

CONFIDENTIAL



## Code of Conduct Assessment Report

### Bhartiya Micro Credit

March 2013

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Conducted by:

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Bhartiya Micro Credit		
<b>Legal Form</b>	Not for Profit Section-25 Company	
<b>Date Established</b> <b>Initiation of Operations</b>	January 17, 2008	
<b>Operational Area</b>	<p>Bhartiya Micro Credit (BMC) was registered as a Not for Profit Company (non deposit taking) under section 25 of the Companies Act, 1956 in 2008 and exempt from the provisions of Chapter III B of the RBI Act, 1934. BMC offers financial services to poor rural/semi urban households in central &amp; eastern Uttar Pradesh in India to enable them to invest in income-generating activities. It also provides insurance products by collaborating with Insurance Companies to assist in asset development as well as a complementary loan product for special emergencies.</p> <p>As an organization dedicated to the socio-economic development of rural/semi urban communities, BMC is also looking to facilitate additional services to its clients through alliances with other organizations in the area of health, education and vocational training. Major focus of the organization is to enhance the income of households and improve the status of women in the society.</p> <p>Organisation charges 26% declining interest on the loan amount. BMC has prepared repayment schedule and collection of installment is on weekly basis. Currently BMC is implementing micro credit programme under financial intermediation. In addition to micro credit BMC is also involve in Livelihood Program through Financial Inclusion of Rickshaw Sangh Program with support of American India Foundation and several banks.</p>	
<ul style="list-style-type: none"> <li>Six districts of Uttar Pradesh</li> </ul>		
<b>Services and Products offered</b>		
<ul style="list-style-type: none"> <li>Rickshaw Loan</li> <li>Dairy Loan</li> <li>General Loan</li> <li>Asset Insurance</li> <li>Savings through BC</li> </ul>		
<b>Lending Model</b>	<ul style="list-style-type: none"> <li>Joint Liability Group (JLG)</li> </ul>	
<b>Average Score</b>	<b>Rating</b>	<b>Grade</b>
<b>3.03</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

Key Performance Indicators (Institutional reporting)				
	2009-10	2010-11	2011-12	Apr-Sept 2012
Number of Groups	532	744	863	934
Total number of Clients	4,644	8,601	12,833	15,324
Total number of Active Clients (loanee)	4,298	6,920	9,452	11,980
Share Capital / Quasi Equity (Rs. In Lakhs)	35.50	60.00	135.00	335.00
Total Loan outstanding (Rs. In Lakhs)	246.78	443.79	636.72	700.13
Average Loan Outstanding (in Rupees)	156.53	345.28	540.25	668.42
Total External Loan outstanding (Rs. in Lakhs)	349.26	580.12	693.13	562.21
Rate of Interest charged (by the NGO/MFI)	15%, flat	25.65%, reducing	26%, reducing	26%, reducing
Repayment Rate (Internal)	100%	100%	99.92%	99.43%
Repayment Rate (External)	100%	100%	100%	100%
No of Districts	5	6	6	6
No of States	1	1	1	1
No. of Branches	5	8	8	7
No. of Field staff / credit officers	17	22	19	24
Portfolio at Risk (>60 Days)	Nil	Nil	Nil	Nil

Loan Products			
	Rickshaw Loan	Dairy Loan	Income Generating Loan
Clientele	Women	Women	Women
Utilization	Asset Creation / Income Generation	Asset Creation / Income Generation	Income Generation Activities
Loan size	Rs6,500 to 14,000	Rs8,000 to 15,000	Rs1,000 to 15,000
Loan tenure	45 Weeks	45 Weeks	45 Weeks
Guarantor	JLG	JLG	JLG
Collateral requirements	Group	Group	Group
Repayment	Weekly	Weekly	Weekly
Interest rate	26%, reducing	26%, reducing	26%, reducing
Other charges (Insurance)	Included in the loan amount	Rs200	Rs200
Processing fee	1%	1%	1%
Security deposit / risk contribution	Nil	Nil	Nil

