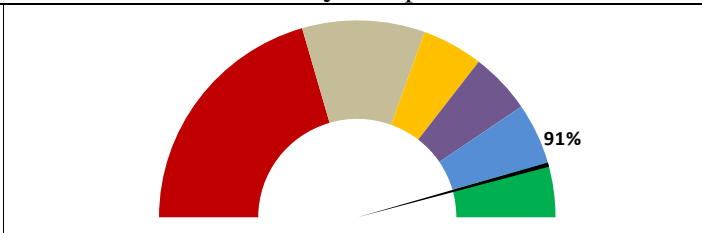
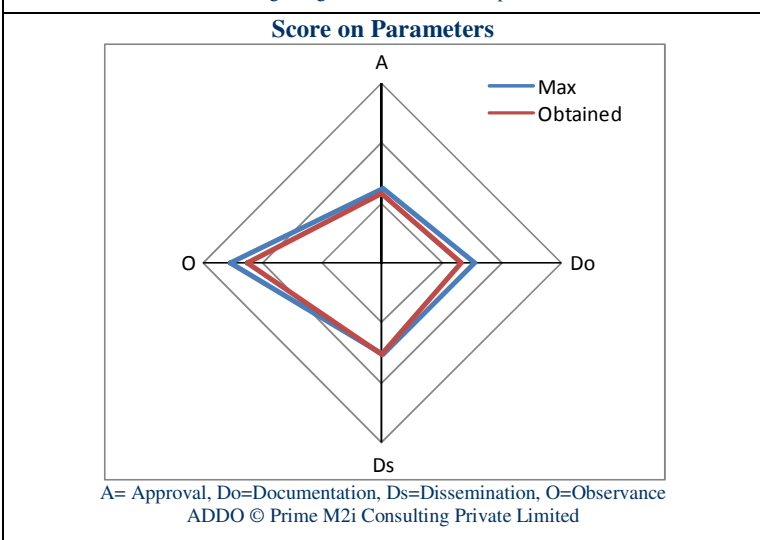
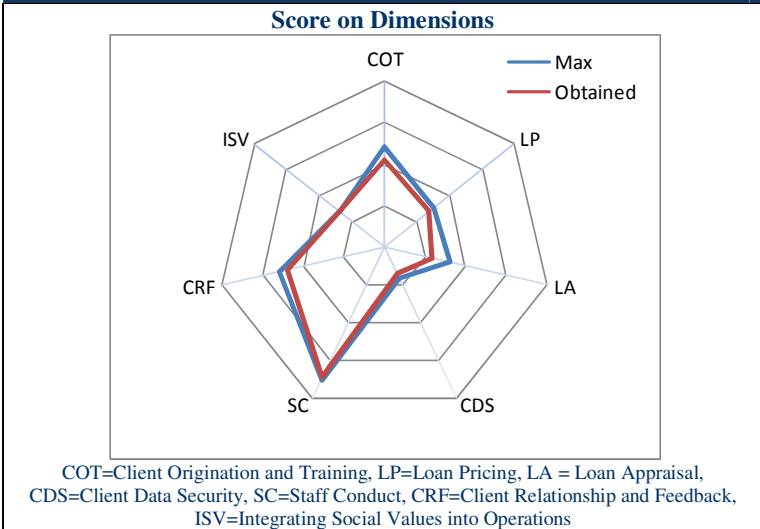


Assessment done by: Deepak Alok and Atul

**Bandhan Financial Services Pvt Ltd (Bandhan),**  
Dec 2012



**Composite COCA Score: 91%, Excellent level of adherence**



**Rationale**

Bandhan receives “excellent” overall score on account of sound performance on most of the code of conduct dimensions and compliance with regulatory directions.

**Highlights**

- Bandhan has established a sound Grievance Collection and Redressal Mechanism and its board has been actively involved in reviewing the resolution of grievances and complaints.
- Bandhan through its parent NGO, Bandhan Konnagar has been actively pursuing projects to bring favorable changes in the communities it operates in.
- Bandhan’s repayment policy does not emphasize on enforcement of joint liability which reduces the stress on clients.
- There is a very strong emphasis on treating clients with respect and dignity
- Bandhan has evolved an effective system of training its employees on crucial aspects of its microfinance methodology.

**Areas of improvement**

- Bandhan needs to include cashflow analysis of the important livelihood or enterprise activities that its clients undertake, in its loan appraisal process for all income generation loans.









**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, fair 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 has not been engaged in any assignment of advisory, capacity building or of consulting nature with Bandhan in the last one year. Further, none of M2i's staffs or their relatives are represented in the Board of Directors of Bandhan or related institutions.







