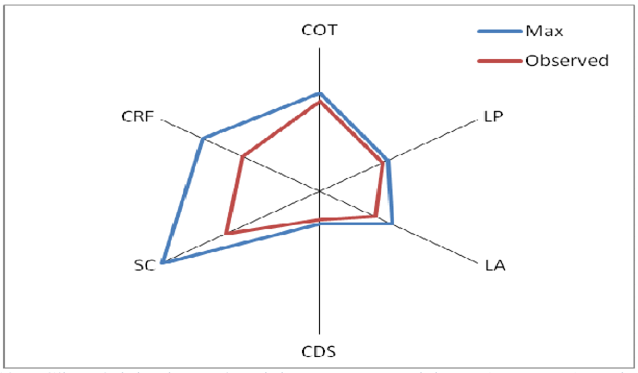
Microfinance Code of Conduct Compliance Assessment

M2i Consulting
Microfinance Management and Investment Advisory

Cashpor Micro Credit (CMC) | Uttar Pradesh, India

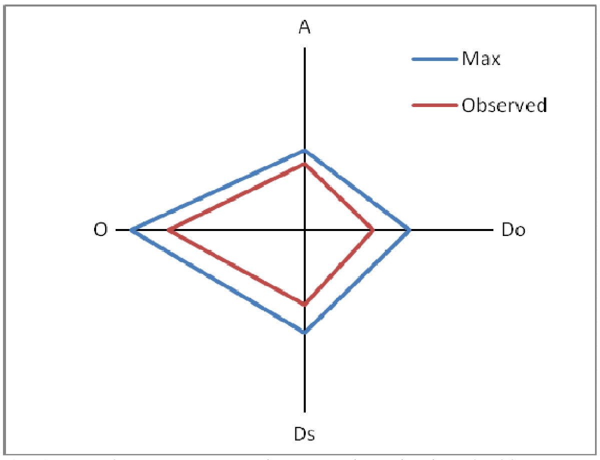
Composite COCA Score: 75%, Reasonably high level of adherence

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

CMC receives reasonably high score on the COCA dimensions on account of its policies for ethically originating clients, complete transparency in the interest rates and reasonable systems for loan appraisal.

Highlights

- CMC actively targets villages which are not being served by other MFIs and have high proportion of poor.
- CMC does not provide direct monetary incentives for client enrolments and loan origination to its loan officers. As a result they focus more on the quality of their clientele.
- CMC charges interest on loans on a declining basis and maintains complete transparency in communication of interest rates to its clients. There are no upfront charges, no security deposits, no prepayment charges or late payment charges.
- CMC formally tracks indebtedness levels of clients to ensure that they are not being provided loans beyond their repayment capacity.

Areas of improvement

- Although, there are guidelines for the staff to treat clients with respect and dignity, there is considerable scope of improvement in staff conduct towards the clients.
- Focus on near perfect repayment rate and the manner in which 'peer pressure' applied in many cases is likely to cause undue stress to the clients.

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.** While the tool does not measure adherence to any code of conduct in particular, the six dimensions have been drawn from a review of the norms prescribed for MFIs including Sadhan's and MFIN's code of conducts, guidelines from the Reserve bank of India and CGAP's client protection principles. The methodology followed for this assessment is presented in annexure 2 and the framework of the tool is presented in annexure 3. Distribution of COCA scores will be used to develop a grading system once data from 30 MFI assessments have been analyzed.