## Highlights

### Strengths:

- Simplified, easy to comprehend Code of Conduct. Two separate Code of Conduct documents for Staff and Clients.
- Robust Internal Audit mechanism.
- All Pricing information broken down in different component is communicated to clients (verbally as well as written form).
- Pricing data is transparent, information available publicly in branches. Data is also published at public plat forms such as MIX and Microfinance Transparency.
- Diversified product range.
- Dedicated and committed staff.
- Loan processes are easily acceptable by clients with small group size (less time taken for meeting).
- In house development of software required for their microfinance operations.
- Employee friendly HR policies like health and life insurance; three month salary in case of accident of the employee and hospitalisation; marriage leaves.
- Various social interventions apart from microfinance are being conducted like education for children of their members, health camps (pulse polio), among others through the Bhartiya Development Trust.

### Areas to Strengthen:

- Feedback mechanisms can be strengthened further. Dedicated staff can be appointed for grievance redressal/client feedback analysis.
- More focus can be given on Staff Trainings. Code of Conduct should be included as a separate module (or a separate chapter).
- More sensitization is required for clients on details/benefits of the Rickshaw Loan Package.
- Client drop-out survey / interview / analysis can be strengthened and formalised.
- Delinquency / default management mechanisms need to be strengthened.
- Financial literacy can be provided to the clients to make them understand their household cash flows and household planning as a part of the social intervention of BMC.
- Regular development and presentation of Code of Conduct compliance report in Board meeting.
- Induction of female members in the Board to for balanced gender perspective.

## Code of Conduct Assessment Report for BMC

### Summary of the study

The overall grade obtained by BMC is “**A**”, with a composite score of **3.03**, which indicates that the organization has good market entry procedures and processes; sound appraisal systems; excellent client comprehension; diversifies products and services offered; and transparent pricing policies. Employee friendly HR policies are also followed to ensure alignment and adherence to operational systems. Substantial inputs need to be provided to strengthen feedback mechanisms and developing a comprehensive Code of Conduct document with regular staff 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 BMC		
Assessment Area	Score (out of 4.00)	Key Elements to be evaluated
Code of Conduct	2.55	<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	3.25	<ul style="list-style-type: none"> <li>• Criteria for identification</li> <li>• Procedure</li> <li>• Saturation</li> <li>• Due diligence</li> </ul>
Appraisal Process	3.17	<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	3.50	<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	3.32	<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	2.35	<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 BMC</b>		
<b>Assessment Area</b>	<b>Score (out of 4.00)</b>	<b>Key Elements to be evaluated</b>
<b>Staff Conduct</b>	<b>2.87</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 Resource</b>	<b>3.00</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 Tool Results

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

1. Code of Conduct	Score : 2.55
<b>Key Elements:</b> Design, Visibility, Training, Refreshment, Awareness	
<b>a. Design</b>	
<ul style="list-style-type: none"> <li>• BMC has developed a simplified, easy to comprehend code of conduct. The code of conduct is published in two separate documents for client as well for the staff.</li> </ul>	
<b>b. Visibility</b>	
<ul style="list-style-type: none"> <li>• Code of Conduct for staff is displayed in most of the branch offices. Code of Conduct for the clients is published on the last page of the loan cards to ensure that it is communicated to all the clients. The Code of Conduct is published in Hindi.</li> </ul>	
<b>c. Training</b>	
<ul style="list-style-type: none"> <li>• Some aspects of Code of Conduct are included in the staff trainings. However a separate module (or chapter) can be developed on code of conduct and can be included as an integral part of the trainings.</li> </ul>	
<b>d. Refresher</b>	
<ul style="list-style-type: none"> <li>• There have been ad hoc refresher trainings. A systematic training calendar could be developed and regular refresher trainings can be institutionalised.</li> </ul>	
<b>e. Awareness (Staff and Client)</b>	
<ul style="list-style-type: none"> <li>• More than 75% staff has very good understanding of overall code, details and expectations. During the meeting with branch staff, maximum members were aware of the Code of Conduct and its aspects.</li> <li>• More than 70% clients have very good understanding of overall code, details and expectations.</li> </ul>	

