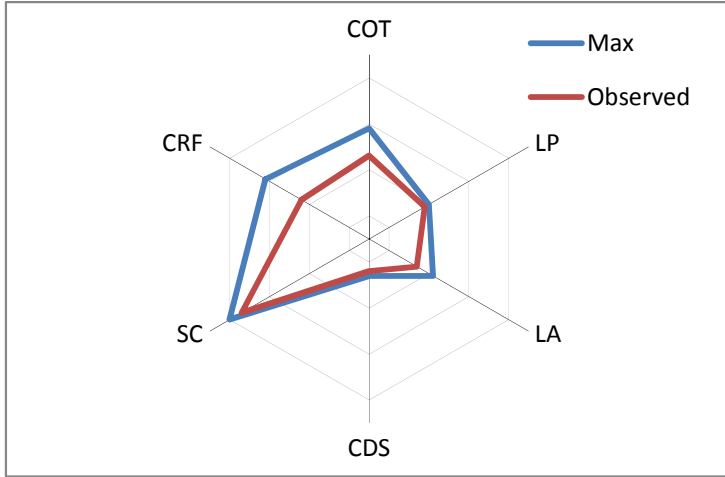


Arohan Financial Services Pvt Ltd

Kolkata, India

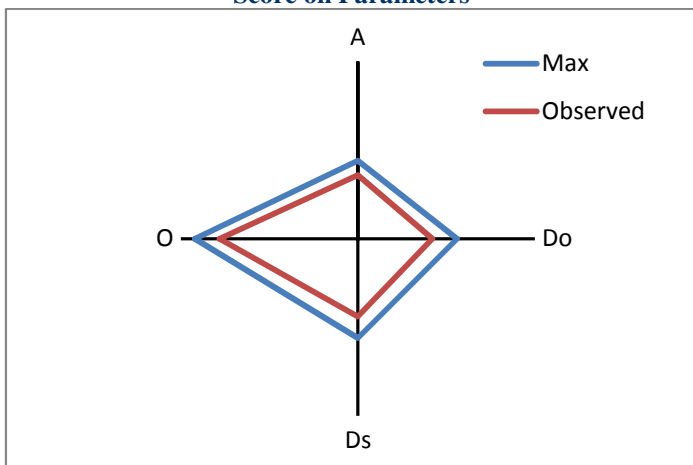
Composite COCA Score: 81%, High level of adherence

Score on Dimensions



COT=Client Origination and Training, LP=Loan Pricing, LA = Loan Appraisal
SC=Staff Conduct, CDS=Client Data Security, SC=Staff Conduct, CRF=Client Relationship and Feedback

Score on Parameters



A= Approval, Do=Documentation, Ds=Dissemination, O=Observance

Rationale

Arohan gets a high composite score as it has scored reasonably on most parameters with high scores on staff conduct, loan pricing and client data security. Arohan has the potential to score much higher if it improves its loan appraisal process and client relationship and feedback mechanism.

Highlights

- Arohan communicates interest rates on its loan products to its clients in a transparent manner.
- Arohan has put in place fair practice codes for the professional conduct of its staffs. Arohan staffs are aware of the fair practices codes and their conduct in the field mostly reflects their understanding.
- Arohan has developed a detailed loan form which allows its field staff to capture all the information regarding income, expense and indebtedness of the household.








Areas of improvement






- Arohan needs to better document its processes regarding handling of client complaints and the time frames in which such complaints should be resolved. This also needs to come under the scope of internal audit.
- There is scope for further strengthening the loan appraisal process at Arohan. Arohan currently pegs the loan amount to be sanctioned mainly on the income of the client and does not consider the client's cash outflows, although most of the information pertaining to cash outflows is captured in the loan appraisal form. Arohan, in its appraisal, should also consider cash out flows and surplus of the client while determining loan size and duration. While analyzing indebtedness, Arohan considers only group loans. It should ideally also consider individual loans from other sources for indebtedness analysis of the client during appraisal.

Code of Conduct Assessment Compliance Assessment Tool

This tool requires scores to be assigned on the six Code of Conduct dimensions – Client Origination, Loan Pricing, Loan Appraisal, Client Data Security, Staff Conduct and Client Relationship and Feedback, across the four parameters – Approval, Documentation, Dissemination and Observance. The six dimensions have been drawn from a review of the norms prescribed for MFIs including Sadhan's and MFIN's code of conducts, fair practices guidelines from the Reserve bank of India and CGAP's client protection principles (Smart Campaign). The methodology followed for this assessment is presented in annexure 2 and the framework of the tool is presented in annexure 3. This assessment has been commissioned by the Small Industries Development Bank of India (SIDBI).