Section 1: Scores[1] and facts

Code of Conduct dimensions	Maximum	Observed	%
Client Origination and Targeting (COT)	24	21.0	88%
Loan Pricing (LP)	15	14.0	93%
Loan Appraisal (LA)	16	12.2	76%
Client Data Security (CDS)	8	7.0	88%
Staff Conduct (SC)	35	21.3	61%
Client Relationship and Feedback (CRF)	26	18.0	69%
Total	**124**	**93.5**	**75%**

Compliance parameters	Maximum	Observed	%
Approval (A)	22	18.3	83%
Documentation (D)	28	18.3	65%
Dissemination (D)	28	20.5	73%
Observance (O)	46	36.5	79%
Total	**124**	**93.5**	**75%**

MFI's profile	
Name of the MFI	Cashpor Micro Credit (CMC)
Legal form	Not for profit (Section-25) Company
Operational Head	Mr Mukul Jaiswal
Year of starting microfinance	1998
Branches	269 (September 2010)
Operational area	Uttar Pradesh and Bihar
Total number of staff involved in microfinance	1,138 (September 2010)
Visit of the Assessment team	December 2010
Correspondence address	B-4 DIG Colony, Varanasi, Uttar Pradesh India 221002. Tel: +91 542 250 5590. Email: headoffice@cashpor.in Web: www.cashpor.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
CMC works through the Joint Liability Group (JLG) model of Microfinance. The organisation strives to work exclusively with poor women who are screened using the Cashpor Housing Index (CHI) and Progress out of Poverty Index (PPI). Clients are organized in groups of 10 to 25 and are provided structured training prior to their enrolment in the Microfinance programme of the organization. The organization primarily provides loans between Rs2,000 and Rs25,000 payable in 50 weekly installments over 52 weeks. The organization also facilitates life insurance to the clients and their spouses by collaborating with the insurance companies.

Details of the loan products

Product	Description	Loan size	APR[1]	EIR	% in portfolio
Income Generation Loan	Income Generation Loans (IGL) are provided to women clients of the CMC for undertaking income generating activities. Loans are to be repaid in 50 weekly installments over 52 weeks. The first two weeks after the disbursement is allowed as the grace period. Interest @25.75% is charged on the loan account of the clients on a reducing balance basis. The organization also facilitates life insurance to the clients and their spouses. Clients have to pay 1% of the loan amount for this. No other charges are collected on the loans.	Rs2,000-Rs25,000	27.9%	27.9%	~100%
Emergency loans	Emergency loans are provided to the clients to help them overcome some natural calamity or other situation of distress. Emergency loan is repaid in 25 weekly installments. First five weeks are allowed as the grace period.	Up to Rs1,000	25.75%	25.75%	Negligible

1. APR has been calculated after taking in to account the impact of charges collected from the clients for facilitating life insurance.

Key facts and figures			
Parameters	**Mar-09**	**Mar-10**	**Sep-10**
Active borrowers	314,203	417,039	489,463
Number of branches	252	269	269
Number of states	2	2	2
Total staff involved in microfinance	1,055	1,123	1,138
Portfolio outstanding (Rs mn)	1,810	2,674	3,020
Amount of loans disbursed (Rs mn)	3,358*	4,719*	2,987**
PAR_{60}	0.65%	0.27%	0.28%
Yield on Portfolio (YoP)	27.0%	29.7%	30.5%
Operating Self-Sufficiency (OSS)	102%	115%	117.4%
Return on Assets (RoA)	0.3%	4.4%	3.7%

*Disbursement during the full year
**Disbursement during the half year.

Equity Structure (March 2010)	
Shareholder	**% stake in the company**
Cashpor Financial and Technical Services	~100%
Others	Negligible

Profile of the Board of Directors	
Name	**Profile**
Mr David Gibbons	MR Gibbons is the chairman of the company. He has more than 20 years of experience in promoting and building institutional capacity for Grameen Bank type microfinance institutions in many countries throughout Asia. He is also author and joint-author of many papers and training manuals on building institutional capacity for microfinance for poor women, and on its financing.
Ms Moumita Sen Sharma	A Chartered accountant by profession, Ms Sen Sharma is Former Vice President & Head of Microfinance India and Sustainable Development, ABN AMRO Bank.
Mr Mukul Jaiswal	Mr Jaiswal is the Managing Director of the company. He is a Chartered Accountant by profession and has experience of more than nine years in microfinance.
Mr Sanjoy Dasgupta	He is the Chairman of CASHPOR Trust and Director of the Company and has experience of more than 10 years in Micro Finance. In addition to this he is ex-Chief Administrative Officer in PIDT
Ms Vijayalakshmi	Ms Das is a nominee Director of the Grameen Foundation USA