2. Market Entry	Score : 3.25
<b>Key Elements:</b> Identification, Procedure, Saturation, Due Diligence	
<b>a. Identification</b>	
<ul style="list-style-type: none"> <li>• It has specific rules that qualify the target population (income level, assets, opportunities, among others) to start their operations in new area. Especially in the case of Rickshaw Loan, BMC assesses the demand in potential districts and launches its operations in a phased manner.</li> </ul>	
<b>b. Procedure</b>	
<ul style="list-style-type: none"> <li>• BMC follows a uniform procedure for market entry - general community survey, random household visits; evaluation formats exists to evaluate new market along with the potentiality of the area / village with approachable road, demographics.</li> </ul>	
<b>c. Saturation</b>	
<ul style="list-style-type: none"> <li>• During the market identification procedure, BMC does not strictly identify the area based on the number of MFIs working in the new identified market. It mainly focuses on poorer clients who have not yet been served financially. However, if more MFIs start operating in the operation area of BMC, it tries to consolidate its operations in unsaturated areas.</li> </ul>	
<b>d. Due Diligence</b>	
<ul style="list-style-type: none"> <li>• Due diligence for new area is done by senior management of BMC. All Financial Service Officers, Branch Managers and Area Managers are involved in the field survey.</li> </ul>	

3. Appraisal Process	Score : 3.17
<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>• Detailed household baseline data is collected during the group formation. Group Recognition Test (GRT) is conducted on door-to-door basis by the BM. There is use of peer verification across groups, information collection from neighbours / household members. This information is mentioned in an intensive written document and 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 CGT by FSO; critically evaluated during GRT by BM on door-to-door basis. Information collection on housing index, household incomes, expenditures, assets and liabilities is also done.</li> </ul>	
<b>c. Debt Thresholds</b>	
<ul style="list-style-type: none"> <li>• Debt thresholds limits are calculated on the basis of the level of income or expenditure of the family. The loan products are well designed with ranges in different cycles.</li> </ul>	
<b>d. Loan History</b>	
<ul style="list-style-type: none"> <li>• Loan history of the client also captured in MIS and used / verified through credit bureau reports. However, there is an scope of including more data on the loan history in the branch level loan documentation as well.</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 BMC is 7-10 days. However in case of variation in fund availability at BMC head office, the processing time could be a little longer in some cases.</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. These applications are sent to head office with recommendations where MIS department assesses/verifies the application though credit bureau report and sanctions the loans accordingly.</li> </ul>	
<b>g. Verification</b>	
<ul style="list-style-type: none"> <li>• Internal Audit team exist in the organization that conducts internal audit of three days for all the branch offices on quarterly basis. Audit team verify loan documents, client enrolment documents, transaction related documents, bank documents and conducts the field audit by attending 10-15 centre meetings in one visit, verifies the loan utilization check during their field visit. Audit team submits their report to the senior management at the head office.</li> </ul>	

