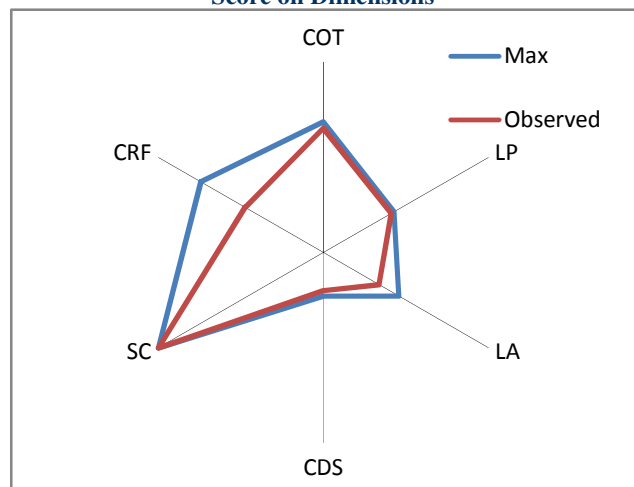


**ASA International India Microfinance Pvt Ltd**

**Kolkata, India**

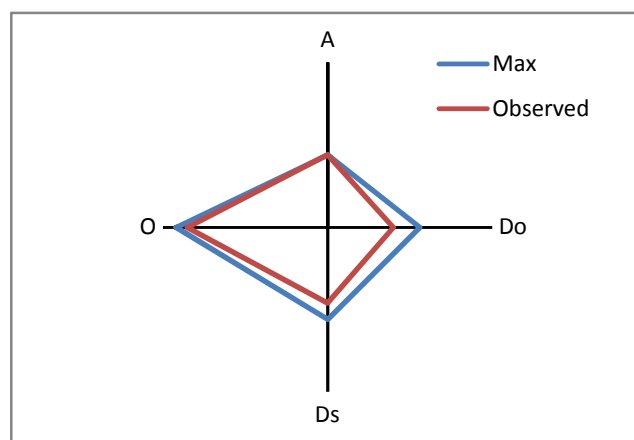
**Composite COCA Score: 87%, Very high level of adherence**

**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**

ASA gets a high composite score on account of its performance on staff conduct, loan pricing, client data security and client origination. It has a scope to improve its loan appraisal and client relationship and feedback systems.

**Highlights**

- ASA’s lending policies and operational processes are designed in way that prevents stress from creeping up between its field staff and clients.
- ASA transparently communicates its interest rates to its clients. It also provides a detailed comparison of the flat interest rates with their diminishing balance equivalents to its clients.
- ASA has made efforts to rule out the possibility of manipulation by informal agents through clear communications to clients in the local language.
- ASA informs its clients on the perils of over-indebtedness through leaflets provided to each of them.








**Areas of improvement**






- ASA needs to better document its processes regarding handling of client complaints and the time frames in which such complaints should be handled. This also needs to come under the scope of internal audit.
- ASA needs to provide training to its field staff on loan appraisal, particularly the need to link the clients’ household cash-flows, including those that pertain to their borrowings, while determining clients’ debt capacities.

**Code of Conduct Assessment Compliance Assessment Tool**

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

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

Code of Conduct dimensions	Maximum	Observed	%
 Client Origination and Targeting	24	23	95%
 Loan Pricing	15	14	96%
 Loan Appraisal	16	12	74%
 Client Data Security	8	7	88%
 Staff Conduct	35	35	100%
 Client Relationship and Feedback	26	17	64%
 <b>Total</b>	<b>124</b>	<b>108</b>	<b>87%</b>

Compliance parameters	Maximum	Observed	%
 Approval	22	22	100%
 Documentation	28	20	71%
 Dissemination	28	23	82%
 Observance	46	43	93%
 <b>Total</b>	<b>124</b>	<b>108</b>	<b>87%</b>