### Section 1: Scores<sup>1</sup> and facts

Code of Conduct dimensions <sup>2</sup>	Maximum	Obtained	%
 Client Origination and Targeting	24	20.9	87%
 Loan Pricing	15	13.8	92%
 Loan Appraisal	16	11.7	73%
 Client Data Security	8	7.0	88%
 Staff Conduct	35	34.3	98%
 Client Relationship and Feedback	26	23.8	92%
 Integrating Social Values into Operations	14	13.8	99%
 <b>Total</b>	<b>138</b>	<b>125.3</b>	<b>91%</b>
<b>RBI's Directions</b>	<b>12</b>	<b>12</b>	<b>100%</b>

Compliance parameters	Maximum	Obtained	%
 Approval	25	23.0	92%
 Documentation	31	26.5	85%
 Dissemination	31	30.9	99.7%
 Observance	51	44.9	88%
 <b>Total</b>	<b>138</b>	<b>125.3</b>	<b>91%</b>

### MFI's profile – September 2012

Name of the MFI	Bandhan Financial Services Pvt Ltd (BFSPL)
Legal form	Non Banking Financial Company (NBFC)
Operational Head	Mr Chandra Shekhar Ghosh
Year of incorporation	2001
Year of starting microfinance	2002
Branches	1,699 (September 2012)
Operational area	18 States across India
Total number of staff involved in microfinance	10,691 (September 2012)
Visit of the Assessment team	December 2012
Correspondence address	Bandhan Financial Services, DN-32, Sector-V, Salt Lake City, Kolkata-700 091

<sup>1</sup>The 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).

<sup>2</sup> Bandhan was found to be complying with all RBI's directions.

### Microfinance Methodology

Bandhan primarily lends to women who organize themselves in groups of 10 to 30 members. The loan is given to the individual members. The group acts as a control mechanism which ensures that members do not make willful defaults. However, in case a member is unable to make her payment, the other group members are NOT required to make up for the short fall. The group meetings take place at a fixed time and place every week, during the first half of the day. While loan repayments take place during the group meetings, loan disbursements take place at the branches during the second half of the day.

Bandhan additionally provides higher sized (greater than Rs 50,000) microenterprise loans (Samriddhi), which are available to women as well as men. Bandhan is also a member of High Mark Credit Information Services as well as Equifax Credit Information Services.

### Details of the loan products - 30 Sep 2012

Product	Description	Loan size*	Interest Rate	APR (Interest Rate and Processing Fees)	% in portfolio
Suchana	Income generation loans given to women who organize themselves in groups of 10 to 20. Repayable in 52 weeks/12 months.	Rs 1,000 to Rs 15,000	22.9% pa, reducing & 1% processing fees charged upfront	24.1%	57%
Suraksha	Loans available for health expenditures.	Rs 1,000 to Rs 5,000	20% pa, reducing & 1% processing fees charged upfront	22.0%	
Susiksha	Education loans.	RS 1,000 to Rs 10,000	20% pa, reducing & 1% processing fees charged upfront	22.0%	
Srishti	Similar to Suchana, however, loan sizes are larger and loans are repayable in 104 weeks/24 months.	Rs 16,000 to Rs 50,000	22.9% pa, reducing & 1% processing fees charged upfront	24.1%	43%
Samriddhi	Microenterprise loans above Rs 50,000 given to men and women who are found eligible during loan appraisal.	Rs 51,000 to Rs 300,000	22.9% pa, reducing & 1% processing fees charged upfront	24.1%	

**Notes:**

1. APR has been calculated by taking the actual cash flow for each loan including principal, interest and processing fee.

- Effective Interest Rate (EIR) calculated through compounding interest on monthly rests comes between 24.7% and 27.3% on Bandhan's loan products. EIR has been presented here for comparison against International Best Practices in interest rate calculation and reporting. However, Bandhan does not compound interest on its loans and is compliant with RBI's directions in this regard. EIR has been calculated as:  $EIR = (1+r)^n - 1$ , where  $r = APR/12$  and  $n=12$  (for 12 months to annualize).
- As on 30 Sep 12, 57% of Bandhan's loan portfolio carried a repayment term of less than one year, while 43% carried a repayment term of greater than one year.

