

Cashpor Micro Credit (CMC)
January 2014



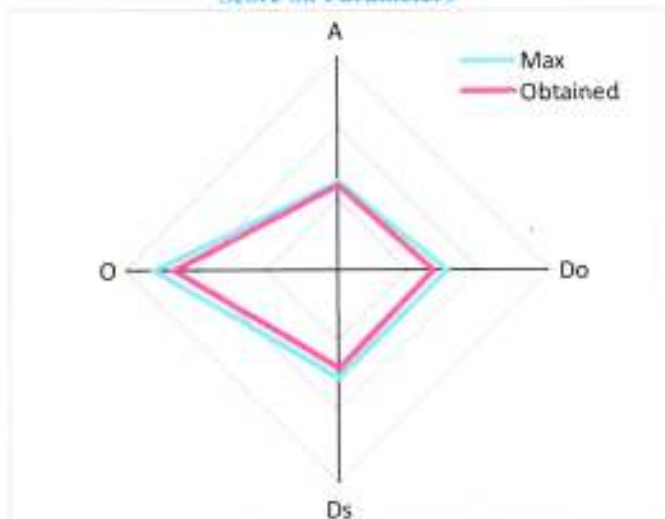
Composite COCA Score: 90%, Very Good adherence

Score on Dimensions



COT=Client Origination and Training, LP=Loan Pricing, LA=Loan Appraisal
CDS=Client Data Security, SC=Staff Conduct, CRF=Client Relationship and Feedback,
ISV=Integrating Social Values into Operations

Score on Parameters



A= Approval, Do=Documentation, Ds=Dissemination, O=Observance
MDD © Prime M2i Consulting Private Limited

Rationale

CMC gets a very good overall score in this assessment. While it actively targets low income households, it carefully assesses the repayment capacity of its clients and tracks the changes in their socio-economic profile. Its staff members adhere to high standards of conduct in their interactions with clients.

Highlights

- CMC's process of client origination ensures that its services go to underserved low income clients.
- CMC has progressively reduced the interest rates on its loans, which are among the lowest in the industry.
- Cashflow analysis of clients is performed diligently at the time of loan appraisal.
- CMC's employees maintain high standards of conduct during their interactions with clients.
- CMC has an effective system of grievance redressal
- CMC actively tracks the well being of its clients.

Areas of improvement

- CMC needs to ensure that its clients are better informed on the terms and conditions related to their insurance policy.
- CMC should ensure that the storage of physical documents collected from clients is done in lockable cabinets.

For Prime M2i Consulting Pvt. Ltd.

Atul
Director









Code of Conduct Assessment Compliance Assessment Tool






This tool requires scores to be assigned on the seven Code of Conduct dimensions – Client Origination, Loan Pricing, Loan Appraisal, Client Data Security, Staff Conduct, Client Relationship and Feedback and Integrating Social Values into Operations, across the four parameters – Approval, Documentation, Dissemination and Observance. The seven dimensions have been drawn from a review of the norms prescribed for MFIs including industry's code of conduct, best practices, code of RBI and CGAP's client protection principles (Smart Campaign). The COCA tool also specifically assesses the MFI for compliance against the RBI's guidelines and scores it as well. The scores on the COCA indicators are then scaled down in proportion to the score received in Regulatory Compliance. The methodology followed for this assessment is presented in Annexure 2 and the framework of the tool is presented in Annexure 3.

Disclosure

M2i had performed a Loan Portfolio Audit of CMC in 2013. However, M2i has not been engaged in any assignment of advisory, capacity building or of consulting nature with CMC which conflicts with the objectives of this assessment, during the last one year. Further, none of M2i's employees or their relatives is represented in the Board of Directors of CMC or related institutions.