MFI's profile	
Name of the MFI	ASA International India Microfinance Private Limited
Legal form	Non Banking Financial Company (NBFC)
Operational Head	Mr Kalyan Mitra
Year of starting microfinance	2008
Branches	265
Operational area	3 States
Total number of staff involved in microfinance	1,411
Visit of the Assessment team	04/04/2011 to 09/04/2011 ASA International India, IB-163, Salt Lake City, Sector III, Kolkata – 700106,
Correspondence address	<a href="http://www.asa-international.com/india.htm">http://www.asa-international.com/india.htm</a> <a href="http://www.asaindia.org/">http:// www.asaindia.org/</a>

<sup>1</sup> 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

ASA's microfinance methodology primarily involves lending to women who organize themselves in groups of between 10 and 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. This methodology has been adopted by several MFIs across the world and is popularly known as ASA model.

### Details of the loan products

Product	Description	Loan size (Rs)	APR <sup>1</sup>	EIR <sup>2</sup>	% in portfolio
Microloan	These loans are provided to women-members of ASA's groups. Loans are repayable in 45 equal weekly installments of principal along with interest which is charged at 12.5% flat. An upfront fees of 1% is charged along with a security deposit of 5%.	5,000-15,000	29.05%	32.09%	98.3%
Business Loan	These loans carry an interest rate of 15% and are repayable in 12, 18 or 24 months. The refundable security deposit is 10% for these loans. These loans can be given to men too.	30,000-50,000	28.60%	32.06%	1.1%

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

Key facts and figures			
Parameters	Mar-09	Mar-10	Sep-10
Active borrowers	76,264	156,001	292,978
Number of branches	50	181	265
Number of states	1	1	3
Total staff involved in microfinance	239	835	1411
Portfolio outstanding (Rs mn)	328.51	869.42	1520.30
Amount of loans disbursed (Rs mn)	599.30	1,498.87	2,868.86**
PAR <sub>60</sub>	0.1%	0.5%	1%
Yield on Portfolio (YoP)	24.65%	24.33%	NA
Operating Self-Sufficiency (OSS)	215.87%	191.49%	129.73%
Return on Assets (RoA)	7.17%	5.73%	NA

\*Disbursement during the full year

\*\*Disbursement during the half year.

Equity Structure	
Shareholder	% stake in the company
Proswift Consultancy Pvt Ltd	24.99%
ASA-International Holding	74.99%
Others	0.01%
<b>TOTAL:</b>	<b>100%</b>

Profile of the Board of Directors	
Name	Profile
Mr Chander Mohan Vasudev	IAS, Independent Director
Mr Partha Ranjan Das Gupta	Independent Director
Mr Ashok Ranjan Samal	Nominee Director, SIDBI
Mr Kalyan Mitra	Managing Director, ASA International India
Mr Dirk Machgielis Brouwer	CEO, ASA International Europe, Founder Sequoia partners
Mr Berhanu Wolde Yohanne	Group Treasurer, ASA International Europe
Md Shafiqul Haque Choudhury	Founder and President, ASA International
Md Enamul Haque	COO, ASA International
Mr Shubash Chandra Pal	Company Secretary

## Section 2: Observations

### 2.1 Client Origination and Targeting (COT)

Observed score 95%



*ASA gets a high score on COT because it has put in place a system that ensures that eligible clients are enrolled and provides strong checks against presence of informal agents.*

ASA's branch managers survey new areas where they plan to start operations. This survey focuses on the supporting infrastructure in the area, accessibility, density of population, level of economic activities. The extent of presence and experience of other MFIs in the area are also considered. ASA started operations in 2008 and there were multiple MFIs operating in South and Central West Bengal when ASA first commenced its operations. Initially ASA focused on operating in those areas that had high client density for viable microfinance. However, these were also those areas where other MFIs had been operating. Subsequently, ASA has been trying to reach out to places which have limited presence of MFIs such as North Bengal and Assam.

ASA follows an elaborate process of client origination. Two to three meetings are held with potential clients. During the meetings the clients are informed about ASA's products and processes. They are advised to form into groups. The minimum number of clients required for the formation of a group is ten. New members are admitted to the group till the time group size reaches 30. At the time of group formation a group resolution register is prepared. The register has information such as repayment term terms, interest rate on a flat as well as reducing balance basis, and the upfront interest charged. ASA collect identity and address proofs from its clients. The branch managers also make visits to the clients' residences in order to ensure that the clients' identities can be established.