Key facts and figures			
Parameters	31-Mar-11	31-Mar-12	30-Sep-12
Total Groups	175,875	181,140	200,281
Total active borrowers	3,254,913	3,617,641	3,968,326
Branches	1,553	1,553	1,699
States	17	18	18
Number of districts	179	168	187
Total staff	8,813	9,548	10,691
Amount of loan disbursed by the FY ending (Rs mn)	49,861	62,548	21,311**
Loan portfolio outstanding (Rs mn)	25,073	37,302	35,048
PAR <sub>60</sub>	0.46%	0.14%	0.36%
PAR <sub>30</sub>	0.57%	0.16%	0.41%
Interest Yield on portfolio*	25.9%	26.0%	23.2%***
Operational Self Sufficiency (OSS)	146%	146%	135%
Return on assets (ROA)	6.2%	5.6%	4.6%

\*Interest income as percentage of average loans outstanding.

\*\*For the half year ending 30 Sep 2012

\*\*\*Annualized

Bandhan's Equity Structure (31 March 2012)		
	Shareholders	% stake
1	Small Industries Development Bank of India	9.63%
2	Financial Inclusion Trust*	45.39%
3	North East Financial Inclusion Trust*	10.32%
4	Bandhan Employees Welfare Trust	19.27%
5	International Finance Corporation	10.93%
6	Others	4.46%
	<b>Total</b>	<b>100%</b>

\* Bandhan maintains that the trusts represent community ownership. These trusts have independent trustees who are eminent personalities.

<b>Profile of the Board of Directors</b>	
<b>Name</b>	<b>Profile</b>
Mr Chandra Shekhar Ghosh (Chairman and Managing Director)	Mr Ghosh has over thirty years of experience in microfinance operations.
Prof. Amitava Sanyal	Prof Sanyal's experience in rural finance exceeds thirty years. He has provided consultancy and training to many MFIs. He has also advised NABARD on its SHG bank linkage programme.
Dr Ajit Kumar Roy	Dr Roy retired as a senior officer in NABARD. Before NABARD he was an employee of the RBI.
Mr Yogesh Chand Nanda	Former Chairman & Managing Director of NABARD. Chairman of working group for the formation of the 11th plan for agriculture credit and the cooperative.
Mr Vishwanath Prasad Singh	Former Chairman and CEO of IFCI Limited. He has been on the board of several financial institutions and was a member in several committees constituted by GOI and RBI and the last being the Committee constituted by RBI on corporate debt restructuring system (CDR)
Mr Natrajan Raman	Mr Raman, is an Executive Director at SIDBI's Lucknow Office.
Mr R K Ghosh	Mr.Ghosh has worked in various capacities in the Judiciary such as District and Sessions Judge, Member Motor Accident Claims Tribunal, L.A. Judge, President District Consumers Redressal Forum, Chairman Tripura State Human Rights Committee, Presiding Officer, Industrial Tribunal. Mr Ghosh has also worked as Secretary, Law and Parliamentary Affairs Dept. under Government of Tripura on deputation.
Mr Ranodeb Roy	Mr Roy is the CEO of RV Capital Management Private Limited, a Singapore based asset management company. He also served as the Managing Director and Head of Fixed Income Asia Pacific in Morgan Stanley. He has an MBA from the Indian Institute of Management, Ahmadabad and a B Tech from the Indian Institute of Technology, Kanpur.

## Section 2: Status of Regulatory Compliance

### 2.1 Compliance with regulations

*Bandhan complies with critical RBI directions regarding NBFC-MFIs and priority sector classification of microfinance assets.*

Bandhan's compliance with RBI guidelines for MFIs is presented below.

#### **Capital requirement**

As per Bandhan's audited financial statements for the year ending 31 March 2012, it had Net Equity of Rs 7,000.1 million as of 31<sup>st</sup> March 2012. This is more than the required Rs50.0mn of Net Owned Fund (NOF) prescribed by RBI for NBFC-MFIs.

#### **Proportion of qualifying assets and income generation loans**

Bandhan has obtained CA's certificate that states that its assets meets the qualifying assets criteria. As per the certificate dated 1 June 2012, it had qualifying assets greater than 94.49% of its total assets excluding cash and bank balances, for the quarter ending 31 March 2012. M2i during its assessment has also verified the conditions for qualifying assets, the observations are presented below:

- Loan size verification

Excluding the microenterprise loans, which constitute less than 1% of its loan portfolio, Bandhan's first cycle loans are less than Rs 35,000 and its maximum loan size is Rs 50,000. Physical verification of over 100 loan documents corroborated this.

- Collateral verification

Bandhan does not take any collateral on its group loans, which is in accordance with RBI's guidelines. While, collateral is obtained in microenterprise loans, these are not classified as qualifying assets by the organization. M2i's check of loan documents and direct verification with clients did not reveal any deviation on this guideline.