Section 1: Scores¹ and facts

Code of Conduct dimensions	Maximum	Observed	%
 Client Origination and Targeting	24	18	75%
 Loan Pricing	15	14	93%
 Loan Appraisal	16	12	75%
 Client Data Security	8	7	88%
 Staff Conduct	35	32	91%
 Client Relationship and Feedback	26	17	65%
 Total	124	100	81%

Compliance parameters	Maximum	Observed	%
 Approval	22	18	82%
 Documentation	28	21	75%
 Dissemination	28	22	79%
 Observance	46	39	85%
 Total	124	100	81%

MFI's profile	
Name of the MFI	Arohan Financial Services Pvt Ltd.
Legal form	Non Banking Financial Company (NBFC)
Operational Head	Mr Shubhankar Sengupta
Year of starting microfinance	2006
Branches	149
Operational area	3 States
Total number of staff involved in microfinance	1,002
Visit of the Assessment team	25/04/2011 to 29/04/2011
Correspondence address	Arohan Financial Services Ltd, "Prafulla", 195/1, Rajdanga Chakrabortipara, Kasba, Kolkata, 700107 Telephone: +91 33 40156000 E mail: jaydeep.chakraborty@arohan.in

¹ The scores have been colour coded as follows. Red = Less than 60% indicating significant scope of improvement; Orange = 60% or more but less than 80% indicating moderate to high level of adherence; Green = 80% or more indicating high to very high level of adherence

Microfinance Methodology

Arohan follows different methodologies for each of its loan product. Arohan follows modified Grameen methodology for its main microfinance product “Saral Loan”. The methodology primarily involves lending to women clients who organize themselves in joint liability groups (JLG) of five members and 2-6 JLGs form a center. The loan is given to the individual members. The group acts as a control mechanism which ensures that members do not make willful defaults. The group meetings take place at a fixed time and place every week, during the first half of the day. While loan repayments take place during the group meetings, loan disbursements take place at the branches during the second half of the day. Arohan targets small vendors and entrepreneurs, men or women, under its “Bazaar loan” product. These customers form into a joint liability group of five. Repayment takes place at the business place of group representative who collects the repayment amounts from other group members before the repayment time. “Pragati Loan” product is an individual loan product provided to micro entrepreneurs engaged in nonfarm or farm allied activities.

Details of the loan products

Product	Description	Loan size (Rs)	APR ¹	EIR ²	% in portfolio
West Bengal Saral weekly	These loans are provided to women-members of Arohan’s centers. Loans are repayable in 57 equal weekly installments of principal along with interest which is charged at 24.13% on a diminishing balance method. An upfront fee of 2% is charged.	5,000-12,500	26.2%	27.94%	69.63%
Saral Monthly (North Bengal, Bihar, Asam)	These loans are provided to women members and carry an interest rate of 28.41% on a diminishing balance method and are repayable in 15 equal monthly installments. An upfront fee of 2% is charged.	5,000-12,500	30.60%	31.70%	5.54%
Bihar Saral Weekly	These loans are provided to women-members of Arohan’s centers. Loans are repayable in 57 equal weekly installments of principal along with interest which is charged at 24.13% on a diminishing balance method. An upfront fee of 4% is charged.	5,000-12,500	30.5%	31.81%	11.60%

West Bengal Bazaar loan	These loans are offered to individual sellers, men or women, in a market or cluster of activities. This loan carries an interest rate of 27.29% on a diminishing balance method repayable in 45 weeks. An upfront fee of 4% is charged for the loan.	6,000-20,000	34.8%%	36.90%	12.60%
West Bengal Pragati loan	These loans are offered to individual entrepreneurs engaged in nonfarm enterprises or farm allied enterprises to address their working capital requirements or asset creation. An interest rate of 30% on a diminishing balance method is charged which is repayable in 12-36 months. An upfront fee of 4% is also charged.	40,000-200,000	31-38%	32-39%	0.63%

Note: Processing fee charged by Arohan includes the insurance charges and service tax.

1. APR takes into account interest income and processing fees on the loans and it has been calculated on the full loan term.
2. EIR taken in to account interest income, processing fees, insurance charges, any other charges and upfront refundable deposits taken on the loans.

Details of Insurance Products

Life Insurance: Arohan provides life insurance cover of Rs 20,000 to its customers in collaborations with AVIVA Life Insurance Company. The insurance cover lasts till 180 days after the last scheduled repayment date. In the first 30 days of taking the loan, the customer is covered only for accidental death. After 30 days, she is also covered for natural death. Death due to suicide is not covered in insurance policy.

Accident Insurance: Arohan provides personal accident insurance cover of Rs 25,000 to its customers and their husbands in collaboration with Bharti AXA General Insurance Company. This facility comes free of charge to the customer. Following are the coverage and benefits receivable under the policy:

Event	Sum Insured Payable (Rs)
Accidental Death & Permanent Total Disability	25,000
Accidental total and irrecoverable loss of both eyes or loss of use of both hands or both feet, or loss of sight of one eye and loss of use of one hand or one feet.	25,000
Accidental total and irrecoverable loss of sight of one eye or loss of use of one hand or foot	12,500
Childrens' education fund for a maximum of 2 children upto an age of 18 years (payable only in case of accidental death)	4,000/- per child
Funeral expenses	2,000

Note: In case the customers are not able to furnish valid documents required by the insurance agencies, customers are liable to get their loan outstanding written off in case of the death of the customers.