Section 1: Scores¹ and facts

Code of Conduct dimensions ²	Maximum	Obtained	%
 Client Origination and Targeting	24	23.6	98%
 Loan Pricing	15	12.2	81%
 Loan Appraisal	16	14.6	91%
 Client Data Security	8	5.0	63%
 Staff Conduct	35	32.4	93%
 Client Relationship and Feedback	26	23.7	91%
 Integrating Social Values into Operations	15	14.0	93%
 Total	139	125.5	90%
RBI's Directions	12	12	100%







Compliance parameters	Maximum	Obtained	%
 Approval	25	24.0	96%
 Documentation	31	27.0	87%
 Dissemination	31	28.0	90%
 Observance	52	46.5	89%
 Total	139	125.5	90%

For Prime M2i Consulting

Atul

MFI's profile – January 2014

Name of the MFI	Cashpor Micro Credit
Legal form	Section 25 Company
Operational Head	Mr. Mukul Jaiswal
Year of starting microfinance	2002
Branches (December 13)	341
Operational area	UP, Bihar, Chattisgarh
Total number of staff involved in microfinance (December 13)	2,068
Visit of the Assessment team	06-11 January 2014
Correspondence address	Cashpor Micro Credit B/4, DIG Colony Varanasi-221002 Contact No-0542-2505590-91-92

¹The scores have been colour coded as follows.  Less than 41% (Very Weak);  41-60% (Weak);  61-70% (Reasonable);  71-80% (Good);  81-90% (Very Good);  >90% (Excellent).

Microfinance Methodology

CMC follows joint liability group model of microfinance, providing loans to groups of 15 to 25 women. It offers income generation loans as well as loans for education, energy, health care and emergency purposes to women belonging to the low income group. CMC offers credit products as BC of IndusInd Bank. It also offers savings products as BC of IndusInd Bank and ICICI Bank. The company also offers the Swawlamban pension product as Aggregator under the National Pension System.

CMC is a member of credit bureaus High Mark and Equifax and all JLG loan applications received by CMC are checked for their credit history through one of the credit bureaus before approval.

Details of Loan Products

Product	Description	Loan size	Interest Rate	APR (Interest Rate and Processing fees)
Income Generation Loans	Loans given for enhancing livelihood activities of clients. Clients can choose to make repayments on a weekly, fortnightly or monthly basis. Loans carry a moratorium of two weeks (for weekly and fortnightly products) and one month (for monthly product). A processing fee of 1% is charged on these loans upfront.	Rs 2,000 to Rs 30,000.	21.17% to 22.91%.	23.2% to 25%
Mahila Suraksha Loan (Emergency loan)	Loans given to clients for meeting emergencies. Tenure is 26 months with moratorium of 5 weeks. This loan carries no processing fees.	Rs 3,000	15.94%	15.94%
Mahila Shaktikaran Loan	Loans given to purchase mobile phones to women. Clients can choose to make repayments on a weekly, fortnightly or monthly basis. Loans carry a moratorium of two weeks (for weekly and fortnightly products) and one month (for monthly product). This loan carries no processing fees.	Rs 1,000	21.17% to 21.66%	21.17% to 21.66%
Swastha Loan	Loans for construction of new toilets, to get water connection, to build water supply in toilets, laying foundation of hand-pump, repair renovation of	Rs 1,000 to Rs 5,000	21.17% to 21.66%	21.17% to 21.66%

	hand-pump/old toilets etc. Terms and conditions similar to Shasastikaran loan.			
Urja Loan	Loans for purchasing smokeless stove, solar lamp or any solar energy operated other devices. Terms and conditions similar to Shasastikaran loan.	Rs 3,000	21.17% to 21.66%	21.17% to 21.66%

Notes:

1. APR has been calculated by taking the actual cash flow for each loan including principal, interest and processing fee.
2. Loans up to Rs15,000 are repayable in 52 weeks and above that are repayable in 104 weeks.
3. As on 31 March 2013, 99% of CMC's loan portfolio comprised of income generation loans