ASA's loan officers are expected to serve around 500 clients on an average. The organization's policy is to ensure that the work load of the loan officers is reasonable and they perform their tasks effectively. There is no monetary incentive for client origination. The organization is aware of the prevalence of informal agents in the field and actively communicates with its clients to avoid their involvement. Before enrolment all clients are provided with a leaflet which contains a number of cautions for clients. The foremost among these is regarding informal agents – the fact that ASA does not have agents and does not pay commissions, and clients should make payments only to authorized staff of ASA. The leaflet also encourages clients to deploy their loans in productive activities. In addition to this the leaflet also contains a letter written by a daughter to her mother regarding the perils of over-borrowing.

Approval (A)	Documentation (D)	Dissemination (D)	Observance (O)
<p>ASA's policy is not to be the third or later lender to any of its clients.</p>	<p>The operational manual provides guidelines on how to identify clients and choose area of operations. It also states clearly the documentation to be collected from the clients.</p>	<p>ASA provides training to its entire staff which include processes to be followed for originating clients. Each of the branches visited was found to have the operations manual readily available.</p>	<p>During the initial days, many of the areas that ASA chose to start its operations in already had significant presence of MFIs. ASA has now been focusing on starting operations in those areas which are relatively underserved such as North West Bengal and Assam. We did not come across any evidence of the presence of informal agents during our assessment.</p>

## 2.2 Loan Pricing (LP)

Observed score 96% 

*ASA gets a high score on pricing as it has made efforts to ensure that the clients are aware of the cost of their borrowing and are able to make informed comparison between flat interest rates and diminishing balance interest rates.*

ASA India offers two products – microloans (Rs 5,000 – Rs 15,000) payable in 45 installments, comprising 98.34% of the portfolio and small business loans (Rs 30,000 – Rs 50,000) payable in 12, 18 or 24 months, and comprising 1.56% of the portfolio. The interest rate on microloans is 12.5% flat, equivalent to 27.22% annually diminishing and on business loans it is 15% flat, equivalent to 29% on an annual diminishing basis. While typically the loan officers communicate the flat interest to the clients for the ease of understanding, they also inform the clients about the equivalent diminishing balance interest rates. Moreover, the comparison of the flat and diminishing balance interest rate is pasted in the group resolution register. Although around 40% of the clients interviewed could recall the diminishing balance interest rate, all of them said that they had seen the interest rate comparison in the group resolution register.

Some of the loan officers interviewed were not completely aware of the equivalent diminishing balance interest rates and had to refer to leaflets, which had the interest rate comparisons, in order to tell the equivalent interest rates to assessment team. ASA accounts for interest collected from the clients on an accrual, diminishing balance, basis.

### Upfront fees and deposits

ASA charges 1% as upfront fees on all loans. A refundable deposit of 5% for microloans and 10% for small business loans is also collected upfront. It is communicated to the borrowers that in case of death of the borrower or her spouse, the outstanding is waived off. Also, the upfront deposit is returned to the client's nominee.

### Late payment charges and penalties

Total amount to be paid by the client remains the same even if there is delay in payment. No additional interest is charged in case the actual loan duration exceeds the contracted loan duration. No penalty is charged for late payment or for overdue.

### Prepayment charges

In case the loan is prepaid, only the outstanding principal amount is collected. The interest on the prepaid amount is not collected.