- Loan duration verification

The duration of Bandhan's loans are in accordance with the directions issued by RBI. Loans of less than Rs 15,000 are repayable in 12 months/52 weeks while those over Rs 15,000 are repayable in 24 months/104 weeks.

- Household income

Bandhan obtains self-declaration from the client on their household income. In a check of randomly selected 100 loan documents across 12 branches it was observed that all members, except one, 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, as a policy Bandhan does not extend loan to any client who has existing borrowing outstanding from two other institutions. In areas which have a high presence of MFIs, Bandhan verifies the indebtedness of its clients,

through credit bureau, before disbursement. In all cases, declaration is obtained from clients regarding their indebtedness. M2i did not find any of these guidelines breached in any of the 100 random loan documents checked and over 100 clients visited.

### **Pricing of credit**

Bandhan charges interest rate of 22.9% per annum on reducing balance basis on its Suchana and Srithi loan products and a rate of 20% per annum on reducing balance basis on its Suraksha and Susiksha products. In addition clients are charged 1% processing fee upfront. Loan insurance is charged on actual premium paid basis. All these prices are revealed to clients during group training meetings which are held prior to disbursement. These are also mentioned on loan passbook of clients. The passbook is used to record all the transactions made by clients and Bandhan's loan officers duly put their signature in the relevant place in the passbook to acknowledge payments made by the clients.

For the year 2011-12 Bandhan's average cost of borrowing came to 12.76%. The interest yield on average portfolio of Bandhan for the year 2011-12 was 22.9%, with a margin of 10.14%. Thus, Bandhan was in compliance with RBI's directions on pricing and margin for the year 2011-12.

### **Capital adequacy**

The CRAR of Bandhan was over 22.6% as of 31<sup>st</sup> March 2012 which complies with the required CRAR of 15% for NBFC-MFIs. Bandhan does not have any exposure in Andhra Pradesh.

### **Diversification**

Bandhan has loan portfolio in 187 districts of 18 states. While more than 50% of the portfolio is concentrated in West Bengal (55.63% as on 30 November 2012), this concentration has progressively reduced over the previous three years as the organization has made efforts to increase its outreach in other States.

### **Customer Protection Initiatives**

In its board meeting held on 24 April 2012, the company adopted the revised fair practices code as per the circular issued by RBI on 26 March 2012, passing a board resolution to this effect.

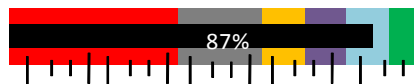
### **Membership with SRO and credit bureau**

Bandhan is a member of Sa-Dhan as well as MFIN. Bandhan has also become member of High Mark Credit Information Services Limited shares client data with it.



### Section 3: Observations

#### 3.1 Client Origination and Targeting (COT)



*Bandhan's score on client origination is very good. It has developed a system which allows it to appropriately identify its clients. Bandhan has also followed a strategy of increasing its outreach in underserved and poor areas.*

Approval (A)	Documentation (D)
<ul style="list-style-type: none"> <li>✓ Bandhan's board has reviewed sound client origination practices, particularly related to outreach in poor and underserved areas.</li> <li>✓ Bandhan has a policy of collecting documents from the clients that can establish their identity.</li> </ul>	<ul style="list-style-type: none"> <li>✓ The organization has documented the processes of area selection, training of clients and group recognition test in its operations and training manuals.</li> </ul>
Dissemination (D)	Observance (O)
<ul style="list-style-type: none"> <li>✓ Staff members are provided training on all aspects of area selection, and continuous group training.</li> <li>✗ It was observed that the understanding of the Credit Officers regarding the number of photographs to be obtained from the clients was not uniform.</li> </ul>	<ul style="list-style-type: none"> <li>✓ Bandhan offers no direct monetary incentives to staff members for forming new groups.</li> <li>✓ No evidence of use of any external agent or payment of unfair money for client origination was observed.</li> <li>✓ Staff members are aware of risks of involvement of agents in client origination as there have been such incidents in past.</li> </ul>

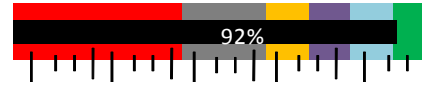
Bandhan undertakes detailed survey of the operational area, prior to starting operations in a particular village or an area. Detailed profile of the competition in the areas is prepared as part of the survey. The village surveys are reviewed by the branch manager. The organization has a strategy of expanding its outreach in areas which are underserved. However, in those areas, where other MFIs are present, it ascertains the indebtedness of its potential clients through credit bureau checks before making a disbursement. In all cases, it obtains declarations from clients regarding their borrowings.