Das	and Vinod Khosla. She is the Chief Executive, Ananya Finance for Inclusive Growth Pvt. Ltd. and has experience of more than 11 years in Micro Finance
Mr JLN Srivastava	Mr Srivastava is an independent Director of the Company. He is a retired IAS Officer, and Managing Trustee, IFFCO Foundation, New Delhi.
Mr. Deep Chandra Joshi	Mr Joshi is the Director of PRADAN has experience in Micro Finance for more than 25 years in the development sector.
Mr Utpal Isser	Mr Isser is the Nominee Director of ICICI Bank Ltd
Mr Christopher Murdoch	Mr Murdoch is the Nominee Director of Dia Vikas. He is also the Director of Strategic Services, Opportunity International, Australia.

Section 2: Observations

2.1 Client Origination and Targeting (COT) Observed score-88%

CMC's score on COT is high on account of strong systems to ensure that identity of clients is properly established before they are admitted in the microfinance programme of the organization. Training and lack of direct monetary incentive ensures that unauthorized persons are not involved in operations. Further, for expansion CMC actively looks for the areas where no other MFI is operating.

Enrolment of new clients is the responsibility of the loan officers (Center Managers) of CMC. They inform potential clients about the organisation, its policies and products and invite them to form groups of up to 25 women members. Once they form in to groups, clients also provided a minimum five days of Continuous Group Training (CGT) where details of products and procedures are explained in detail. The Branch Manager conducts a Group Recognition Test (GRT) to verify physical identity of the clients, verify their poverty status and check their awareness of the loan terms and conditions. Only on successful completion of the GRT, the loan applications from the clients are accepted.

As per its policy, CMC does not enrol new clients in the villages where more than one MFI is already operating. The organisation also closely monitors the indebtedness levels of its clients and formally tracks the groups where one or more clients have taken loans from other MFIs. In some branches the organisation also maintains a list of the clients who have obtained loans from other MFIs.

The loan officers are given modest target of enrolment of 5-25 clients per month and there are no monetary incentives for enrolment of new clients for them. Although, is it not specifically mentioned in the operational manual or the policy documents, the targets and incentive structure of the organisation do not encourage unauthorised agents in the area. Training sessions for the staff members also emphasise on not involving unauthorised agents. In the past, (prior to 2008) CMC has faced portfolio quality problems and frauds due to the unauthorised agents and influential group leaders. It took the following measures to counter this problem.

1. Staff incentives for enrolment of new clients were removed and targets for the branches were rationalised. Earlier staff used to get incentives of up to Rs300 per client for enrolment of new clients and there was no upper limit on the incentives.
2. Operational monitoring and supervision was strengthened. Operational area of the branches was restricted to ten kilometers.
3. Role of the group leaders in disbursement, collections and conduct of group meetings was reduced. CMC introduced a system of rotation of responsibilities in the group so that the influence of one person on the group can be eliminated.

According to the organisaiton with these measures, the organisation has been able to get rid of the unauthorised agents and the influential group leaders in most of the areas it has been operating. The assessment team of M2i did not come across any evidences which would point to existence of significant number of unauthorised agents in the microfinance programme of CMC.

CMC wants to ensure that it works only with the poor clients and rigorously uses Cashpor Housing Index (CHI) and Progress out of Poverty Index (PPI) to judge the poverty level of its clients. Operational monitoring and the Internal Audit of the organisation check whether targeting criteria of the organisation have been adhered to.