4. Client Comprehension	Score : 3.50
<p><b>Key Elements:</b> Client Review Time, Explanatory Channels, Disclosure of Price and Terms, Rights and Obligations, Staff Training</p>	
<p><b>a. Client Review Time</b></p>	
<ul style="list-style-type: none"> <li>• In BMC, the client review time is more than a week. CGT is for 5 days followed by a GRT. In case of successful GRT, the group members submit the loan application. Thus ample time is given to the client to understand the product features.</li> </ul>	
<p><b>b. Explanatory Channels</b></p>	
<ul style="list-style-type: none"> <li>• In BMC, there are multiple channels and sessions used to educate and explain loan pricing information including processing charges, interest rates, among others. There is use of verbal explanation, written documentation along with other materials to inform the members.</li> </ul>	
<p><b>c. Awareness</b></p>	
<ul style="list-style-type: none"> <li>• During the field visit, it was found that 75% of the clients have a fair idea and knowledge of the rate of interest; the upfront processing fee of 1% of the total loan amount and insurance charges. 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>	
<p><b>d. Disclosure of Price and Terms</b></p>	
<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, CGT, GRT, disbursement and group meetings. All pricing information is also clearly mentioned (pre-printed) on the loan cards. Full and thorough, both verbal and written materials are supplied to the client.</li> </ul>	
<p><b>e. Rights and Obligations</b></p>	
<ul style="list-style-type: none"> <li>• All the rights and responsibility of the clients are explained in detail during the 5-day CGT and GRT. This information is also mentioned on the last page of the loan document in Hindi (regional language)</li> </ul>	
<p><b>f. Staff Training</b></p>	
<ul style="list-style-type: none"> <li>• Training manual on operations includes detailed explanation on interaction with the clients, roles and responsibilities of all staff levels and do's &amp; don'ts to be followed by the staff while interacting with the clients.</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>• Products are designed through a process of community surveys, review of other options, and specialized knowledge of the economic activities and demographics in the area. Especially Rickshaw loan is developed as a package which provides the Rickshaw, Maintenance, Municipal Licence, Uniform, Asset as well as life insurance to the client. Total package amount (i.e. loan amount) varies across the cities as per unit cost of the Rickshaws models in that area.</li> </ul>	
<b>b. Review</b>	
<ul style="list-style-type: none"> <li>• Review of existing loan products and services are done on an annual basis and accordingly the product features has been modified. In case of rickshaw loan, the product is revised as per the market prices of the rickshaw units in the city where the loan is being launched.</li> </ul>	
<b>c. Diversity</b>	
<ul style="list-style-type: none"> <li>• BMCs products are fairly diverse in terms of loan size, repayment tenure and purpose, group sizes and asset/livelihood financing.</li> </ul>	
<b>d. Convenience</b>	
<ul style="list-style-type: none"> <li>• Loans are highly convenient which was also shared by clients during the client visits. Client has to visit the BMC branch office at the time of disbursement; repayment collection takes place at the doorstep in the form of group meetings.</li> </ul>	
<b>e. Linkages</b>	
<ul style="list-style-type: none"> <li>• There are following linked products/services that are offered to the clients: <ul style="list-style-type: none"> <li>- Loan Cover Insurance (life insurance)</li> <li>- Asset Insurance (in case of Rickshaw Loan)</li> <li>- Banking services (through BC model for Yes Bank)</li> </ul> </li> </ul>	

6. Pricing	Score : 3.32
<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 BMC is very competitive, and the institution has occasionally reduced interest rates. The institution has kept the interest rates at 26%, reducing to adhere with the norms of RBI.</li> </ul>	
<b>b. Transparency</b>	
<ul style="list-style-type: none"> <li>• Pricing of BMC products are transparent; information is available publicly in the branch offices, and is accurate when compared to institutional documents. Different component of loan pricing are clearly communicated to the clients. Operational and Pricing Data is also published on the public platforms such as MIX and Microfinance Transparency.</li> </ul>	
<b>c. Fees</b>	
<ul style="list-style-type: none"> <li>• Only one fee is collected by BMC from their clients called as Loan Processing Fee. The processing fee is 1%, as per the RBI norms.</li> </ul>	
<b>d. Security Deposit</b>	
<ul style="list-style-type: none"> <li>• No Security Deposit is collected from the clients.</li> </ul>	
<b>e. Prepayment</b>	
<ul style="list-style-type: none"> <li>• There is no penalty/prepayment charges for the loans. Interest is paid for the period of the loan only.</li> </ul>	
<b>f. Default</b>	
<ul style="list-style-type: none"> <li>• No penalty for default collected against the unpaid day; only collecting the scheduled instalment. The group members arrange the instalment amount and repay to the staff in case an individual fails to repay. Staff behaviour during default management is normal as told by delayed payment clients.</li> </ul>	