Bandhan's Credit Officers have the primary responsibility of organizing clients in groups. Once the group is formed, the group members are required to attend two weekly meetings before they become eligible for applying for loans. During these meetings, the Credit Officer tells the group members about the products and policies and addresses their queries. The Credit Officer visits the house of the each client to collect information regarding client's

identity, address and livelihood. Groups start with minimum of 10 members and new clients can join existing groups anytime until the number of clients in the group reaches 30.

While Credit Officers do not have any targets for enrolment of clients, however, it is expected that the Branches reach a client base of at least 3,000 in two-three years. Credit Officers or other branch staff members also do not receive any direct monetary incentive for enrolment of clients or disbursement of loans. Salaries at all levels are fixed. Bandhan discourages the use of agents through its various guidelines. Lack of monetary incentives for originating new clients or disbursement of loans discourages involvement of informal agents. For ensuring identity of clients, proof of identity and proof of address from each client is collected. Branch Manager also undertakes house visits to ensure identity of the clients. We found that the understanding of the Credit Officers regarding photographs to be obtained from the clients was not uniform and in a few instances three or four photographs had been obtained from second cycle clients.

### 3.2 Loan Pricing (LP)



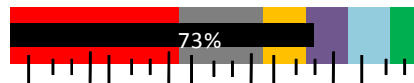
*Bandhan’s score on loan pricing is excellent as the organization transparently discloses its interest rates and processing fees to its clients.*

Approval (A)	Documentation (D)
<p>✓ Bandhan’s board has discussed loan pricing during the previous one year and issued guidelines to ensure that these are in line with RBI’s directions regarding interest rates, processing fees and margins.</p>	<p>✓ Bandhan’s pricing guidelines have been documented in a Pricing Policy document.</p>
Dissemination (D)	Observance (O)
<p>✓ All the staff members interviewed had received training and communications on Bandhan’s pricing principles and were aware of the interest rates charged on Bandhan’s loans.</p>	<p>✓ The interest rates, processing fees and insurance charges are mentioned prominently in the passbooks provided to clients.</p>

Bandhan charges interest on reducing balance basis. Life insurance for the clients of Suchana, Srishti and Samriddhi loans is compulsory and premium is charged on actual basis. Processing fee is 1% which is charged upfront. There are no prepayment penalties or any extra charges on overdue loans. In case of prepayment, interest for the unexpired period is not charged.

The loan installment along with break-up of principal and interest is mentioned on the loan cards given to the clients. Clients are also made aware of the interest rate during the initial group meetings before disbursements are made. During client interviews we found that nearly 60% of the clients were aware of the interest rates. This awareness was directly related to literacy levels of the clients. Nearly all the clients were aware of the installment sizes and loan term.

### 3.3 Loan Appraisal (LA)

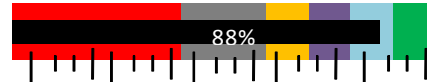


*There is scope for Bandhan to improve its performance on Loan Appraisal by including analysis of the important livelihood and enterprise activities carried out by all its clients as well as their household expenses and including these in the loan appraisal process.*

Approval (A)	Documentation (D)
<ul style="list-style-type: none"> <li>✓ Bandhan has a board approved policy of appraising loans as per the directions of the RBI to prevent over-indebtedness of its clients.</li> </ul>	<ul style="list-style-type: none"> <li>✓ Bandhan’s operations manual provide guidelines on measuring indebtedness of its potential clients.</li> <li>✓ There are formats and guidelines for appraisal of Samriddhi (microenterprise) loans</li> <li>✗ Guidelines to appraise the expenses of Suchana and Srishti loan clients have not been documented.</li> </ul>
Dissemination (D)	Observance (O)
<ul style="list-style-type: none"> <li>✓ Bandhan’s field staff members have been trained on collecting information related to indebtedness of their potential borrowers as well as their income levels.</li> <li>✓ Interviewed branch managers displayed sound understanding of loan appraisal including cashflow analysis of borrowers’ economic as well as household activities.</li> </ul>	<ul style="list-style-type: none"> <li>✓ A high percentage of Bandhan’s clients interviewed reported that they were able to make repayments on their loans without undue financial stress.</li> <li>✗ Bandhan’s loan appraisal for Suchana, which constitutes a significant proportion of its loan portfolio, does not include assessment of cashflows.</li> </ul>