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Approval (A)	Documentation (D)	Dissemination (D)	Observance (O)
As per the approved policies of the CMC, it strives to enroll clients from the underserved areas and does not start operations in the villages where there is more than one MFI already operating. The organization follows rigorous targeting criteria to ensure that it works only with the poor clients.	The operational manual provides guidelines on how to identify clients and choose area of operations. It also states clearly the documents to be collected from the clients. However, it does not explicitly state that unauthorized agents should not be avoided for client origination.	CMC provides induction and refresher trainings for its staff members which emphasise on the training clients adequately on the approved client origination principles.	CMC was observed to be the first MFI in all the villages visited by the assessment team of M2i. Even now, the organization actively looks for the districts and the villages where no other MFI is operating.

2.2 Loan Pricing (LP) Observed score 93%

CMC's score on Loan Pricing is high on account of very high focus on maintaining transparency in interest rate and other charges on the loans. Interest is charged on a declining basis, there are no upfront charges, there are no upfront security deposits and there is no prepayment penalty or late payment charges.

CMC charges 25.75% on a reducing basis on the loans it provides. This has been reduced from about 30% which the organization used to charge till the financial year 2009-10. CMC has publicly expressed its commitment to reduce its interest rates as and when efficiency gains result in reduction in the Operating Expense Ratio (OER).

Method of charging interest rates
CMC charges interest on the loan account of the clients on a reducing balance basis.

Upfront fees and deposits

CMC does not collect any security deposit or upfront fees on the loans. However, the organization facilitates life insurance cover to its clients and their spouses from insurance companies. The amount of insurance cover is between 1.16 times and 1.25 times the loan amount. In case of death of the client or her spouse, the amount of claim received by the clients is used to settle the outstanding balance on the loan amount. The insurance intermediation service is provided to the clients and their spouses below the age of 59 years.

Late payment charges and penalties
CMC does not charge any penalty or additional interest for delays in repayment of installments. Interest cease to be charged on the loan accounts in case it is past its loan term of 52 weeks. Therefore, total amount to be paid by the clients does not exceed what has been communicated to them at the time of the disbursement even when the loan becomes overdue.

Prepayment charges
In case a client wants to prepay her loan, she is required to pay the outstanding principal as reflected in her loan account. There are no prepayment charges or penalties and interest for the unexpired loan period is not collected.

Approval (A)	Documentation (D)	Dissemination (D)	Observance (O)
The Board has provided guidelines for communicating all the charges to the clients clearly, as well as telling them the	All terms and conditions pertaining to the loans are mentioned in the operational manual/administrative circulars as well as on	Clients are told of only the declining balance interest rate. No flat rate of interest is told to them. Staff members are trained	Most of the clients were found to be aware of the loan charges including the effective interest rate.

declining balance interest rate. In the books of accounts interest is accounted for on a declining basis.	the loan cards provided to the clients.	adequately on how to communicate interest rates and rationale for charging a particular rate of interest.	

2.3 Loan Appraisal (LA) **Observed score 76%**

CMC undertakes formal analysis of cash flows of the households for the loans greater than Rs14,000 and it formally tracks indebtedness level of the clients. The score on Loan Appraisal can improve further if the organization includes formal anlaysis of cash flows for loans up to Rs14,000 as well.

Loan appraisal is primarily the responsibility of the Branch Manager. He visits the house of each client for assessing her repayment capacity. In case of renewal of loans performance of the previous loans and attendance records are also taken in to account. For loans in excess of Rs14,000, formal anlaysis of cash flows (incomes, expenses and indebtedness of the household) is undertaken. This analysis is used to determine the weekly installments which the clients can comfortably bear. Such analysis, however, is not carried out for the loans up to Rs14,000. Only the details of the loans from other MFIs are captured for such loans.

The organisation also closely monitors the indebtedness levels of its clients and formally tracks the groups where one or more clients have taken loans from other MFIs. In some branches the CMC also maintains a list of the clients who have obtained loans from other MFIs. At the time of renewal of loans, in case it is determined that any client has outstanding loans of more than Rs15,000 from other MFI, CMC does not sanction loans beyond Rs10,000 irrespective of the credit history of the clients. In case it is determined that the client has taken more than 3-4 loans she is encouraged to dropout from the microfinance programme of CMC.