Key facts and figures			
Parameters	Mar-09	Mar-10	Mar-11
Active borrowers	86,237	187,754	214,059
Number of branches	35	86	149
Number of states	1	2	3
Total staff involved in microfinance	297	746	1002
Portfolio outstanding (Rs mn)	419	978	898
Amount of loans disbursed (Rs mn)	633	1,461	1,668
PAR ₆₀	0.2%	0.7%	3.14%
Yield on Portfolio (YoP)	29.68%	29.01%	29.9%
Operating Self-Sufficiency (OSS)	122.32%	118.42%	104%
Return on Assets (RoA)	3.42%	2.04%	0.3%

Equity Structure	
Shareholder	% stake in the company
Bellwether Microfinance Trust	31.88%
India Financial Inclusion Fund	22.07%
Shubhankar Sengupta	11.66%
Lok Capital LLC	9.76%
Michael & Susan Dell Foundation	9.76%
Arohan ESOP Trust	8.44%
Swaminathan Aiyar	4.38%
Bellwether Microfinance Fund Pvt Ltd	1.36%
Vidyanand Jha	0.17%
Others	0.52%
Total	100%

Profile of the Board of Directors	
Name	Profile
Mr Shubhankar Sengupta	Promoter and Managing Director
Mr Vishal Bharat	Nominee Director, Caspian Advisors Pvt. Ltd.
Mr Vishal Mehta	Nominee Director, Lok Capital LLC
Mr Vidyanand Jha	Independent Director
Ms Geeta Dutta Goel	Nominee Director, Michael & Susan Dell Foundation

Section 2: Observations

2.1 Client Origination and Targeting (COT)

Observed score 75%



Arohan gets a reasonably high score on COT because it has put in place a well defined system of client origination and internal control to assess COT on regular intervals. However, Arohan must ensure to apply these internal check systems at all times so as to prevent the risk of informal agents and circumvention of policies by field staff.

Arohan strives to provide financial services to the socio-economically disadvantaged sections of society to enable them attain a better quality of life. Arohan started its operation in 2006 from Kolkata and nearby region and has expanded its operations to North Bengal region in West Bengal and adjoining states of Bihar and Assam. The first step in client origination by Arohan is the selection of area. This process starts with secondary data analysis of the potential area. Field staffs of Arohan do the primary survey of the areas and gather information on various important points like population and occupation of potential clients, infrastructure, presence of MFIs in the area, population proportion of urban and rural clients etc. Branch manager and field staffs analyze and finalize the area of operation. One branch in Arohan caters to customers in a radius of 5 km in urban localities and 10 km in rural locations.

After identification of the area, Arohan staffs organize introductory meetings in the selected village or urban locality. During the meeting, field staffs inform the audience about the mission of Arohan, target clientele and loan terms and conditions inclusive of methodologies and processes involved to avail loan from Arohan. Once clients start approaching the field staffs for group formation and loan, field staffs conduct pre-training meeting. The purpose of the pre-training meeting with the customers is to reduce the possibility of a member being rejected at the time of customer verification and group training. During the pre-training meeting field staffs ensure that group members fulfill all the necessary criteria to be eligible for loans. Field staffs also verify original KYC documents and meet the spouses of the potential clients. Pre-training meet is followed by collection of KYC documents, household verification and neighborhood references. All the new customers of Saral loans have to undergo a Compulsory Group Training (CGT) of three days while customers of Bazaar loan need to undergo CGT of two days. Arohan has provided detailed guidelines for organizing CGTs for the JLGs. After successful completion of the CGT, group is recommended for Group Recognition Test (GRT).

Branch head has the responsibility of conducting GRT. Branch head conducts the GRT of the group according to the GRT form and carry out household verification of two members of the group. After successful completion of GRT, Loan can be sanctioned by the Branch Head.

Arohan's operation manual has provided detailed guidelines on origination of client for microfinance. All the field staffs have been provided with operational handbook in local language for clear understanding of the processes. Arohan has overall good policies for client origination but some cases of policy deviations were observed in the field by the M2i assessment team wherein customers had been provided loans without proper verification. Caselet 1 highlights some of these issues.

Improper verification and non adherence to prescribed client origination criteria may result in agent problem and non repayment on part of bad clients. Hence there is a scope to further strengthen the monitoring of client origination processes.

Arohan does not give steep targets of client origination to its loan officers although it expects them to at least make five groups per month. Arohan gives monetary incentives to its staff on the basis of number of groups formed, loan outstanding and repayment performance, but there is an upper limit of 100 clients per month for a field staff.

Arohan's operation policy has defined the characteristics of the potential customer in detail. The policy defines the target customers on the basis of household type, income, lifestyle attributes, education and their access to formal finance. But M2i assessment team observed that in some cases loans had been provided to customers whose profile differed significantly from the prescribed criteria e.g. loans had been provided to customers having monthly income in excess of Rs 20,000, as well as clients who have received significant loan amounts from banks.

Arohan's senior management is aware of prevalence of informal agents in the field and it has been prescribed in the best practices not to involve informal agents. However, there are no detailed documented guidelines on management of agent's problem in the area.