Bandhan’s Credit Officers collect loan applications from eligible members. For Suchana and Srishti loans, which constitute majority of Bandhan’s loan portfolio, the application form contains information regarding the income level and indebtedness of the borrowers. However, these do not contain information pertaining to business and household expenses of the borrowers. In the organization’s view, the eligibility of the clients for loan sizes of less than Rs 30,000 can be established through parameters such as past credit history, participation in group meetings and opinion of fellow group members. Cash flows of the enterprises and households, however, are formally analyzed for Samriddhi loans, which are over Rs 50,000. We also observed that cashflow analysis had been performed for Srishti loans which were above Rs 30,000. In the loan applications, the Credit Officer proposes a loan amount for the branch manager to review, based on the requirement of the client and his understanding of her credit worthiness and indebtedness. After receiving the loan applications, the Branch manager visits each of the applicant and determines her credit worthiness and if needed revises the loan amount that is eventually disbursed to the client.

### 3.4 Client Data Security (CDS)

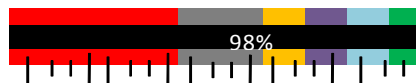


*Bandhan’s performance on CDS is very good on account of sound policies and systems for keeping the client data secured.*

Approval (A)	Documentation (D)
✓ Bandhan’s policy requires it to keep information collected from its clients in a secure manner.	✓ Bandhan has documented guidelines pertaining to data security and access.
Dissemination (D)	Observance (O)
✓ There is awareness among the staffs regarding client data security and how client data should be stored.	✓ The rights regarding accessing and modifying MIS data are well defined and restrict any unauthorized use of data.  ✓ Physical documents are stored securely at the Branch Offices.

Bandhan has formulated policies for protection of client data and preventing unauthorized access to client records. Most of the information pertaining to clients is maintained in the MIS software used by the organization. Designated protocols are required to be followed for editing. Required back-ups are taken to ensure business continuity.

### 3.5 Staff Conduct (SC)



*Bandhan’s score on staff conduct is excellent. This reflects organization’s culture of treating clients with respect and dignity. Bandhan’s policies and practices pertaining to collection of loan installments do not put clients under significant stress.*

Approval (A)	Documentation (D)
<p>✓ Bandhan has adopted the RBI fair practices code for staff behavior which includes policies regarding expected staff conduct with clients.</p>	<p>✓ Bandhan has documented acceptable staff behavior with clients and has a staff code of conduct.</p>
Dissemination (D)	Observance (O)
<p>✓ Employees have been trained on how they should address their clients even under stressful circumstances.</p>	<p>✓ Staffs were found to be aware of behavioral issues with clients. Staffs were following these staff conduct policies.</p> <p>✓ Visited clients did not report any incidence of staff misconduct or coercion.</p>

Bandhan has adopted policies which require its staff to interact with its clients in a polite and respectful manner. This has also been documented in the operations manual and training manual of the organization.

In its branches, the organization displays norms of staff behavior through posters. Bandhan uses the acronym “CREATE” so that its employees remain mindful of the values of the organization. This is displayed prominently in all its offices. Each alphabet in acronym stands for a salient value:

- C – Cost effectiveness and simplicity
- R – Respect for all
- E – Exemplary Governance
- A – Accountability, professionalism and discipline
- T – Transparency and integrity
- E – Effective team work and commitment

Bandhan also has a board approved policy of recovery of overdue loans which emphasizes on the need to maintain empathy with clients who are finding it difficult to make repayments in a regular manner. The following responses have been approved by the policy.

1. In case the client is not able to pay on account of a mishap in the family or illness, the week is declared as installment holiday for the client and she is excused from paying installments for that particular week. The loan term for the client advances by one week in this situation. There is, however, no policy for restructuring the loans. In case a client does not pay it is allowed to be shown as overdues.

2. In case the client has temporarily or permanently migrated to some other village, the credit officer accepts regular installments from other members of the group and tries to find out the whereabouts of that client later. Regular clients are not asked to pay-up for the delinquent clients.
3. In case a client is not able to pay on account of business failure or other financial difficulties and makes a representation to that effect, the credit officer accepts regular installments from other members of the group and follows-up with the delinquent client later. Regular clients are not asked to pay up for the delinquent clients.
4. In case the delay happens on account of temporary reasons (mostly household cash flow issues), other members of the group often pay voluntarily for such clients.

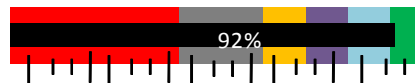
None of the clients interviewed during this assessment made any adverse observation regarding the conduct of Bandhan’s field staff.