Key facts and figures			
Parameters	Mar-12	Mar-13	Dec-13
Total Groups	25,432	27,529	31,436
Members	5,61,857	6,60,277	7,71,750
Active borrowers	4,60,403	5,48,934	6,32,749
Branches	264	264	341
States	2	2	3
Number of districts	22	22	32
Total staff	1,406	1,566	2,068
Number of loans disbursed for the FY ending	4,98,201	5,81,952	4,88,776*
Amount of loan disbursed for the FY ending (Rs Mn)	5,521	7,435.9	6,898*
Loan portfolio outstanding (Rs Mn)	3,230.8	4,683.6	5,726
PAR-60	0.09%	0.03%	0.04%
PAR-30	0.11%	0.05%	0.07%
Interest Yield on portfolio**	26.43%	25.93%	25.43%***
OSS	111.92%	114.11%	120.51%
RoA	2.31%	2.42%	3.39%

*Data pertains to disbursements for the period between April and December 13

Interest income as percentage of average loans outstanding*Annualized

CMC's Equity Structure (Dec 2013)		
S No.	Shareholders	% stake in the company
1	CFTS	Over 99.99%
2	Others	Negligible
	Total	100.0%

CMC's Board of Directors – Dec 2013	
Name	Profile
Prof. David Sprague Gibbons	Chairman. Founder of CMC and one of the pioneers of microfinance.
Mr. Bahram Navroz Vakil	Vice-Chairman. Leading infrastructure finance attorney.
Mr. Mukul Jaiswal	Managing Director. A Chartered Accountant by qualification. Mr Jaiswal possesses more than 12 years of experience in microfinance.
Ms. Moumita Sen Sarma	Director. Former Head of Microfinance and Sustainable Development India for ABN AMRO Bank.
Mr. Sanjoy Dasgupta	Director. One of the first directors to be associated with the Cashpor group when it first started operations in 1997. Experienced in social development and microfinance.
Ms. Vijayalakshmi Das	Director. Managing Director of Ananya Finance for Inclusive Growth, Ahmedabad.
Mr. Deep Chandra Joshi	Director. Co-founder of PRADAN – leading NGO working in several parts of India on issues related to social development and sustainable rural livelihoods.
Mr. Graham Lloyd Wrigley	Nominee Director, Blueberry Hill Charitable Trust
Ms. Chandni Gupta Ohri	Nominee Director, GF-USA and Amar Foundation
Mr. Avijit Churamoni Saha	Nominee Director, ICICI Bank
Mr. Saneesh Singh	Nominee Director, Dia-Vikas Capital Pvt. Ltd.
Mr. Ashok Ranjan Samal	Nominee Director, SIDBI

Section 2: Status of Regulatory Compliance

2.1 Compliance with regulations

CMC's loan pricing and margin comply with RBI's directions regarding qualifying assets. It is also in compliance with the directions regarding income criteria as well as loan sizes and duration.

Proportion of qualifying assets and income generation loans

As per the CA certificates obtained by CMC for the period April-September 2013, it had qualifying assets greater than 85% of its total assets excluding cash and bank balances. The CA has also certified that over 75% of CMC's total loans have been given for income generation purposes. This is in compliance with the RBI guidelines for NBFC-MFIs on qualifying assets and income generating loans.

M2i's observations on critical compliances by CMC are presented below:

- Loan size verification

As per CMC's stated policy its loan products have a maximum size of Rs 30,000. All the clients in our sample had loans less than Rs 30,000.

- Collateral verification

CMC has a policy of not taking any collateral on its loans. This is in accordance with RBI's guidelines. M2i's check of loan documents and direct verification with clients did not reveal any deviation on this guideline.

- Loan duration verification

Loans that are of less than Rs 15,000 have tenure of 52 weeks, while larger loans have tenure of 104 weeks. During the assessment, all the clients in our sample were found to have loans that were in compliance with this policy.