Internal audit function of Arohan focuses on process compliance from client origination, loan disbursement & recovery, documentation, cash management to MIS maintenance issues in the branches. The observations made by the Monitoring Officers (internal control) are consolidated centrally and sent to Branch Heads and their reporting officers (Area Managers) for comment. After the justification/ explanations are received from the Branches, the GM of Internal Control reviews with the GM of Operations the nature of gaps, their seriousness and decide on corrective action. The GMs sit together to review the audit reports on a monthly basis. Any grave observation is escalated to the GMs directly without waiting for the monthly meet.

Assessment team observed that monitoring officer (internal audit) writes his comments in monitoring register at branches and sends the summary of findings to head office. But it was observed in some branches that follow up action was not mentioned in the monitoring register. The monitoring register is also not checked by the monitoring officer to ascertain whether branch has undertaken the follow up action. On enquiry, it was revealed that follow up actions by the Branch head are communicated to concerned GMs.

Caselet-1: Pinki Naskar Center: Trisha, Branch: Garia

Pinki Naskar had received a loan of Rs 10,000 on 12th May 2010. She regularly repaid 28 loan installments till 9 Dec 2010. After that she migrated from her residential locality and she has not been repaying the loan since then. She returned back to her residence on 25th April 2011. The assessment team visited Pinki and tried to understand the cause that led to her fleeing from her residence. She told that she had taken loans from different MFIs to the tune of Rs 110,000. On further discussion it came to light that Pinki had helped four of her relatives to take loans of the same amount (Rs 110,000) from the same MFIs.

All those relatives were also member of center Trisha. Details of other relatives in the same

center are as follows:

- 1st Group: Pinki Naskar (Group leader), Tinku Das (Niece of Pinki’s husband)
- 2nd Group: Urmila Naskar (Mother-in-law of Pinki), Shipra Das (Mother of Pinki)
- 3rd Group: Mithu Das (Aunty of Pinki)

Other than Urmila Naskar, all the others had defaulted as Pinki was paying for their repayment. Younger brother of Pinki’s husband was repaying for Urmila Naskar.

The assessment team had discussion with two members (Mamata Ghosh and Gopa poddar) of the center who had taken 1st cycle loans from Arohan. According to them, Pinki had offered them that she will arrange for their loans from Arohan. She had asked them to pay for some customers who had defaulted in previous cycle so that the center is removed from the black list and the new members can be included in the center. All the five new members in the center paid a total of Rs 6,000 to clear previous dues of the center so that center becomes eligible to get further loan.

Approval (A)	Documentation (D)	Dissemination (D)	Observance (O)
Arohan’s policy is not to be the fourth or later lender to any of its clients.	The operational manual provides guidelines on how to identify clients and choose area of operations. It also states clearly the documentation to be collected from the clients.	Arohan provides training to its staff members which include processes to be followed for originating clients. It also provides each field staff with a handbook in local language for regular reference. Each of the branches visited was found to have the operations manual readily available.	Some policy deviations were observed in the client origination and targeting. There is a scope to further strengthen the monitoring particularly of the pre-disbursement process. It was observed that in some branches internal audit had not checked the follow up actions by the branches on the monitoring findings.

2.2 Loan Pricing (LP)

Observed score 93%



Arohan gets a high score on pricing as it charges interest rates on reducing balance method and ensures that the rates are communicated to the clients.

Arohan primarily offers two loan products, “Saral Loan and Bazaar Loan”. “Pragati Loan” offered by Arohan is under the pilot phase and it has not been fully operationalised. Arohan offers its Saral loan in different regions with minor changes in its interest rates and processing fees. Saral loan product comprises of 86.77% of Arohan’s portfolio. Saral loan (Rs 5,000-Rs 12,500) is offered as weekly product in Patna and Kolkata region with a 57 weeks repayment period while it is a monthly product in North Bengal and Assam region with 15 months repayment period. Arohan charges an interest rate of 24.13% on a diminishing balance method for the Saral loan in Patna and Kolkata region while the interest rate in North Bengal and Assam region is 28.41%. Arohan charges an interest rate of 27.29% on diminishing balance method for its Bazaar loan.

Arohan provides training to staff members on how to communicate the interest rate charged on the loan products and also provides them with a handbook for regular reference. Interest rates are clearly communicated to clients during introductory meeting and CGTs on reducing basis. In the M2i sample of clients, 70% of the clients were able to recall the interest rate charged to them but all the sample clients agreed that interest rate was communicated to them during meetings and CGT. Arohan also provide interest rate details in loan passbook provided to the clients during disbursement. All the loan officers interviewed knew the interest rate charged by Arohan.

Upfront fees and deposits

Arohan charges 2% of the loan amount as upfront processing fee for Saral products in Kolkata, North Bengal and Assam region and 4% in Bihar. It charges 4% upfront for Bazaar loan. The processing fee charged includes service tax and the charges for insurance that are provided by Arohan in collaboration with AVIVA and Bharati AXA. The loan card provided to client includes the certificate for both the insurance thereby clients do not have to wait for the certificate of insurance to be delivered to them. All the clients were aware of the processing fee amount charged to them and number of installments they had to pay. All the clients were aware that they have got insurance certificate in their loan card but only 40% of the sample clients were aware of the insurance details.

