. share pricing details, publicly to Mix Market and MFT.</li></ul>	
<b>c. Fees</b>	
<ul style="list-style-type: none"><li>•Arohan Financial Services Pvt. Ltd charges two types of fees i.e. Loan processing fees of 1% of the loan amount across all its loan products and insurance fee of 0.60% and 1.12% of the loan amount, on different loan products on the loan amount.</li></ul>	
<b>d. Security Deposit</b>	
<ul style="list-style-type: none"><li>•Arohan Financial Services Pvt. Ltd does not charge any security deposit on loans.</li></ul>	
<b>e. Prepayment</b>	
<ul style="list-style-type: none"><li>•Arohan Financial Services Pvt. Ltd allows prepayment for its clients. There is no penalty; clients only have to pay the entire principal amount and interest for that particular period.</li></ul>	
<b>f. Default</b>	
<ul style="list-style-type: none"><li>•There is no penalties for default and prepayment, follows team effort and frequent interaction with the defaulting groups and members for ensuring loan recovery and adhere to the RBI guidelines. Arohan does not practice any coercive recovery methods for its default clients. Few cases of default were observed in the field.</li></ul>	

7. Feedback Mechanisms	Score : 2.55
<b>Key Elements:</b> Existence, Staff Training, Client Awareness, Usage, Checking, Staff Resources, Client Exit Interviews / Drop out Surveys	
<b>a. Existence</b>	
<ul style="list-style-type: none"><li>• A feedback mechanism exists in the system. Toll free helpline number for addressing feedback/grievance exists in the organization for clients with a system where complaints are processed, considered and resolved. In addition, Branch Manager, Audit team who visits the field takes the feedback from the clients.</li></ul>	
<b>b. Staff Training</b>	
<ul style="list-style-type: none"><li>• Training is provided in client relations to the new staffs during the induction process and for the existing staff, it is done usually by the Area / General Manager through the monthly meetings conducted at the branch office.</li></ul>	
<b>c. Client Awareness</b>	
<ul style="list-style-type: none"><li>• Clients can briefly explain how they would file a complaint if necessary (identification of Customer Service Representatives/Branch Manager) very few clients can express the use of toll free number dedicated for them.</li></ul>	
<b>d. Usage</b>	
<ul style="list-style-type: none"><li>• Clients have shared that there were no complaints and that they are aware of the contact numbers of Customer Service Representative and Branch Manager. Hence, there is limited usage.</li></ul>	
<b>e. Checking</b>	
<ul style="list-style-type: none"><li>• There is a clear process to ensure that complaints are processed and resolved. If a call is received from the client regarding any feedback/complaint, the Head Office Staff which is dedicated for the feedback/grievances starts processing it. Escalates the issue if it requires higher management intervention and resolves the issue within a stipulated timeframe.</li></ul>	
<b>f. Staff Resources</b>	
<ul style="list-style-type: none"><li>• For client feedback mechanism, a dedicated staff is appointed for handling this responsibility at head office.</li></ul>	
<b>g. Client Exit Interviews/ Drop out Survey</b>	
<ul style="list-style-type: none"><li>• In Arohan Financial Services Pvt. Ltd. client exit survey/interview is conducted informally. This need to be formalised and proper systems need to be developed in order to capture the reasons for the exit/dropout and action undertaken accordingly.</li></ul>	