- Household income

CMC imparts training to its staff members on selecting clients who belong to the weaker economic sections. It also uses the Progress out of Poverty Index (PPI) developed by Grameen Foundation to track the level of poverty of its clients. All the clients in our sample had declared their income within the RBI stipulated annual households income limit of Rs60,000 in rural areas and Rs120,000 in urban areas

Multiple Lending and Indebtedness

As per the existing policy of the organization, total indebtedness of a client under microfinance loans cannot be more than Rs50,000. Further, CMC has a policy of not extending loan to any client who has existing borrowing outstanding from two other institutions. The organization gets a credit bureau report from either High Mark or Equifax for each loan applicant. Additionally, its operational staff members carry out rigorous inquiries regarding the indebtedness of each loan applicant. Thus, the organization makes efforts to ensure compliance in this regard. During our assessment we did not come across

any instance where the total indebtedness of a client was greater than Rs 50,000 or the client had a borrowing relationship with more than one other MFI.

Pricing of credit

CMC charges interest rate of between 21% and 23% per annum on reducing balance basis on its income generation loan and around 16% on its emergency loans. In addition the clients are charged 1% processing fee upfront on the income generation loans. Loan insurance is charged on actual premium paid basis. All these prices are revealed to clients during compulsory group training are mentioned on loan card of clients. All clients are provided with printed repayment schedules that provides details of the principal and interest for each installment. These are also mentioned on loan passbook of clients. The passbook is used to record all the transactions made by clients and CMC's loan officers duly put their signature in the relevant place in the passbook to acknowledge payments made by the clients.

CMC has complied with the margin cap direction of RBI in 2012-13 as well as the first two quarters of 2013-14. This is presented in the table below.

FY	Quarter	Interest Cost on Borrowings	Interest Income on Loans	Margin
2012-13	Oct – Dec	12.76%	24.23%	11.47%
	Jan – Mar	12.66%	23.36%	10.70%
2013-14	Apr-Jun	12.77%	24.37%	11.60%
	Jul – Sep	13.24%	24.38%	11.14%

Diversification

CMC's operations are concentrated in the states of Uttar Pradesh, Bihar and Chattisgarh.

Customer Protection Initiatives

CMC adopted the Sa-Dhan-MFIN industry code of conduct in its board meeting in June 2012. It has regularly discussed customer protection initiatives in its board meetings. Summary report of grievances received from clients is discussed in every board meeting.

Membership with SRO and credit bureau

CMC is a member of Sa-Dhan. It is also a member of Equifax as well as High Mark Credit Information Services Limited and shares client data with them.

Section 3: Observations

3.1 Client Origination and Targeting (COT)



CMC receives an excellent score on COT. It has documented policies and guidelines, for origination of client. Staff members are trained on the policies and guidelines for targeting and origination by senior operational staff. We observed that all the clients in our sample belonged to economically weaker sections.

Approval (A)	Documentation (D)
<ul style="list-style-type: none"> ✓ CMC has a board approved policy of targeting low income clients in a manner that allows them to improve their livelihoods. 	<ul style="list-style-type: none"> ✓ The organization has documented the processes of area selection, training of clients and group recognition test in its operations manual.
Dissemination (D)	Observance (O)
<ul style="list-style-type: none"> ✓ Process guidelines were found in all the visited branches in operational manuals and circulars. 	<ul style="list-style-type: none"> ✓ Clients in our sample were observed to belong to the economically weaker section. ✓ We did not come across any evidence of involvement of unauthorized agents. ✗ The CGT processes were found to be less elaborate for new clients who are added to existing groups.

Client origination in CMC is the responsibility of the Centre Managers. CMC targets low income clients using objective tools like PPI. The process of client origination was found to be good, which involves identifying clients, training them through five day CGT followed by GRT. Terms and conditions of membership including the interest rates, other charges and the concept of joint liability are explained to the clients during CGTs. However, CGT is not as elaborate for the new clients that are added to the existing groups.

CMC does not provide any incentive for client origination to its field staffs. Further, the maximum number of groups that a Centre Manager can handle has been limited. CMC discourages involvement of any unauthorized agents in its operations. M2i did not find any instance of unauthorized people or agents involved in any operation of CMC. All the clients in our sample belonged to the economically weaker section of the society.