7. Feedback Mechanisms	Score : 2.35
<p><b>Key Elements:</b> Existence, Staff Training, Client Awareness, Usage, Checking, Staff Resources, Client Exit Interviews / Drop out Surveys</p>	
<p><b>a. Existence</b></p>	
<ul style="list-style-type: none"> <li>• In BMC, two different mechanisms exist for the client feedback – one is helpline number (non toll free) and the other one is the complaint box kept at the branch offices. Clients can also approach the branch staff their complaints/issues.</li> </ul>	
<p><b>b. Staff Training</b></p>	
<ul style="list-style-type: none"> <li>• Training is provided in client relations as part of the operations trainings. However, there is a scope of improvement in the training programme and frequency.</li> </ul>	
<p><b>c. Client Awareness</b></p>	
<ul style="list-style-type: none"> <li>• Clients are well-versed in critical feedback and know that it is their right and obligations to express a complaint; they can identify the branch manager and can locate the office. Urban clients were more aware with the helpline number.</li> </ul>	
<p><b>d. Usage</b></p>	
<ul style="list-style-type: none"> <li>• Clients have shared that there were no complaints and that they are aware of the contact numbers. Hence, there is limited usage. However, a dedicated staff at head office should be made responsible to attend the calls, maintain the records and track the process of resolving the same.</li> </ul>	
<p><b>e. Checking</b></p>	
<ul style="list-style-type: none"> <li>• Though there is a helpline number give to the client, any dedicated complaint record/history is not maintained. The complaint calls are directly attended by the senior management at the head office and immediate instructions are given to the concerned staff/branch to resolve the issue. However, as the client base increases it will become crucial to maintain dedicated systems/resources for the grievance redressal.</li> </ul>	
<p><b>f. Staff Resources</b></p>	
<ul style="list-style-type: none"> <li>• For client feedback mechanism, as of now, no dedicated staff is assigned.</li> </ul>	
<p><b>g. Client Exit Interviews/ Drop out Survey</b></p>	
<ul style="list-style-type: none"> <li>• Client Exit Interviews / surveys are conducted for all drop-out members across all branch offices. However, there is a need to analyse the reasons for the same and action taken accordingly.</li> </ul>	

8. Staff Conduct	Score : 2.87
<p><b>Key Elements:</b> Rule Book, General Training, Induction, Evaluation, Review of Conduct, Incentive / Disincentive, Recovery / Default</p>	
<p><b>a. Rule Book</b></p>	
<ul style="list-style-type: none"> <li>• Rule book is available in the head office and the staff are aware of the rules mentioned in the book. The rule book of BMC 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>	
<p><b>b. General Training</b></p>	
<ul style="list-style-type: none"> <li>• Operation's Training includes sections on interactions with the clients. The Induction training also explains the HR norms and the conduct to be followed towards other staff members.</li> </ul>	
<p><b>c. Induction</b></p>	
<ul style="list-style-type: none"> <li>• All the new staff joining BMC underwent a 1 day induction program on HR policy and other norms in classroom training at HO, followed by on the job field training for 3 months.</li> </ul>	
<p><b>d. Evaluation</b></p>	
<ul style="list-style-type: none"> <li>• On the basis of the job performance, all staff are reviewed annually and accordingly promoted. In BMC, annual performance review done with tangible outcomes (salary, and promotion).</li> </ul>	
<p><b>e. Review of Conduct</b></p>	
<ul style="list-style-type: none"> <li>• Self Evaluation is done by each of the employee and feedback from their supervisors is sought.</li> </ul>	
<p><b>f. Incentive / Disincentive</b></p>	
<ul style="list-style-type: none"> <li>• Incentive and disincentives is based on both portfolio quality and outreach of the Loan Officers critically evaluated during the appraisal process. Also monthly incentives are calculated based on the basis of new clients added and existing clients managed. In case PAR is increased for any loan officer, his client management incentive is affected accordingly.</li> </ul>	
<p><b>g. Recovery / Default</b></p>	
<ul style="list-style-type: none"> <li>• In operation manual of BMC, broad guidelines for collection in case of defaults are mentioned. No specific parameters or procedures are defined in the operation manual for the recovery/defaults, no Turnaround Time mentioned in the operation manual for collection of the defaults.</li> </ul>	