Approval (A)	Documentation (D)	Dissemination (D)	Observance (O)
<p>ASA's policy is to charge a rate of interest which allows sustainable operations and to transparently disclose it to all its clients.</p>	<p>ASA's interest rates are documented in leaflets which are widely available to staff as well as clients. A detailed comparison of the flat and reducing balance rate is made in these leaflets.</p>	<p>Some of the staff interviewed were not aware of the equivalent reducing rates and had to look at the leaflets in order to state the diminishing rate of interest.</p>	<p>A significant proportion of clients were aware of the flat as well as the reducing rates of interest in South 24 Parganas, North 24 Parganas and Kolkata. However, clients were only aware of the flat rate of interest in the Siliguri region. The leaflet with the comparison of flat and diminishing balance rates were found in all group resolution registers.</p>



### 2.3 Loan Appraisal (LA)

Observed score 74% 

*ASA scores reasonably on LA because loan appraisal was found to be diligently done and internal audit performs check on loan appraisal carried out at the branches. This score may improve if ASA links its loan sizes to the cash flows of the clients.*

The branch managers are responsible for loan appraisal at ASA. The loan officers fill up the loan application forms and obtain client signatures on them. The existing loan application forms include formats for collection of data on the household incomes and expenses of the clients. The loan application forms also include formats for recording data on whether the clients have obtained loans from other sources. It was observed that the household income and expenditure as well as indebtedness data had been meticulously recorded in the loan application forms and these matched with the data collected during our primary survey.

While the loan officers collect information regarding potential clients through the loan application forms, the branch managers visit the clients in order to determine the genuineness of these applications. Whether appropriate loan appraisal has been performed or not, also forms part of the internal audit checklist.

It was found in some of the cases (4% of the sample) that the monthly installment burden of the clients from all the loans they had taken was greater than the surplus of their reported household incomes over household expenses. While these clients may be able to repay the loans from the surpluses generated by the productive utilization of these loans, such surpluses are uncertain and involve risks. In case, the clients are not successful in generating sufficient cash-flows on the investments from the loans they have taken, repayment of loans may bring them under financial stress (see case-let below).

#### **Caselet: Shampa (Sonarpur branch, Pakhi group)**

Shampa has borrowed Rs 10,000 from ASA in mid 2010. During the interview, she revealed that she had taken another loan of Rs 40,000 from another MFI operating in the region. The monthly surplus of her household after accounting for expenses is around Rs 2,000, while her monthly installment burden is Rs 5,000. The assessment team found that the household income and expense recorded in her loan application matched with the information collected by the team. It was also found that she had two outstanding loans (with total principal value of Rs 24,000) at the time ASA disbursed her loan, which she had subsequently paid back. Shampa's borrowing has been disproportionate to her household income and she risks falling in a debt trap.

Approval (A)	Documentation (D)	Dissemination (D)	Observance (O)
<p>ASA's policy is to appraise loan applications on the basis of household income and expense and indebtedness.</p>	<p>ASA's loan application formats provide for collection of information on household incomes and expenses, as well as other borrowings.</p>	<p>Field staffs have received training on filling up the loan forms and accurately representing income, expenses and indebtedness of potential clients. However, they may need training on linking household cashflows with debt capacity of clients.</p>	<p>The income, expense and indebtedness information had been meticulously filled up in the loan application forms. In some cases we observed that the total monthly installments of clients were greater than the surplus of their household incomes over expenses.</p>

**2.4 Client Data Security (CDS)**

**Observed score 88%** 

*ASA gets a high score on CDS because it has systems to ensure that sensitive client data are adequately protected against unauthorized access.*

ASA maintains the physical records of clients' data in its branches. The loan documents are bound together and filed monthly. These documents are stored with reasonable care which prevents unauthorized access. A sample of randomly selected loan files is used during Internal Audit, which checks for safe storage and timely retrieval of these files. All the documents requested by the assessment team could be retrieved by ASA promptly. Important client data is also entered in the ASA Microfinance Management System (AMMS). The access rights to AMMS are well defined and it should ensure adequate security for sensitive data.

Approval (A)	Documentation (D)	Dissemination (D)	Observance (O)
ASA's policy requires client data to be stored safely.	The storage and filing of loan forms and KYC documents is standard and guided by circulars issued by HO. Access rights for the software have been decided by the MIS team based on consultation with the senior management.	There is a high level of awareness at the branches regarding how clients' data need to be stored.	Loan documents were found to be bound and stored at the branches. They could be retrieved promptly.