3.2 Loan Pricing (LP)



CMC gets very good score on Loan Pricing. It charges interest on a reducing balance basis on its loans and has reduced the interest rates on its loan products multiple times over the past one year.

Approval (A)	Documentation (D)
<ul style="list-style-type: none"> ✓ CMC's board has regularly reviewed the interest rate of its loan products. ✓ Interest rates on loan products have been reduced multiple times over the last year. 	<ul style="list-style-type: none"> ✓ Interest rates, processing fees and insurance charges have been documented in the relevant manuals and circulars.
Dissemination (D)	Observance (O)
<ul style="list-style-type: none"> ✓ Operational staff members interviewed had sound understanding of the interest rate and processing fees. ✗ Awareness of branch staff regarding the insurance premium collected on loans which had a term of greater than one year was low. 	<ul style="list-style-type: none"> ✓ Declining balance interest rates, insurance premium and fees were mentioned in the loan cards. Repayment schedules had also been provided to the clients. ✗ Awareness of clients regarding the terms and conditions of insurance was low.

CMC has been transparent in communicating interest rates to its members. The interest rate, processing fee and insurance charges are mentioned on the loan card. During communication, CMC staffs also inform the total amount of interest that client has to pay. However, it was still found that the awareness of clients about the rate of interest was low. Although most clients could tell the total interest amount which they had to pay, many were unaware about the per cent rate. CMC complies with the RBI directions regarding pricing of loans. These include:

- Interest rate is charged on diminishing basis and is mentioned on loan cards
- Interest rate is below 26% declining and processing fee is 1%
- No other charge is collected except, interest, processing fee and insurance premium (on actual basis).
- No penalty or excess fee is charged in case of overdue payment or pre-closure of loan.

Insurance premium: This is collected upfront from the clients. The entire amount collected as insurance premium is provided to the insurance company which covers the life of the client (and her spouse in case she is married) for a one year period for the loan amount. Even for loans that have tenure of two years, the insurance cover is given for one year only, with a renewal expected at the end of one year. However, the upfront premium collected in these cases is for two years. Every month CMC sends a list of cases to the insurance company for renewal of insurance cover. Discussions with the management revealed that if a client prepays her loan in one year, she is eligible to a refund of the extra amount paid as a premium either as an adjustment against the premium payable against a new loan taken or in cash. However, during our interviews clients were not found aware of this condition.

3.3 Loan Appraisal (LA)



CMC gets an excellent score in Loan Appraisal. It requires an analysis of the cashflows of the borrowers' households in its loan appraisals, which was found to be diligently done during the assessment.

Approval (A)	Documentation (D)
<ul style="list-style-type: none"> ✓ CMC's policy requires it to lend according to the repayment capacity of its clients. 	<ul style="list-style-type: none"> ✓ There are standard formats and guidelines for analysis of cash flows of loan applicants
Dissemination (D)	Observance (O)
<ul style="list-style-type: none"> ✓ In the interviews, the operational staff displayed adequate understanding of how to assess repayment capacity of clients. 	<ul style="list-style-type: none"> ✓ CMC conducts credit bureau checks for all loan applications. ✓ We observed that the repayment capacities of clients stated in the loan documents were largely in line with that disclosed by the clients.

CMC's policy requires the organization to carefully appraise loan applications for the repayment capacity of its clients. There are guidelines regarding analysis of cash flows of the clients households. CMC collects information pertaining to household income, expenses and indebtedness in the loan application of the member. The company uses a different loan application format for loans beyond Rs19,000 in which clients asset holding and more detailed cash flow data is collected. CMC checks the indebtedness of clients through credit bureau and ensures that client is not lent outside the criteria directed by the RBI. Indebtedness level of clients also form part of the Internal Audit checklist.

During the assessment, we found that the cashflows of the sampled clients were largely in line with the cashflows recorded in the loan applications.