Approval (A)	Documentation (D)	Dissemination (D)	Observance (O)
CMC's policy requires that adequate loan appraisal be performed before disbursing a loan. Ensuring that the clients are not indebted beyond their repayment capacity is the focus of appraisal.	Guidelines for assessing the repayment capacity of clients is mentioned in the operations manual. One of the recent administrative circulars emphasise on checking indebtedness levels of the clients before approval of loans and sets exposure limits for the clients.	The branch staff were found to be well aware of the loan appraisal criteria. They had access to manuals and circulars which clearly presented these criteria.	It was observed that information pertaining to indebtedness of clients has been captured in all the loan forms verified by the assessment team, cash flow analysis was not found in loans below Rs15,000.

2.4 Client Data Security (CDS) Observed score 88%

CMC scores well on Client Data Security on account of its well laid out system of storage of information collected from the clients. Assessment team could not find evidence to suggest that client data have been used for any purpose other than regular operations.

CMC keeps hard copy of the documents collected from the clients in the branches. These documents are kept in the custody of the Branch Manager and are barred from unauthorised access. The demographic profile and the credit related information are also kept in the electronic form. The MIS software of the organisation has well-defined user rights and security features. The Internal Audit, however, does not explicitly check and report whether client data has been stored with adequate security

Approval (A)	Documentation (D)	Dissemination (D)	Observance (O)
CMC's policy requires adequate safety to ensure privacy of client data. The software has well-defined security features and user rights.	The operational manual and other circulars have specified the documents to be collected from the borrowers and how will these be stored.	Keeping clients records in a secure manner and how to use the software is an important component of the training of the Branch Managers and other supervisors.	Clients' documents were found to be stored in the custody of the branch manager or other authorized staff. These could easily be retrieved by them when requested. There is no evidence of the clients data being used for unauthorized purposes.

2.5 Staff Conduct (SC) — Observed score 61%

There is significant scope of improvement in the score on Staff Conduct. The manner in which the 'peer pressure' is applied results in considerable stress for the clients in many situations.

All staff of CMC pledge to provide services to the clients in a 'timely, efficient and honest manner'. Various policy documents and manuals prescribe the following code of code of behaviour for the staff members.

1. Staff must behave politely with the clients at all the times and in all situations.
2. They should not accept any gifts or eatables (not even a glass of water) from the clients.
3. Staff should not provide any monetary incentive to the clients or their representatives for carrying out any work which staff are supposed to carry out.
4. Staff should not maintain any personal, social or economic relationship with the clients.
5. They will not use force or threat in any situation.
6. Staff will reach for the group meetings on time and will be well-dressed at all times.
7. They must ensure that their conduct is free from any complaints.
8. They must try to help the clients in distress.

Rules of the organisation prescribe strict penalties and sanctions in case the staff is found to be abusive towards the clients.

While the MFI emphasises on treating clients with respect and dignity and all staff seem to be aware of this, some of the practices observed by the assessment team in some of the branches point to considerable scope of improvement in the attitude and behaviour towards the clients. For example

- During some of the group meetings, staff members asked clients to not talk amongst themselves, in a rather harsh tone. They also scolded children of clients for making noises.
- In some of the branches, when clients came to deposit installments in the branch, the branch staff did not ask them to sit even if they had an empty seat in front of them.
- In almost all the group meetings, clients sit on the floor (without any mats or *durries*) while staff members sit on chairs during the group meetings.
- Staff address clients by their first names.

While none of the above instances are outright disrespectful or compromising on the dignity of the clients, it is apparent that the staff do not make an extra effort to make clients feel important or dignified.