Late payment charges and penalties

No penalty is charged for late payment or for overdue, however the interest on overdue is accrued. In case of loan being overdue for more than the contracted loan period, Arohan writes off extra accrued interest on application by the client. Clients willing to pay the accrued interest are allowed to pay. In genuine cases of client facing difficulties, she can apply for write off of interest and on recommendation of group; client needs to pay only the principal amount. The General Managers have the power to allow write-off in special cases.

Prepayment charges

Arohan does not allow prepayment of loans. It allows for pre-closure of loans in Saral Loan in special cases such as, migration by client or irregular repayments by clients. In case of

Bazaar loan, Arohan offers a window of 30-45 days during Durga Puja and Chaitra month to the clients to pre-close their loan if they have completed 35 weeks of repayment. Arohan does not charge its clients for pre-closure and interest is also adjusted as per the period of loan.

Approval (A)	Documentation (D)	Dissemination (D)	Observance (O)
Arohan's policy is to disclose the reducing balance rate of interest on its products to all its clients.	Arohan's interest rates are mentioned in its operational manual and are also documented in the loan card provided to the client during disbursement.	All the staffs of the Arohan were aware of the interest rates and loan processing fee. Staffs were also aware of the equivalent interest rate on a flat basis.	A high proportion of clients were aware of the interest rates charged by Arohan. In certain cases clients were not able to recall the interest rates but agreed that they have been communicated the interest rates during the meetings and CGT.

2.3 Loan Appraisal (LA)

Observed score 75% 

Arohan scores moderately in loan appraisal as it does not take into account customer's cash outflows in loan appraisal and pegs loan amount solely on income. Also it does not consider individual loans of the households while checking the over indebtedness. However, Arohan has comprehensive loan formats and captures information related to clients' indebtedness and cashflows which can be utilized for appraisal.

Arohan's branch heads are responsible for appraisal and sanctioning of the loans. The loan officers fill up the loan application forms and along with the application forms, fill client registration form and client assessment form. The client assessment form captures socio-economic condition of the client, income and expense details of the household, and indebtedness of the household from all sources and reputation of the family along with other information. The forms also include format for capturing the cash flow of the family.

In the formats only, Arohan has prescribed important criteria for appraisal of loan which are as follows:

1. Existing borrowings from MFIs under group lending plus new loan applied to Arohan should not exceed Rs 50,000.
2. Arohan should not be the fourth lender.
3. Total monthly repayment inclusive of all loans should not exceed more than 40% of household income in case of a loan size upto Rs 10,000 while it should not be more than 20% in case of loans greater than Rs 10,000.

The weaknesses in the above appraisal criteria is that while analyzing the indebtedness over Rs50,000, Arohan considers only the group loans taken by the client and does not consider the individual loan, although the information of all loans is captured. In the third criterion of appraisal Arohan considers the monthly installment of the client for all loans but it looks it as a proportion of the income rather than the surplus. Hence, cash outflow of the client are not considered in the appraisal.

Some cases of policy deviations even on the above mentioned policies were observed. On discussion with the branch head it was found that there was some lack of understanding regarding sanctioning of second loan to the client in the case where the loan approval may result in total loans going above Rs 50,000 per client.

Caselet 2 and 3 highlight some of the mentioned issues in the loan appraisal.

The internal audit department is required to check adherence to appraisal policy by the branches during their regular visits to the branch and group meetings. It was observed that all the information including the income and expense information and indebtedness of household from various sources had been properly recorded in the forms and the information invariably matched with the data collected by M2i team's survey.

Caselet-2: Dona Das (Group- Ananda, Branch- Dum Dum)

Dona Das has received Rs 12,500 loan from Arohan for the purpose of investing in her beauty parlour. On documentation check of the loan file of the customer it was found that her husband had availed a loan of Rs 325,000 from a bank as auto loan. Loan officer had

recorded the auto loan from the bank in the assessment form. In the cash flow analysis of the household, EMI of auto loan was not considered in expenses of the household.

Caselet-3: Sujata Saha, Tulu Pal, Rupali Majumdar, Group: Lahiri, Branch: Garia
Sujata Saha, Tulu Pal and Rupali Majumdar have availed loan from Arohan. Sujata Saha was sanctioned Rs 12,500 while Tulu Pal and Rupali Majumdar were sanctioned Rs 10,000 each. These customers were also member of other MFIs. On documentation check of the loan files of the client it was found that all these three customers had availed loans of Rs 43,000 from other MFIs. Loans were sanctioned by the branch head even though total loan to each of these clients was exceeding Rs 50,000, after the new loan.

Approval (A)	Documentation (D)	Dissemination (D)	Observance (O)
Arohan's policy is to appraise loan applications on the basis of household income and indebtedness. While appraising loan, in case of indebtedness it considers loans provided by MFIs under group methodology and pegs loans amount on income of the client.	Arohan's loan application formats provide for collection of information on household incomes and expenses, as well as other borrowings.	Field staffs have received training on filling up the loan forms and accurately representing income, expenses and indebtedness of potential clients.	The income, expense and indebtedness information had been meticulously filled up in the loan application forms. However some policy deviations were observed in which loans were sanctioned even though total loans to the customer exceeded Rs 50,000.