3.4 Client Data Security (CDS)



CMC's performance on CDS is reasonable. We did not come across any instance of misuse of information collected from clients. However, there is scope to improve the storage of physical documents.

Approval (A)	Documentation (D)
<ul style="list-style-type: none"> ✓ CMC's operational policy requires that information and documents collected from clients be kept in a safe secure environment. 	<ul style="list-style-type: none"> ✓ There are documented guidelines regarding security of data and documents collected from the clients.
Dissemination (D)	Observance (O)
<ul style="list-style-type: none"> ✓ Guidelines regarding client data security is widely known and understood within CMC 	<ul style="list-style-type: none"> ✓ Access rights have been defined for digital data maintained in the organization's MIS software. ✗ Physical documents collected from clients were not found to have been stored in safe lockable storages.

CMC has a documented policy to ensure that data collected from its clients are stored in a safe and secure environment. This policy provides for security of digital data. This is achieved by defining access rights. Each IT user is given access based on his or her level of authority.

However, the physical loan documents of clients including copies of KYC are susceptible to loss or mis-utilization. The loan documents are stored in open shelves at branch level and there is no restriction on their access. M2i observed that there was no systematic records kept of documents which are taken out of file for audit etc. During loan documentation check, M2i could not find loan documents of certain clients.

3.5 Staff Conduct (SC)



CMC's score on staff conduct is excellent, as there is a strong emphasis on maintaining high standards of conduct during interactions with the clients.

Approval (A)	Documentation (D)
<ul style="list-style-type: none"> ✓ CMC's policies require its staff members to adhere to the highest standards of staff conduct. ✓ The organization has adopted a code of conduct in line with Sa-Dhan-MFIN's code of conduct. 	<ul style="list-style-type: none"> ✓ Guidelines have been documented regarding expected staff conduct.
Dissemination (D)	Observance (O)
<ul style="list-style-type: none"> ✓ Staff conduct guidelines have been made available in the branches. ✓ Interviewed staff members displayed a high degree of awareness regarding appropriate conduct with clients. 	<ul style="list-style-type: none"> ✓ All the clients interviewed stated that the conduct of the operational staff members had been professional and appropriate. ✗ The centre meeting started late in one of the visited centers.

CMC's policy requires its staff members to maintain high standards during their interactions with clients. They are required to behave politely with the clients at all the times and in all situations. They cannot accept any gifts or eatables (not even a glass of water) from the clients. Neither can they provide any monetary incentive to the clients or their representatives for carrying out any work which staff members are supposed to carry out. Staff members are required not to maintain any personal, social or economic relationship with the clients. They are forbidden to use any kind of force or threat in any situation.

CMC ensures that all employees imbibe these values through a system of induction training for new staff members and need based training for old staff members.

System of training at CMC

Training department in CMC has a dedicated team of seven members. Training team provides induction training to all new staffs. This induction training is on the job learning process where new staff is first introduced to the organisation values and its working on day one. Then they are transferred to their respective branches with set of questions where they are asked to learn from their colleges and field work. This exercise is done for three weeks and every week tests are conducted to ensure that new staffs have learned about the working of CMC, its values, operations and industry code of conduct.

For old staff, where need for advanced or specialised training is felt; training department conducts related trainings usually at regional offices. Regional Managers perform training needs assessment regularly and provide inputs to the training department on the type of training that is required. Training is imparted in a way where the operations of the company do not suffer. These training are usually one to three day affairs depending on type of training.

During M2i's assessment CMC's operational staff members displayed an adequate understanding of the important issues that they need to be careful about during client interactions. Many of these aspects also form part of the organization's internal audit checks. None of the clients interviewed during this assessment reported any instance of staff misconduct. However, in one of the center visited, we found that the meeting started with a delay of thirty minutes.

3.6 Client Relationship and Feedback (CRF)



CMC has an excellent score on CRF. It has a sound system of recording client grievances and ensuring that these complaints are acted upon in a time bound manner.