**Caselet: Default in Nandnagari branch**

In August 2011, Babita Devi in Loni area under Nandnagari Branch, took a loan of Rs 40,000 from Bandhan. After repaying regularly for about nine months, due to business failure, she stopped repaying the loans and migrated to Bareilly in Uttar Pradesh. Bandhan continued to collect repayments from other members of the group and did not ask them to contribute for the delinquent member. The group members, however, helped Bandhan to contact the client in Bareilly. According to the branch staff, the delinquent member and her family members have agreed to repay the installments although any timeframe for this has not been agreed. As on 30 November 2012, about Rs 12,000 was being shown as overdue against the delinquent client.

In case a borrower is unable to pay her installment, Bandhan’s policy is to try and ensure that the borrower makes up for the shortfall through her own cashflows. This is distinct from MFIs that follow the Grameen model and emphasize on joint liability enforcements. However, we observed that nearly 50% of the clients interviewed felt that the process of enforcement of joint liability was similar in Bandhan as in other MFIs that employ the joint liability mechanism. This may be on account of the experience that the members may have had with other MFIs which employ the joint liability mechanism.

### 3.6 Client Relationship and Feedback (CRF)



*Bandhan has received excellent score on client relationship and feedback. Bandhan’s clients have been made aware of its grievance redressal mechanism and have been provided with Head Office phone numbers for feedback or reporting any grievances. The nature of complaints received and their resolution have featured in discussions of the board of directors.*

Approval (A)	Documentation (D)
<ul style="list-style-type: none"> <li>✓ The Board has approved the policy for grievance redressal and actively reviews serious complaints received and their resolution.</li> </ul>	<ul style="list-style-type: none"> <li>✓ Bandhan has documented the policy for grievance redressal.</li> <li>✓ The policy defines process of taking client feedback and resolving grievances.</li> </ul>
Dissemination (D)	Observance (O)
<ul style="list-style-type: none"> <li>✓ Guidelines pertaining to the grievance collection and redressal mechanism have been disseminated widely across the organization.</li> </ul>	<ul style="list-style-type: none"> <li>✓ The helpline phone numbers are printed in the loan passbooks given to clients.</li> <li>✓ Complaint boxes were available in visited branches.</li> </ul>

Bandhan has evolved grievance collection and redressal mechanism. As a part of this mechanism, a dedicated help line number has been provided to all its clients, which is prominently mentioned in their loan passbooks. There is a designated person in Bandhan’s Head Office, to receive and register queries and complaints from borrowers. Important issues that come up are escalated to the relevant officials. In addition to the phone number, complaint boxes are also provided in Bandhan’s branches. The complaint boxes are opened every 14 days by the Regional Manager, who appropriately files the complaints and also sends a summary to the head office.

Bandhan has an ombudsman committee which includes three senior officials who are not associated with field operations. They address all serious complaints that come to them either through the helpline or through the complaint boxes. The ombudsman committee also presents a summary of the grievances received and their resolution to the board. Bandhan also makes available the phone numbers of the members of its ombudsman committee on its website and an individual can contact them directly and share his/her feedback. Ombudsman committee members also go on surprise field visits to get a first hand understanding of the issues on the field.

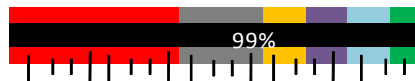
Bandhan also undertakes client satisfaction surveys on a periodic basis. The most recent survey was conducted in FY 2011-12. The organization has presented the key findings of this survey in its annual report for FY 12.



**Caselet: Call to helpline number**

On 17 December 2012, at about 10.30 AM, one of the clients of Bandhan, from Seelampur area in Nandnagari branch called on the grievance redressal number of Bandhan and enquired about the education loan product. The person answering the call asked the client to visit the branch office for the required information. This was as per policy of the organization.

### 3.7 Integrating Social Values into Operations (ISV)



*Bandhan’s score on ISV is excellent. Bandhan’s board has fair representation of independent directors. The organization tracks key economic indicators of its clients and has a policy of making active interventions to bring improvements in the lives of its clients.*

Approval (A)	Documentation (D)
<ul style="list-style-type: none"> <li>✓ The organization’s mission is to improve the economic status of its clients by providing affordable credit and generating livelihood opportunities for them.</li> <li>✓ Bandhan’s board actively reviews the organizations outreach in backward and under served areas.</li> </ul>	<ul style="list-style-type: none"> <li>✓ Bandhan has documented guidelines regarding its social performance in its operational manual.</li> </ul>
Dissemination (D)	Observance (O)
<ul style="list-style-type: none"> <li>✓ Bandhan’s staffs are aware of the target clients who are mainly from low income category.</li> </ul>	<ul style="list-style-type: none"> <li>✓ Bandhan makes significant monetary contributions to its parent NGO – Bandhan Konnagar.</li> <li>✓ Through Bandhan Konnagar, the organization has made efforts to intervene in areas related to health, education and livelihoods to positively impact its clients</li> </ul>