9. Governance	Score : 3.00
<p><b>Key Elements:</b> Responsibility, Experience/ exposure/reputation in MF, Composition, Role, Code of Compliance report, Members' attendance in meeting</p>	
<p><b>a. Responsibility</b></p> <ul style="list-style-type: none"> <li>• Functional responsibilities are well defined in the bye-laws and business rules; individual board members assigned and undertake committee functions on a regular basis</li> </ul>	
<p><b>b. Experience/ exposure/ reputation in MF</b></p> <ul style="list-style-type: none"> <li>• The board of BMC has diverse experience in banking, insurance and development financing.</li> </ul>	
<p><b>c. Composition</b></p> <ul style="list-style-type: none"> <li>• Five members' board of BMC consists of chairman Mr. Vijay Kumar Maurya, Mr. Vijay Pandey Mr. J. R. Sarangal, Mr. Bhagirathi Maurya, and Mr. Virendra Kumar Kashyap. Mr. Vijay Pandey is the Managing Director of BMC. Mr. Bhagirathi Maurya is promoter director. Mr. J. R. Sarangal and Mr. Virendra Km. Kashyap are the independent directors. However, there is lack of any female members in the board.</li> </ul>	
<p><b>d. Role</b></p> <ul style="list-style-type: none"> <li>• All board members actively participate in the policy setting; all strategic decisions are taken by the board. Board considers the field related issues as well. Regular operational decisions related to financial statements, cost transparency, disclosures, among others are the responsibility of Mr Vijay Pandey, Managing Director.</li> </ul>	
<p><b>e. Code of conduct compliance report</b></p> <ul style="list-style-type: none"> <li>• Discussions are held on the aspects of Code of Conduct / Client level issues during the board meetings; however, compliance report on Code of Conduct is not prepared and presented in the board.</li> </ul>	
<p><b>f. Members' attendance in meeting</b></p> <ul style="list-style-type: none"> <li>• More than 85% of the board members were present in the Board meeting (last three).</li> </ul>	

10. Human Resources	Score : 3.00
<p><b>Key Elements:</b> Field staff experience/ exposure in MF, Recruitment, Staff Exit, Complaint Redressal</p>	
<p><b>a. Field staff experience/ exposure in MF</b></p>	
<ul style="list-style-type: none"> <li>• Field staffs of BMC are well experienced in the field, Loan officers are experienced and having good exposure of MF. On an average, more than 3 years of experience of the team involved in field level operations.</li> </ul>	
<p><b>b. Recruitment</b></p>	
<ul style="list-style-type: none"> <li>• BMC has a dedicated HR team that looks after the recruitment process and other HR related aspects. They are governed by the well defined and comprehensive HR policy. Recruitments are done by publishing the requirements with the job profile in local newspaper and word to mouth, for field staff. Proper recruitment process followed for each level of staff – written and personal interview. Reference check is done for all the new staff members. New staff are also required to submit the relieving letter / No Objection Certificate (NOC) from the previous employer.</li> </ul>	
<p><b>c. Staff Exit</b></p>	
<ul style="list-style-type: none"> <li>• Staff exit interviews are conducted for all the staff quitting the organisation. Efforts are made to retain good staff.</li> </ul>	
<p><b>d. Complaint Redressal</b></p>	
<ul style="list-style-type: none"> <li>• Complaint redressal mechanism exists in the organization, dedicated systems are in place, there is a clear process to ensure that complaints are processed, considered and resolved.</li> </ul>	