Approval (A)	Documentation (D)
<ul style="list-style-type: none"> ✓ CMC has a board approved grievance redressal system. ✓ Summary reports of grievances received and resolved, as well as open grievances are discussed in board meetings. 	<ul style="list-style-type: none"> ✓ The various levels at which feedback can be provided have been documented in the relevant manuals. ✓ Formal guidelines regarding categorization of complaints as serious or routine have been evolved.
Dissemination (D)	Observance (O)
<ul style="list-style-type: none"> ✓ Branch Managers were aware of the need to continuously elicit feedback from clients. ✓ The grievance handling team at the head office had a high level of understanding regarding 	<ul style="list-style-type: none"> ✓ Most of the clients interviewed were aware that there was a telephone number that they could call in case they had a complaint.

CMC has evolving a systematic system of collecting feedback from clients and redressing their problems. It has a documented policy for handling grievances in a time bound manner. Central to grievance handling at CMC are, the telephone number provided to all its clients in their loan cards, and, a team of grievance handlers at the head office who record and follow up on calls made to this number. This team records every call received and classifies it in categories depending on the seriousness of the matter. There are guidelines which help the team in correctly classifying the calls received. Serious matters are marked to the relevant Regional Managers (RM), who are required to conduct inquiries and submit a report within 14 days. The grievance handling team follows up with the concerned RMs regarding the results of the inquiry. In case a complaint is not resolved satisfactorily, they are escalated to the Head Office Operational Team, which looks into the matter. At the final level, an unresolved complaint is escalated to the Managing Director.

In order to elicit client feedback client-days are organized on the 15th of every month in the branches. During this, feedback is elicited from the clients regarding the services provided. While CMC also provides complain boxes in its branches, very few complaints are received in these.

All the clients interviewed showed a broad awareness about the grievance handling procedure of CMC. None of them reported any instance where their queries or complaints had gone unresolved.

3.7 Integrating Social Values into Operations (ISV)



CMC's score on ISV is excellent on account of a strong board which actively tracks the socio economic progress of its clients as well as its focus on providing services such as savings through its BC operations, sanitation loans, and pensions.

Approval (A)	Documentation (D)
<ul style="list-style-type: none"> ✓ CMC's policy is to target clients belonging to the lowest income groups in the poorest areas of the country with financial services that enable them to rise up the economic ladder. 	<ul style="list-style-type: none"> ✓ CMC tracks the well being of its clients through the Progress out of Poverty Index (PPI) tool of Grameen Foundation. ✓ The organization has evolved guidelines regarding its social performance objectives and the strategies to achieve these objectives.
Dissemination (D)	Observance (O)
<ul style="list-style-type: none"> ✓ Operational staff members have been trained on collecting PPI data from clients. ✓ Staff members were aware of organizational policies regarding improvement in the lives of their clients beyond providing financial services. 	<ul style="list-style-type: none"> ✓ CMC has been collecting PPI data and progress of clients is tracked on an annual basis. ✓ CMC provides emergency loans that can provide relief to clients during period of stress.

CMC has a clearly defined vision and mission statement which shows its distinct focus on Below Poverty Line (BPL) families in Eastern UP, Bihar and Chattisgarh. In addition to economic upliftment of its clients out of poverty, the vision statement also talks about providing health and education services. CMC works in some of the poorest pockets in the country and has high focus poor clients which it identifies through objective tools.

CMC utilizes a part of its profits for health, education and financial literacy initiatives. As far as financial products are concerned, CMC provides a range of financial products. Within credit product CMC offers a low cost emergency loans and also offers water & sanitation loans. As these products have recently been introduced, the portfolio as of end of March 2013 under these products was very low.

CMC also provides saving and pension services to its clients by acting as BC for banks and Aggregator for National Pension System's *Swawlamban* scheme.

In order to assess the client satisfaction with its services, CMC has recently got a client satisfaction survey done from an independent agency.