Some of factors which possibly result in less than ideal staff conduct include

- Details of staff behaviour are not adequately emphasised in the operations or policy manuals. Behaving politely with the clients has been mentioned as one of their several responsibilities of the staff members.
- Most of the rules of staff conduct are contained in the operational manual of the organisation are which was updated in 2004. Many of the provisions of the manual are outdated and most of the staff do not refer to the operational manual regularly. Operations are guided by a series of administrative circulars which are issued regularly.
- Almost total focus of most of the induction training is on operational processes and ensuring 'strict credit discipline'. Nuances of staff behaviour towards clients are not adequately emphasised.
- Operational monitoring and internal audit do not require staff behaviour to be specifically checked and reported.

<u>Policies and practices regarding recovery of loan instalments</u>

Weekly installments of the clients are collected by the loan officer of CMC in the weekly group meetings. After collecting the amount, the loan officer makes an entry in the loan card provided to the clients, and hands over the amount to one of the members of the group. This member (or someone from her family) carries the amount to the branch office after completion of the group meeting where she is provided receipt for the amount. A signed and authenticated copy of the collection sheet for the group which contains details of amounts paid and outstanding for each borrower is provided in the next group meeting.

In case one or more members of the group are unable to pay the installments, other members of the group are asked to contribute on their behalf. Normally, the group meeting is not allowed to be closed till installments for all the clients come. In case the loan officer is required to attend another group meeting, he informs his supervisor (the Branch Manager) to come to the meeting and proceeds to the other meeting. The Branch Manager (or other staff) continue to sit in the group meeting till the money comes.

The practice described above may cause considerable stress to the clients particularly when many of them do not have sufficient cash in their houses on the day of the group meeting. Although, the organisation does not have any monetary penalty for the loan officers or other branch staff for delinquency, and there is policy for rescheduling loans in case the client is facing genuine difficulty, ensuring 100% repayment is considered desirable. This sometimes leads to the loan officers and other branch staff causing undue stress for the clients (See case lets 1 and 2). Although, such behaviour is not approved as per the policy, lack of formal records for the groups which are facing stress on account of one or more clients not able to pay their installments makes it difficult for the supervisors and internal auditor to check if the staff members have been causing undue stress for the borrowers.

In instances, where one or more group members have paid for the delinquent clients, the group members continue to pursue the delinquent clients for recovery of installments. CMC does not have guidelines for group members in such situation and does not monitor the behaviour of the group members and this may become coercive in extreme cases. Some of the groups on being presented a hypothetical situation that what they would do in case some one in the group has run away and is not repaying her installments responded that they would raid the houses of such clients to recover the installments.

CMC has issued a circular for rescheduling of loans in case clients are facing genuine difficulty on account of natural disaster or other reasons. There is also policy for clients being given grace of up to four-weeks or/and issuing an emergency loan of Rs1,000 in case a clients is facing genuine difficulty in repayment of installments. These provisions have been used in many situations (see caselets 3 and 4) but it is apparent that many staff members and most of clients are not aware of the specific situations where these provisions have to be used.

Caselet 1: Sudnipur Village, Madiahu Branch, Jaunpur District
This case pertains to the Center no 01 of Sudnipur village. The husband of one of the clients, Lalti was severely injured in a fight with his brother a few days before the scheduled Center meeting on 6 December 2010. On the day of the meeting, Lalti did not come for the meeting at the scheduled time and the loan officers asked other group members to go to the house of the client to ask for the installment (Rs200). When the group members went to the house of Lalti, her huband became furious and refused to pay the installments and asked other clients also not to pay installments on behalf of Lalti. In the evening on the same day, the branch staff (including the Branch Manager) went again to the house of the client to ask for her installment. Branch staff stayed in the village till 9.00 PM in the evening, persuading the clients and her husband to pay the installment and then came back to the branch when they did not get the installment. Staff members went back to the village again in the morning next day to ask for the installment. The husband of the client refused again. One of the relatives of the client who was visiting them paid the installment and only after getting the installment the branch staff came back. *(This village was visited by the assessment team of M2i on 9 Dec 2010. We had a discussion with the group members and other residents in the village but not with Lalti or her husband).*