## Compliance to RBI Guidelines

The major aspects of the RBI guidelines and its compliances by BMC are mentioned below:

- a) Interest on loans: Post the RBI guidelines, BMC have reduced its interest rates on the products to 26% per annum on a reducing basis.
- 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): BMC is currently charging 1% loan processing fees as per the RBI guidelines issued. Moreover, the insurance charges recovered from the clients are paid directly to Insurance provider.
- c) No penalties for delayed payments, security deposit or margin money to be taken upfront: BMC have barred the prepayment charges post RBI guidelines and now collect prepayment without any charges. BMC used to charge security deposit or upfront fees for the loans which has now being stopped.
- d) 85 percent of MFI assets being under agriculture, micro and small enterprises: 100% 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 dependant on several factors. However, BMC puts all efforts to verify the household income and adheres to RBI guideline on household income. However, during our visit, it was observed that around 10% of the clients visited were above the household income levels (Rs60,000 for rural areas and Rs120,000 for urban areas).
- f) Total indebtedness of borrower not exceeding Rs50,000: BMC 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.
- g) Tenure of loan not being less than 24 months: All the loans are less than or equal to Rs15,000 and have a tenure of 45 weeks.

<i>Overall, BMC is compliant on the RBI guidelines issued.</i>
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## Conclusion

BMC has achieved a composite CoCAT score of **3.03** with an overall grade of **“A”**, indicating that the organisation is growing. Although there is strong institutional performance in some areas, there is room to provide technical assistance with a view of strengthening systems.

### Highlights and Best Practises:

- Simplified, easy to comprehend Code of Conduct. Two separate Code of Conduct documents for Staff and Clients.
- Robust Internal Audit mechanism.
- All Pricing information broken down in different component is communicated to clients (verbally as well as written form).
- Pricing data is transparent, information available publicly in branches. Data is also published at public plat forms such as MIX and Microfinance Transparency.
- Diversified product range.
- Dedicated and committed staff.
- Loan processes are easily acceptable by clients with small group size (less time taken for meeting).
- In house development of software required for their microfinance operations.
- Employee friendly HR policies like health and life insurance; three month salary in case of accident of the employee and hospitalisation; marriage leaves.
- Various social interventions apart from microfinance are being conducted like education for children of their members, health camps (pulse polio), among others through the Bhartiya Development Trust.

### Areas to Strengthen:

- Feedback mechanisms can be strengthened further. Dedicated staff can be appointed for grievance redressal/client feedback analysis.
- More focus can be given on Staff Trainings. Code of Conduct should be included as a separate module (or a separate chapter).
- More sensitization is required for clients on details/benefits of the Rickshaw Loan Package.
- Client drop-out survey / interview / analysis can be strengthened and formalised.
- Delinquency / default management mechanisms need to be strengthened.
- Financial literacy can be provided to the clients to make them understand their household cash flows and household planning as a part of the social intervention of BMC.
- Regular development and presentation of Code of Conduct compliance report in Board meeting.
- Induction of female members in the Board to for balanced gender perspective.

Average Score	Rating	Grade
<b>3.03</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

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

<b>S. No.</b>	<b>Name of Branch</b>	<b>Number of Clients</b>
1	Sidhauri	17
2	Mishrikh	19
3	Sitapur	17
4	Lucknow	15
	<b>Total</b>	<b>68</b>

## Annexure 2: Code of Conduct Assessment Tool (CoCAT)

### Introduction

The Code of Conduct Assessment Tool (CoCAT) is a comprehensive instrument used to measure the development and implementation of policies that best serve the client. Starting with the Code of Conduct, CoCAT 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, CoCAT seeks to analyse the alignment between theory and reality, checking at all levels to see how well policies align with practice. Where possible, CoCAT tries to quantify the parameters to remove subjectivity.

CoCAT 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.

CoCAT 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.

### CoCAT 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

CoCAT 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, 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

CoCAT is largely based on observation of behaviour, 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. CoCAT 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.