2.4 Client Data Security (CDS)

Observed score 88% ■

Arohan gets high score on CDS because it has put in place a system to ensure that sensitive client data in MIS are adequately protected against unauthorized access. The score can increase if Internal Audit of the organization starts covering issues pertaining to client data security.

Arohan maintains the physical records of clients’ data in its branches. The loan documents are kept center wise on the bookshelves, although these bookshelves are not locked and can be accessed by all staff in the branch. Staff from outside the branch can access files with permission from the senior management. All the documents requested by the assessment team were retrieved promptly.

Important client data is also entered in the MIS. Operational manual has provided detailed guidelines for entering of data by the loan officer and branch head. Consolidated client information can be retrieved by the branch head only as he has the user password to open the consolidated files. Senior staffs and monitoring officers can access the information through guest log-in. Password of guest log-in is also with the visiting staff or branch head. Loan officers cannot access the information as they do not have the user password. So the access rights to the MIS are well defined and it ensures adequate security for sensitive data.

Approval (A)	Documentation (D)	Dissemination (D)	Observance (O)
Arohan’s policy requires client data to be stored safely.	The storage and filing of loan forms and KYC documents is standard and guided by operations policy issued by HO. Access rights for the software have been well defined	There is a high level of awareness at the branches regarding how client’s data need to be stored.	Loan documents were found to be properly filed and arranged in the bookshelf. It was observed that unauthorized access of the physical files could be had as the loan files are not kept in locked shelves.

2.5 Staff Conduct (SC)

Observed score 91% ■

Highly professional conduct displayed by field staffs ensures that Arohan gets a high score on staff conduct.

Employee friendly, customer friendly, respect for all and transparency & integrity are the core values of Arohan. Arohan has put in place fair practice codes with Do's and Don'ts for its employees. The fair practices code is mentioned in field staff hand books provided to all the loan officers. The suggested best practices relate to their behavior within the organization, their communication in the organization and their conduct in the field. On discussion with the loan officers, it was observed that they were aware of the fair practices code. Some important Do's and Don'ts prescribed are as given:

Do's

- Respect the customer
- Respectful communication with colleagues and clients
- Be attentive during cash handling.
- Entry of cash transaction should be done in MIS at stipulated time.
- Always sign on repayment card after recovery.
- Reach center meeting at least 5-10 minutes before time.

Don'ts

- Do not arrive late at center meeting
- Never take prepayment or pre-closure amount in the field.
- Do not misbehave with anyone.
- No relations other than professional relationship.
- Do not allow interference of outsiders.

The expected behavior of the staff members towards different stakeholders is inculcated through compulsory induction training of 20 days. All the field staffs had undergone induction training. In addition to the induction training, staffs are provided trainings on specific activities like soft training, communication skill and client relationship on a regular basis. The assessment team observed that the behavior of the field staffs matched with the good practices guidelines provided by Arohan.

The behavior of staff members has been good with the clients even in case of overdue. Although there is no guideline on overdue management processes, field staffs explained the regular processes followed by them that does not put clients into stress. Arohan's practice of not charging penalties in case of overshooting of contracted repayment period also helps in ensuring that clients are not put under undue stress.

Approval (A)	Documentation (D)	Dissemination (D)	Observance (O)
Arohan has approved fair practices codes that make it necessary for its staff member to treat clients with respect and dignity.	The fair practices codes have been documented in the field staff handbooks provided to the field staffs.	Field staff handbook is available with each field staff. Staff members display a high level of awareness regarding expected fair practices.	We did not come across any case of misconduct or fraud by staffs during interviews with the clients.

2.6 Client Relationship and Feedback (CRF)

Observed score 65%



Arohan can improve on CRF if it develops a system of managing client complaints and feedbacks at field level and develop and circulate detailed step by step guidelines on complaint management at all the levels. It also needs to bring checks on client grievance redressal under the ambit of its internal audit function.

Arohan provides all the relevant information to its clients during its introductory meeting and CGTs. The loan passbooks also provide all the information in local language for the ease of customers. The loan card provided to customers also provides contact number of Branch Head and FO along with a toll-free customer care number. The clients interviewed reported a high level of satisfaction with Arohan's field staff. All of them were aware of Arohan's name and the location of its local branch office. All the customers were aware of the customer care number mentioned in the loan card. Arohan's staff also does Individual Customer Contact (ICC) in the event of there being an overdue of loan or when a customer's repayment is irregular. Field staffs visit the customers to understand the issues related to overdue or irregular repayment. Internal audit function also conducts ICC to check the ICC process by field staffs.

Arohan organizes independent customer satisfaction survey of its customers on an annual basis. The branches in Arohan also organize customer refresher meet on random basis. Arohan does not have any system of actively seeking client's complaints at branch office level as it feels that there is a potential conflict of interest.

Arohan has a toll-free customer care service by which complaints are to be handled. The calls made to the customer care number go to Arohan's head office in Kolkata. There is a staff that receives the calls and records the complaints received in a register. Depending on the nature of the complaints, these are passed on to the relevant authority for follow-up. However, the system is still in a pilot stage and should be further built to ensure comprehensive handling of client queries and issues.