Case let 2: Ahirauli Village, Madiahu Branch, Jaunpur District
One of clients of the group L-9, and her entire family have been in prison since past 6-8 weeks on account of a police case. Other members of the group have been repaying the installments on behalf of the delinquent client for the past 6 weeks but have been facing stress due to this additional burden. The loan officer of CMC insists on getting full installments during the center meeting itself which extends up to two hours on every scheduled day. Branch staff reported this matter to the concerned district manager who asked the Area Manager to resolve this. (Instructions of the District Manager can be found in the Monitoring register). The Area Manager duly visited the place and apparently instructed that the group members are not required to pay. (There are no

formal records of this instruction and other group members had continued to pay in the week when the visit by the assessment team was made). *(The village was visited by the assessment team of M2i on 9 December 2010 along with the concerned District Manager of CMC. The group members said that they were facing a situation of extreme stress and a number of clients of the group had dropped out. The District Manager asked the group members not to pay on behalf of the delinquent borrower any further and instructed the branch staff about this. It was decided that the loan account of this client will be shown as overdue from the next week onwards*).
Caselet 3: Tilak Rai ka Hata, Simri Branch, Buxar District In a major fire in the village "Tilak Rai ka Hata" of Simri Branch, houses of thirteen clients belonging to two groups were destroyed in fire in April 2010. The District Manager visited this village as soon as he got the information and offered the villagers to avail of the four weeks of grace period or Rs1,000 of emergency loan or both. While 11 clients chose to avail of the grace period, remaining two clients chose to avail of the emergency loans as well. After completion of the grace period, three clients requested to reschedule the loans. This request was duly processed and their weekly installment was reduced from Rs350 and Rs150.
Case let 4: Sahebgaj Branch, Chandauli District In Chandauli district office, request for rescheduling loans of two clients is currently being processed. In the first case, buffalo of one of the clients in the Sahebganj Branch died within a few days of purchase and the client was finding it difficult to repay her installments. She has requested to reduce the installment size from Rs475 to Rs300. In another case, the client is facing difficulty in repayment of loan due to death of her son. The client has requested to reduce weekly installment from Rs300 to Rs100.

Approval (A)	Documentation (D)	Dissemination (D)	Observance (O)
CMC's policy requires that staff should behave politely with the clients.	CMC has specified rules of staff conduct in its operations manual. However, the operations manual has not been updated since 2004.	Staff are trained on how to behave with the clients.	Staff sometime speak to the clients in a harsh tone. Further, application of peer pressure sometime leads to stress on the clients.

2.6 Client Relationship and Feedback (CRF) — Observed score 69%

Although, there is policy approval for receiving and responding to client's complaints, there is considerable scope to improve its functioning. Score of the organization can increase on this count if client complaints can be classified in terms of its importance and summary of complaints is presented to the senior management. Further, Internal audit presently does not specifically report whether client complaints have been addressed.

CMC provides phone numbers of branch managers to all the clients to whom they can approach in case of any complaints. The loan card provided to the clients specifically mention that the clients can lodge their complaints by calling at the specified phone number. Clients are told about this mechanism during the CGT. Almost all the clients interviewed by the assessment team were found to be aware of this mechanism.

In the Head Office, all the telephone calls are received by a dedicated person who makes an entry in a register specified for this and forwards the complaint to the dedicated department or the branch. One of the weaknesses of this mechanisms is that all the complaints are accorded equal importance and these are not segregated on the basis of nature of complaint or severity. Some of the entries in the register reviewed by the assessment team pertain to issues relating to frauds by the field staff and clients facing difficulty in repaying installments which are mentioned alongside several complaints of less severe complaints like staff reaching late in the group meeting, branch office being closed or delay in disbursement of loans.

CMC is in the process of strengthening this system by having precise guidelines for receiving complaints and their redressal.