8. Staff Conduct	Score : 3.30
<b>Key Elements:</b> Rule Book, General Training, Induction, Evaluation, Review of Conduct, Incentive / Disincentive, Recovery / Default	
<b>a. Rule Book</b>	
<ul style="list-style-type: none"><li>•Rule book in the form of operation manual is available in the head office and all the staff are aware of the rules mentioned in the book. The rule book of Arohan Financial Services Pvt. Ltd. clearly mentions the staff conduct, written penalties associated with broad types of misbehaviour. Rule book clearly specifies to the field staff that how to behave in the field, how to interact with the clients, among others.</li></ul>	
<b>b. General Training</b>	
<ul style="list-style-type: none"><li>•Arohan Financial Services Pvt. Ltd has been conducting training program for the new field staff at Head Office level during the induction training program to orient them towards the conduct in the field, good and bad conduct with clients, among others. For the existing staff, refresher training is given by the area managers at monthly meetings and some by head office staff.</li></ul>	
<b>c. Induction</b>	
<ul style="list-style-type: none"><li>•All the staff at any level, after selection, undergoes sixteen-day orientation before officially joining. Post successful completion of the induction, the staff is given an official go ahead to join the concerned department for which he/she has been hired. In case of the field staff, they are sent to the branch office for training on the operational activities during their induction.</li></ul>	
<b>d. Evaluation</b>	
<ul style="list-style-type: none"><li>•All staff are reviewed annually and accordingly promoted based on the performance assessment reports. In Arohan Financial Services Pvt. Ltd. annual performance review done with tangible outcomes (salary and promotion).</li></ul>	
<b>e. Review of Conduct</b>	
<ul style="list-style-type: none"><li>•Evaluation of the field staff as well as branch office personnel is done by their supervisors and endorsed by the higher authorities.</li></ul>	
<b>f. Incentive / Disincentive</b>	
<ul style="list-style-type: none"><li>•Incentive and disincentives is based on both portfolio quality and outreach of the field officers and critically evaluated during the appraisal process. During the performance review for the field staff, the portfolio quality, outreach, accountability, conduct, discipline and behavior are measured to calculate the incentives and disincentives.</li></ul>	
<b>g. Recovery / Default</b>	
<ul style="list-style-type: none"><li>•In case of defaults, the staff follows frequent interaction with the defaulting groups and members for ensuring loan recovery and adheres to the RBI guidelines. Arohan Financial Services Pvt. Ltd. does not practice any coercive recovery methods for its default clients. Few cases of default were observed in the field.</li></ul>	



9. Governance	Score : 3.00
<b>Key Elements:</b> Responsibility, Experience/ exposure/reputation in MF, Composition, Role, Code of Compliance report, Members' attendance in meeting	
<b>a. Responsibility</b>	
<ul style="list-style-type: none"><li>•Functional responsibilities are well defined in business rules. Board of Arohan Financial Services Pvt. Ltd. is very vibrant, each individual member are assigned their work and are performed accordingly.</li></ul>	
<b>b. Experience/ exposure/ reputation in MF</b>	
<ul style="list-style-type: none"><li>•The board of Arohan Financial Services Pvt. Ltd. is very dynamic and has diverse experience which includes microfinance and other developmental programs. Almost all the board members of Arohan have good experience in the microfinance sector.</li></ul>	
<b>c. Composition</b>	
<ul style="list-style-type: none"><li>•The Board of Arohan Financial Services Pvt. Ltd. consists of seven members, viz., Prof. Vidyanand Jha (Independent Director); Mr Manoj Kumar Nambiar (Managing Director); Mr Shubhankar Sengupta (Director &amp; CEO); Mr Anurag Agarwal (Director); Mr Sanjib Kumar Jha (Director); Mr Satyam Darmora (Director);and Ms Sushma Keshavamurthy Kaushik (Director).</li></ul>	
<b>d. Role</b>	
<ul style="list-style-type: none"><li>•Roles of individual members of Board are very clear on policy setting; all strategic decisions are taken by the board. Regular operational decisions are the responsibility of Shubhankar Sengupta, CEO and Mr Manoj Kumar Nambiar, Managing Director.</li></ul>	
<b>e. Code of conduct compliance report</b>	
<ul style="list-style-type: none"><li>•No code of conduct compliance report presented in Board meeting.</li></ul>	
<b>f. Members' attendance in meeting</b>	
<ul style="list-style-type: none"><li>•More than 80% of the Board members were present in the Board meeting (last three).</li></ul>	