The follow up actions taken on the complaints are not maintained diligently in the register. Visiting team did not come across any follow up action and closure comments in the register. The staff handling the customer care number is not completely dedicated to receiving the complaint-calls; rather she has other responsibilities too.

The redress mechanism can improve if Arohan has a dedicated staff for handling the complaints through customer care number and she/he should be well versed in the languages of the operational areas of Arohan as it operates in three different States with different languages. Arohan needs to develop step by step guidelines for the customer care executive and train them to effectively handle the complaints received. While the responsibility of resolving client complaint rests with primarily the operations team, the organization is yet to evolve a mechanism of independently assessing the effective resolution of the complaints. The grievance redressal mechanism should come under the scope of internal audit function.

Approval (A)	Documentation (D)	Dissemination (D)	Observance (O)
Arohan's policy is to develop sustainable, transparent relationships with its clients.	Arohan has provided customer care number in the loan card but it needs to develop detailed guidelines regarding handling of the complaints and recording the follow up and closure reports.	Arohan needs to train its customer care executives and field staffs in effectively handling the client feedback and complaints. It needs to develop and circulate guidelines on client redress mechanism for effective implementation of the system.	Clients had been provided customer care number in the loan card. The complaints received on this number has been recorded in the complaint register but follow up action and closure comment is not mentioned in most of the cases. The redress mechanism is currently not under the scope of internal audit.

2.7 Opinion of important stakeholders

Discussions with the Arohan's lenders revealed that they had a favorable opinion of its field practices and client relationships. It also enjoys a healthy reputation among its peer for its operational practices.

Annexure 1: Matrix of Score Obtained

Indicators	A		Do		Ds		O		Total	
	Max	Obt	Max	Obt	Max	Obt	Max	Obt	Max	Obt
Client origination and targeting	5	4	5	4	5	4	9	6	24	18
Loan Pricing	3	3	1	1	2	2	9	8	15	14
Loan Appraisal	4	1	4	4	3	3	5	4	16	12
Client Data Security	1	1	3	2	2	2	2	2	8	7
Staff Conduct	7	7	7	6	10	9	11	10	35	32
Client Relationship and Feedback	2	2	8	4	6	2	10	9	26	17
Total	22	18	28	21	28	22	46	39	124	100

A= Approval, Do=Documentation, Ds=Dissemination, O=Observance, Max = Maximum, Obt = Obtained score

Annexure 2: Tool Development, Methodology and List of Branches Visited

The code of conduct compliance assessment tool was developed as a response to the need expressed in a meeting of stakeholders in Indian microfinance by the Small Industries Development Bank of India (SIDBI) and the World Bank in December 2009. The code of conduct dimensions were identified by reviewing the various norms for ethical finance. These included RBI's fair practices guidelines for Non Banking Financial Companies, Sadhan's code of conduct, MFIN's code of conduct, and CGAP's client protection principles. The most important challenge for M2i was to create objective indicators which could comprehensively measure the six dimensions. A total of 124 indicators were developed across each of these dimensions, so that subjectivity in measurement could be minimized. The number of indicators for each of the dimensions has been presented below.

Dimension	Nos. of Indicators
Client origination and targeting	24
Loan Pricing	15
Loan Appraisal	16
Client Data Security	8
Staff Conduct	35
Client Relationship and Feedback	26

In order to make the measurement comprehensive and objective, a method of scoring was developed so that:

1. Measurements on the indicators are taken on the dimensions across the four parameters within an MFI – Approval, Documentation, Dissemination and Observance
2. Indicators are mapped to underlying characteristics which can be objectively measured. This is illustrated in the box below.

Illustration

One of the indicators developed to measure the dissemination of guidelines related to staff conduct is:

Has the MFI provided training to its operational staff on their conduct with clients, particularly relating to:

- A. Conducting client meetings
- B. Collecting repayments
- C. Recovering overdue loans

The basis of scoring this indicator is the proportion of operational staff interviewed who have received training on these specific aspects. In case all the staff members have received trainings on each of these aspects then the score is 1 on each of these indicators, totaling to 3. If only 50% of the operational staff members interviewed have received training on these specific aspects then the score totals to 1.5 (0.5+0.5+0.5).

The Code of conduct assessment tool was tested on four MFIs during its portfolio audit and best practices validation engagements. M2i formally presented the code of conduct

assessment tool at a microfinance lender's forum meeting held in Mumbai at SIDBI's office in June 2010.

Methodology

The code of conduct exercise is spread over four to eight days. The first day is spent at the head office. The assessment team visits the branches over the next three to eight days. Depending upon the size and the operational area of the MFI, three to fifteen branches and between 150 and 200 clients are sampled for primary survey.