Bandhan’s board has eight directors of whom six are independent. There is an audit committee of the board that provides directions to the internal audit in the organization. The organization makes significant monetary contributions to Bandhan Konnagar, which is implementing several projects in the area of health, education and livelihoods. It is worth mentioning that Bandhan started its microfinance operations under Bandhan Konnagar before these operations were transferred to Bandhan Financial Services Pvt Ltd, the NBFC. Bandhan Konnagar, at present focuses on initiatives in the areas of health, education and livelihoods.

Bandhan Konnagar has a separate organizational structure and has over 200 staff members. The important projects being undertaken are:

1. Targeting the hard core poor, with support from Axis Bank foundation. Under this program the beneficiary is donated a productive asset and is helped with market access so that she can earn and make a living. Bandhan has provided this support to over 10,000 households.
2. Bandhan health program. This is an initiative to raise awareness of health issues through a large team of trained health volunteers drawn from the local communities. Bandhan has so far trained over 1,500 health volunteers and reached out to over 380,000 under this initiative.
3. Other social initiatives include Bandhan education program and employing the unemployed program.

**Annexure 1: Matrix of Score Obtained<sup>3</sup>**

Indicators	A		Do		Ds		O		Total*	
	Max	Obt	Max	Obt	Max	Obt	Max	Obt	Max	Obt
Client origination and targeting	5	4.0	5	5.0	5	4.9	9	7.0	24	20.9
Loan Pricing	3	3.0	1	1.0	2	2.0	9	7.8	15	13.8
Loan Appraisal	4	3.0	4	2.5	3	3.0	5	3.2	16	11.7
Client Data Security	1	1.0	3	2.0	2	2.0	2	2.0	8	7.0
Staff Conduct	7	7.0	7	7.0	10	10.0	11	10.3	35	34.3
Client Relationship and Feedback	2	2.0	8	6.0	6	6.0	10	9.8	26	23.8
Integrating Social Values into Operations	3	3.0	3	3.0	3	3.0	5	4.8	14	13.8
<b>Total*</b>	<b>25</b>	<b>23.0</b>	<b>31</b>	<b>26.5</b>	<b>31</b>	<b>30.9</b>	<b>51</b>	<b>44.9</b>	<b>138</b>	<b>125.3</b>

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

\*Totals have been rounded to one place of decimal.

<sup>3</sup> ADDO © Prime M2i Consulting Private Limited

**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 138 indicators<sup>4</sup> were developed across these dimensions, so that subjectivity in measurement could be minimized. The numbers of indicators for each dimension are presented below.

<b>Dimension</b>	<b>Nos. of Indicators</b>
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	14
<b>Total</b>	<b>138</b>

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

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

**Illustration**

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

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

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

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

<sup>4</sup> Integrating Social Values into Operations with 14 indicators was added to tool in September 2012.

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	Maslandpur	West Bengal	24
2	Baduria	West Bengal	6
3	Baguihati, Kolkata	West Bengal	48
4	Narayanpur, Kolkata	West Bengal	22
5	Nandnagri	Delhi	19
6	Bulandsahar	UP	18
7	Sonepat	Haryana	15
8	Panipat*	Haryana	0
9	Anand	Gujarat	37
10	Ahmadabad	Gujarat	6
11	Ujjain	Madhya Pradesh	19
12	Indore	Madhya Pradesh	7
<b>Total</b>			<b>221</b>

\*The assessment team visited the Panipat branch. It could however, not interview any clients there.

## 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	4%	4%	4%	7%	<b>19%</b>
Loan Pricing	2%	1%	1%	7%	<b>11%</b>
Loan Appraisal	3%	3%	2%	4%	<b>12%</b>
Client Data Security	1%	2%	1%	1%	<b>5%</b>
Staff Conduct	5%	5%	7%	8%	<b>25%</b>
Client Relationship and Feedback	1%	6%	4%	7%	<b>18%</b>
Integrating Social Values into Operations	2%	2%	2%	4%	<b>10%</b>
<b>Totals</b>	<b>18%</b>	<b>23%</b>	<b>21%</b>	<b>38%</b>	<b>100%</b>

## 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.