10. Human Resources	Score : 3.31
<b>Key Elements:</b> Field staff experience/ exposure in MF, Recruitment, Staff Exit, Complaint Redressal	
<b>a. Field staff experience/ exposure in MF</b>	
<ul style="list-style-type: none"><li>• Field staff of Arohan Financial Services Pvt. Ltd. is experienced in the field; Customer Service Representatives are experienced and have good exposure of Micro Finance activities. On an average the field level operations have more than 3.5 years of experience in Microfinance operations.</li></ul>	
<b>b. Recruitment</b>	
<ul style="list-style-type: none"><li>•Arohan Financial Services Pvt. Ltd. has a separate HR department who looks after the recruitment process and other HR related aspects. Recruitments are done by advertisements in different media and by employee reference. Proper recruitment process followed for each level of staff –personal interview, induction and confirmation. Recruitment is conducted with proper reference checks.</li></ul>	
<b>c. Staff Exit</b>	
<ul style="list-style-type: none"><li>• Staff exit interview conducted for all the staff. However, analysis of the same is not conducted.</li></ul>	
<b>d. Complaint Redressal</b>	
<ul style="list-style-type: none"><li>•There is formal system for Complaint Redressal for the employees in the organization through a dedicated phone number. While interaction with the field staff it was observed that in case of any grievance employees can reach the higher authority within the organization without any apprehensions.</li></ul>	

## Compliance to RBI Guidelines

The major aspects of the RBI guidelines and its compliances by Arohan Financial Services Pvt. Ltd are mentioned below:

- a) Interest on loans: Arohan Financial Services Pvt. Ltd. has fixed its interest rates on the products, i.e. 25.99% for Saral product, 28.05% - 28.77% for the Bazaar product and 30.00% for Pragati product. The interest rates charged on the Saral and Bazaar products are within the RBI guidelines, the Pragati product is only 2% of the total portfolio and is categorized under the non qualifying assets and hence does not fall under the purview of the RBI guidelines issued.
- b) Loan pricing to include processing fee (not exceeding 1 percent of the gross loan) interest charge and insurance premium (to be paid directly to the insurance provider): Arohan Financial Services Pvt. Ltd. is currently charging 1% loan processing fees as per the RBI guidelines issued. Moreover, the insurance charge, which is 0.60% for 1-year loans and 1.12% for 2-year loans product of the total loan amount is recovered from the clients and paid directly to Insurance Company.
- c) No penalties for delayed payments, security deposit or margin money to be taken upfront: Arohan Financial Services Pvt. Ltd. has barred the delayed payment charges post RBI guidelines and collects delayed payment without any charges.
- d) 85 percent of MFI assets being under agriculture, micro and small enterprises: 93% of their portfolio is under micro, small and medium enterprises.
- e) Lending to borrowers whose household income does not exceed Rs60,000 (in rural areas) and Rs120,000 (in urban areas): Calculating the household income in rural and urban areas is a debatable since they do not have fixed monthly income. Their income is seasonal and dependent on several factors. However, Arohan Financial Services Pvt. Ltd. puts all efforts to verify the household income and adheres to RBI guideline on household income.
- f) Total indebtedness of borrower not exceeding Rs50,000: Arohan Financial Services Pvt. Ltd. strictly follows this guideline and does not lend to members who have loans from 2 or more MFIs and Rs50,000 as the total loan outstanding. This is mentioned in their Code of Conduct and followed across all levels.
- g) Tenure of loan not being less than 24 months: All the loans larger than Rs15,000 have tenure of 24 months and loans below Rs15,000 have tenure of 12 months.

*Overall, Arohan Financial Services Pvt. Ltd. is compliant on the RBI guidelines issued.*

## Conclusion

Arohan Financial Services Pvt. Ltd. has achieved a composite CoCA score of **3.18** with an overall grade of **“A”**, indicating that the organisation is growing.

### Highlights and best practices:

- Unified Code of Conduct customized as per the industry code of conduct (Sa-Dhan, MFIN and Smart Campaign Client Protection Principles) along with the institutional values, mission, vision and expectations.
- Strong laid down policies on staff conduct in operation manual.
- Toll Free helpline number for client feedback/grievances.
- Dedicated employee helpline number for dispute settlement and employee grievances and feedback
- Loan processes are easily acceptable by client with small group size (less time taken for meeting)
- Data sharing with credit bureau (Equifax and High Mark).
- Membership with Sa-Dhan and MFIN
- Sharing of pricing data with MIX Market for pricing transparency.
- A separate life insurance product available for the clients in collaboration with SBI Life.
- Micro pension is available as a product which enhances the product diversity.
- Unique loan product in the industry called “Bazaar Loan” which caters the need for both women and men.
- Proper web based MIS software exists in the system with continuous up gradation.
- Highly motivated staff with punctuality and dedication towards the work, as per the clients’ feedback.