Annexure 1: Matrix of Score Obtained³

Indicators	A		Do		Ds		O		Total*	
	Max	Obt	Max	Obt	Max	Obt	Max	Obt	Max	Obt
	Client Origination and Targeting	5	5.0	5	5.0	5	5.0	9	8.6	24
Loan Pricing	3	3.0	1	1.0	2	1.0	9	7.2	15	12.2
Loan Appraisal	4	4.0	4	4.0	3	3.0	5	3.6	16	14.6
Client Data Security	1	1.0	3	1.0	2	1.0	2	2.0	8	5.0
Staff Conduct	7	6.0	7	7.0	10	10.0	11	9.4	35	32.4
Client Relationship and Feedback	2	2.0	8	7.0	6	5.0	10	9.7	26	23.7
Integrating Social Values into Operations	3	3.0	3	2.0	3	3.0	5	6.0	15	14.0
Total*	25	24.0	31	27.0	31	28.0	51	46.5	139	125.5

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

*Totals have been rounded to one place of decimal.

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, industry code of conduct (Sadhan-MFIN) and CGAP's client protection principles. The most important challenge for M2i was to create objective indicators which could comprehensively measure the seven dimensions. A total of 139 indicators⁴ were developed across these dimensions, so that subjectivity in measurement could be minimized. The numbers of indicators for each dimension are 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
Integrating Social Values into Operations	15
Total	139

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

⁴ Integrating Social Values into Operations with 14 indicators was added to tool in September 2012. One more indicator to ISV was added in April 2013.

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.

RBI's Directions and Guidelines

With RBI issuing various specific guidelines for MFIs, M2i started scoring MFI's compliance to regulatory guidelines from 2012 onwards. The scores obtained by MFI on various COCA dimensions are scaled down in proportion to the score obtained in regulatory compliance.

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 120 and 200 clients are sampled for primary survey.

Key Aspects

- Duration of the exercise: Four to eight days
- Nos. of branches to be visited: Eight to Fifteen
- Nos. of MFI clients to be interviewed: 120-200

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. The details of the project offices (branch) visited are provided below.

Sr No	Branch	State	No of clients interviewed
1	Ramnagar	Uttar Pradesh	40
2	Korawon	Uttar Pradesh	50
3	Khiri	Uttar Pradesh	36
4	Meja Road	Uttar Pradesh	23
5	Janghai	Uttar Pradesh	57
6	Ashapur 2	Uttar Pradesh	24
7	Ashapur 1	Uttar Pradesh	21
8	Narayanpur	Uttar Pradesh	24
9	Tiyara Rajpur	Bihar	20
10	Itarhi	Bihar	21
11	Koransarai	Bihar	23
12	Bihiya 2	Bihar	33
Total			372

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.

- Integrating Social Values into Operations: It is necessary to have high standards of governance and to have client focused social mission. It is also necessary to measure the socio-economic changes that MFIs' efforts are bringing in the lives of its clients and to compare it against the mission.

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 – Approval, Documentation, Dissemination, Observance (ADDO). This ADDO framework has been developed by M2i and is summarized below:

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	3.6%	3.6%	3.6%	6.5%	17%
Loan Pricing	2.2%	0.7%	1.4%	6.5%	11%
Loan Appraisal	2.9%	2.9%	2.2%	3.6%	12%
Client Data Security	0.7%	2.2%	1.4%	1.4%	6%
Staff Conduct	5.0%	5.0%	7.2%	7.9%	25%
Client Relationship and Feedback	1.4%	5.8%	4.3%	7.2%	19%
Integrating Social Values into Operations	2.2%	2.2%	2.2%	4.3%	11%
Totals	18%	22%	22%	37%	100%

Regulatory compliance (ReC)

Since it is mandatory for MFIs to comply with the guidelines given by the regulator, the MFIs are assessed for their compliance with these regulations. The level of compliance of an MFI to regulations is scored and this is factored-in in COCA by scaling down the scores on various COCA dimensions in proportion to the score obtained on ReC. In total there 12 indicators have been used to measure ReC.