CMC undertakes several 'Credit Plus' activities for its clients in order to provide benefits to them and to improve its relationships with them. The Board of the organization has decided to earmark 5% of its total annual surplus for the 'Credit Plus' activities. Some of these activities are mentioned below.

<u>Scholarship opportunities:</u> 50 scholarships are being provided for the children of the clients of CMC in all the branches of Mirzapur district. Amount of scholarship range between Rs50 and Rs125 per student per month. In 2009-10 scholarships were awarded to 1064 children under 34 branches of CMC.

<u>Health camps:</u> Some health camps were organized for the clients in Mirzapur district.

<u>Financial literacy campaigns:</u> CMC conducts financial literacy campaigns for its borrowers on an annual basis.

<u>Community Health Leaders programme:</u> CMC, in association with the Healing Health Foundation, is undertaking a pilot project in one of the branches in Buxar district of Bihar

where some clients of cashpor will be trained as Community Health Leaders (CHLs). These CHLs will be involved in providing awareness on health related issues among the clients of CMC.

Approval (A)	Documentation (D)	Dissemination (D)	Observance (O)
CMC's policy provides for a formal system of grievance redressal of its clients.	Details of grievance redressal is mentioned in various circulars of the organization.	All loan cards provided to the clients contain the helpline number of the client.	Most of the clients were aware of the phone numbers and the complaint handling mechanism. There is, however, scope of significantly improving the complaint handling mechanism.

2.7 Opinion of important stakeholders

Discussions with the CMC's lenders revealed that they had a favorable opinion of the it's field practices and client relationships. CMC also enjoys a healthy reputation among its peer for its operational practices. No adverse news report on the organization has appeared over the course of the past twelve months.

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	9	**24**	**21**
Loan Pricing	3	3	1	1	2	2	9	8	**15**	**14**
Loan Appraisal	4	3.25	4	2.75	3	3	5	3	**16**	**12**
Client Data Security	1	1	3	2	2	2	2	2	**8**	**7**
Staff Conduct	7	5	7	4.5	10	5.5	11	6	**35**	**21**
Client Relationship and Feedback	2	2	8	4	6	4	10	8	**26**	**18**
Total	**22**	**18.25**	**28**	**18.25**	**28**	**20.5**	**46**	**37**	**124**	**94**

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

Annexure 2: List of Branches Visited

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 assessment requires visits to the MFI's head-office as well as branch offices. The visit is spread over a period of four to six days. The first day is spent at the head office. The assessment team visits the branches on days 2 to 6.

This assessment includes:

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.
3. Sampling of branches at the head office. The assessment team samples between three to fifteen branches, depending on the size of the MFI 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. Around 100 to 150 clients are selected for interviews. Of these around, 30 respondents are those that have been having problems in attending meetings or making repayments. The remaining respondents are chosen to reflect different locations within the MFI's branch.
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 the assessment, we visited 14 branches of CMC in two states. The details of the branches visited are provided below.

Sr No	Branch	District	State	No of clients interviewed
1	Padav	Chandauli	Uttar Pradesh	20
2	Nai Basti	Chandauli	Uttar Pradesh	17
3	Chandauli City-2	Chandauli	Uttar Pradesh	0
4	Buxar City-1	Buxar	Bihar	35
5	Simari	Buxar	Bihar	16
6	Naya Bhojpur	Buxar	Bihar	0
7	Sonpur	Saran	Bihar	43
8	Dorigunj	Saran	Bihar	0
9	Dighwara	Saran	Bihar	19
10	Ashapur 1	Varanasi	Uttar Pradesh	30
11	Chaubeypur 1	Varanasi	Uttar Pradesh	0
12	Chaubeypur 2	Varanasi	Uttar Pradesh	0
13	Madiahu	Jaunpur	Uttar Pradesh	15
14	Rampur	Jaunpur	Uttar Pradesh	0
			Total	**195**

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%**