### Areas to Strengthen:

- A complaint box can be introduced to incorporate a new dimension in the feedback/ grievances system.
- A separate HR and training manual can be developed for proper staff training.
- Client training on pricing terms and conditions and feedback mechanism with mechanisms to assess client awareness on a regular basis can be incorporated.
- Financial literacy program can be undertaken for the clients to make them understand their household cash flows and household planning as a part of the social intervention of Arohan
- Client drop-out survey / interview exists informally but no analysis has been done.
- Code of conduct compliance report can be presented and discussed in Board meeting.

Average Score	Rating	Grade
<b>3.18</b>	3.50-4.00	AA
	<b>3.00-3.49</b>	<b>A</b>
	2.50-2.99	BB
	2.00-2.49	B
	1.50-1.99	CC
	1.00-1.49	C

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### Annexure 1: Number of Client Interviews across Branch Offices

S. No.	Name of Branch Office	Number of Clients
1	Malsalam	13
2	Bakhtiyarpur	15
3	Mahnar	16
4	Gaya	21
5	Manpur	19
6	Manpur	14
7	Khidderpore	11
8	Bagnan	11
9	Barrackpore	12
<b>Total</b>	<b>9</b>	<b>132</b>

## Annexure 2: Code of Conduct Assessment (CoCA)

### Introduction

The Code of Conduct Assessment Tool (CoCA) is a comprehensive instrument used to measure the development and implementation of policies that best serve the client. Starting with the Code of Conduct, CoCA determines whether written procedures have been generated in accordance with the mission and vision of the institution. Through a careful analysis of internal documents and conversations with staff members, CoCA seeks to analyse the alignment between theory and reality, checking at all levels to see how well policies align with practice. Where possible, CoCA tries to quantify the parameters to remove subjectivity.

CoCA has been developed to address some of the ideas that are implicit in Social Performance and Client Protection, but to do so in a structured manner with set parameters that have to be fulfilled. One of the major tenets of this tool is analysing the quality of service provided by the staff, and the quality of delivery offered to the client. Ultimately, the tool is used to identify important policies that could strengthen practices, enhancing the relationship between customer and institution.

CoCA has ten broad assessment components which are further disaggregated into 58 elements. The ten broad components are: *Code of Conduct, Market Entry, Appraisal Process, Client Comprehension, Products and Services, Pricing, Feedback Mechanisms, Staff Conduct, Board and Human Resources.*

Each component is made up of between 4 and 7 elements. Each element has been allocated a **Weight** that ranges from 1% to 3% of the total score. The components are weighted according to the sum of their constituent elements. These elements are given a **Score** from “1” (Lacking) to “4” (Excellent). In case an element is not applicable, it is removed from the overall rating and the weights are adjusted accordingly.

### CoCA helps to:

- Generate baseline information on institutional conduct and the relationship between staff and clients
- Build a practical, experiential profile of the institution’s methodology
- Understand the formal institutional processes that govern client interactions
- Analyse the institutional mentality and correspondence between social and financial missions
- Provide detailed information on best practices being followed by the institution

### Methodology

CoCA is administered in a participatory manner and is a multi-stage process:

1. Collection of primary and secondary data: Website, Annual reports, Audited financial statements; Institutional manuals (HR, Operations, and IA), Training materials; 3<sup>rd</sup> party ratings, etc.
2. Structured discussions: Board, Senior Management, Head office staff, Field personnel
3. Field visit: Branch office discussions with field personnel, meetings with clients, observation of different stages of the operational process

CoCA is largely based on observation of behavior, conduct, and practices. Although the premise is the existence of a Code of Conduct, the tool is really meant to monitor compliance with the principles laid out by the organization. If broad principles are missing from the institution’s consideration, these will be identified. Other standards may be written, but may not be turned into any meaningful practice. CoCA differentiates between each of these, and provides a comprehensive portrait of the institution’s ability to focus on its clients, serving them ethically and responsibly.