Key Aspects

- Duration of the exercise: Four to eight days
- Nos. of branches to be visited: Three to Fifteen
- Nos. of MFI clients to be interviewed: 150-200

This exercise requires:

1. Discussions with key staff members and the senior management at the head office, particularly the senior operational management team as well as the human resources team. These discussions focus on key issues of the code of conduct identified above.
2. Review of policy documents and manuals at the head office. These are reviewed in order to assess the policy as well as documentation regarding important aspects of the code of conduct. The last audited financial statements will also be required.
3. Sampling of branches at the head office. The assessment team samples branches for review. The branches are chosen in across different states in case the MFI operates in more than one state. Care is exercised to include older branches as well as branches that are distant from the head office or the regional office. The sampling of the branches is performed at the head office of the MFI.
4. Discussions with the branch staff at the branch office. Discussions with branch managers and the field staff is carried out to assess their understanding of the key code of conduct principles.
5. Sampling of respondents in the selected branches. A judgmental sampling is performed on the MFI's clients by the assessment team to draw respondents from the interest group, in order to maximize the likelihood that instances of non-adherence can be detected.
6. Interview with the clients. Information from the clients is collected ideally during the group meetings. If this is not possible, visits are made to the clients' locations for collecting information.
7. Review of loan files at the branch office. This review focuses on loan appraisal performed before disbursing loans as well as the documents collected from the clients.

As part of this assessment, we visited nine branches of Arohan in West Bengal. The details of the branches visited are provided below.

Sr No	Branch	Region	No of clients interviewed
1	Rajarhat	Kolkata	23
2	Dum Dum	Kolkata	13
3	Garia	Kolkata	45
4	Topsia	Kolkata	0
5	China Town	Kolkata	5
6	Kankarbagh	Patna	32
7	Gaighat	Patna	0
8	Maligaon	Assam	32
9	Gorchuk	Assam	23
		Total	183

Annexure 3: Code of Conduct Assessment – Framework

Code of conduct dimensions

- Client origination and targeting: Client origination is central to ethical microfinance operations. The code of conduct requires MFIs to practice ethical client origination which results in greater access to financial services. Also, an MFI's commitment to target the low income clients demonstrates its social mission. The way an MFI identifies its clientele and goes about growing a clientele must be approved by the board, which should also see to it that there is adequate attempt by the MFI to ensure that its product and services reach the appropriate clientele.
- Loan pricing: The scientific determination of loan price (interest rates) reflects well on the MFI's management and it also shows how effective the MFI is in providing loans to the clients at the least possible cost. The way its loan products are priced should be approved by the board. Ideally the board members should be aware of the cost of the loan products to the clients.
- Loan appraisal: The lending to a client should be in accordance to her repayment capacity or else she may get over-indebted and her economic situation may deteriorate. The loan appraisal should take into account the repayment capacity of the clients given the loan sizes and the duration of the loan. These are important client protection principles.
- Client data security: The privacy of sensitive data of individual clients regarding their demographic details should be adequately secured so that it is not used by unauthorized parties to cause stress to the clients. For this purpose, MFIs need to define explicitly access rights to all the demographic data pertaining to clients sex, race, age, income, disabilities, mobility (in terms of travel time to work or number of vehicles available), educational attainment, home ownership, employment status, and location.
- Staff conduct: All the staff members of an MFI should treat its clients with respect and dignity. The two important aspects of staff behavior are:
 1. Communication with clients – There should be guidelines for staff to deal with specific situations involving their interface with the clients such as group meetings, loan disbursements and collections. These should ensure that customers with low levels of financial literacy understand the product, the terms of the contract, and their rights and responsibilities. Clients should also be aware of the debt recovery practices of the MFI. They should be aware of what to expect in case there is a delayed payment or a default. Clients should be encouraged to ask questions regarding the product and policies. Also, the staff should ensure that arrive for meeting in time.
 2. Loan collection and recovery process - MFIs should evolve collection practices that require all clients to be treated with dignity and respect, even when they fail to meet their contractual commitments. The following should be strictly avoided:
 - Abusive language or threats
 - Harassing borrowers at odd hours
 - Forcible entry into dwelling and forced seizure of property without the legal orders

- Relationship management and feedback mechanism: It is important for MFIs to build sustainable and long term relationship with clients. Sound relationship management enhances the quality of the clients’ experience with the MFI. It also allows the MFI to better understand clients’ needs and grievances. MFIs need to have formal mechanisms to get feedback and complaints from the clients. Customer complaints need to be taken seriously, investigated and resolved in a timely manner. The responsibilities relating to receiving client grievance and feedback and acting upon them need to be clearly identified and allocated.

Compliance

In order to fully integrate operations with the principles presented above, MFIs need to adopt a comprehensive approach involving the board, the management as well as other staff members and clients. This tool measures the adherence to these principles on four parameters:

1. Approval at the policy level from the board
2. Documentation of the guidelines and procedures that emerge from the policy
3. Dissemination of the guidelines and procedures across the organization
4. Observance in practice of these guidelines and procedures.

Weights

The following matrix presents the weights given to the various dimensions and parameters in the tool.

Weight Matrix	Approval	Documentation	Dissemination	Observance	Totals
Client Origination	4%	4%	4%	7%	19%
Loan Pricing	2%	1%	2%	7%	12%
Loan Appraisal	3%	3%	2%	4%	13%
Client Data Security	1%	2%	2%	2%	6%
Staff Conduct	6%	6%	8%	9%	28%
Client Relationship and Feedback	2%	6%	5%	8%	21%
Totals	18%	23%	23%	37%	100%