## 2.5 Staff Conduct (SC)

Observed score 100% 

*ASA's policies encourage sound staff conduct with clients. The processes are designed to minimize instances which can cause stress between loan officers and clients. It receives a high score on Staff Conduct on account of these factors.*

Trust, transparency and integrity are ASA's core values. This translates into a strong focus on cordial engagement with clients under all circumstances. ASA has a fair practices code that has been sent to all its branches as a set of circulars. All the branches visited had received these circulars and the staff members interviewed were found to be aware of the salient principles contained in these circulars.

The salient principles of the fair practices guidelines of the organization include:

1. Clients and their family members should be addressed in a very polite manner at all times including during recovery of overdue amounts;
2. While following up on overdue clients, field staff need to display empathy with the problems that the clients may be facing;
3. Loan officers and other field staff should not remain in the field after 6 pm;
4. Staff members should respect clients' time. They should arrive for meetings in advance and should not keep clients waiting even when full repayment has not been received.

The expected behavior from staff members towards staff members is also inculcated through compulsory Pre Service Orientation (PSO) training provided to all the staff members. All the staff members interviewed had participated in PSO trainings. In addition to the PSO trainings, refresher trainings are conducted to reinforce sound operational management and client relationship practices. Some design aspects of the organization ensure that the loan officers do not have excessive work load and are able to devote sufficient time in order to build sustainable relationship with clients. The organization does not provide monetary incentives to the loan officers for ensuring cent percent on-time repayment and achieving high client enrolments. Loan disbursements are made at the branch offices and repayments are collected by the loan officers during the weekly meetings.

A client can avail up-to three repayment holidays in case she faces difficulties. In case the client is unable to make payments beyond this period, ASA does not insist that the shortfall in the repayment should be made good by the other members of her group. Instead, the organization has a provision for rescheduling of such loans on a case to case basis. Such instances are brought to the notice of the senior management which can take decisions to reschedule such loans (see case-let below).

### **Caselet: Amina Begum (Roza group, Shyam Bazar branch, Kolkata)**

Amina Begum had borrowed Rs 10,000 from ASA in November 2009. She and her husband, Salim, are artisans involved in zari craft. This loan carried a weekly installment of Rs 250. Within a month of having taken the loan, her husband had an accident in which he lost both his legs. As a result of this accident and the expenditures incurred in hospitalization and treatment, she was unable to make repayments. ASA's staff along with some members of her

group visited Amina and inquired about the well being of her family. It was decided that repayments would not be collected from Amina till the time the condition of her family improved. Amina started repaying Rs 100 from July 2010 to ASA, as her income had stabilized somewhat by then. Gradually her situation improved, and from February 2011, she has been paying Rs 250 on a weekly basis. As on 31 March 2011, her outstanding loan and interest liability towards ASA was Rs 5,050. ASA would be collecting a total sum of Rs 11,250 from Amina as originally contracted. ASA has neither imposed any penalty nor charged extra interest in absolute terms, for the delay in repayment.

None of the clients interviewed reported any misbehavior by any ASA staff. We did not come across any evidence of involvement of informal agents and none of the clients revealed making irregular payments at any time. All payments made by clients were found to be duly acknowledged.

<b>Approval (A)</b>	<b>Documentation (D)</b>	<b>Dissemination (D)</b>	<b>Observance (O)</b>
ASA has approved fair practices codes that make it necessary for its staff member to treat clients with respect and dignity.	The fair practices codes have been documented in circulars issued by the organization.	The fair practices circulars have been sent to all the branches. Staff members display a high level of awareness regarding expected fair practices.	We did not come across any case of misconduct or fraud during interviews with the clients.

**2.6 Client Relationship and Feedback (CRF)**

**Observed score 64%**

*ASA gets a moderate score on CRF because it is still evolving an effective system of collecting client feedback and addressing complaints. This score may improve if ASA puts in place a system of independent checks on how effectively client complaints are resolved.*

ASA’s policy requires the organization build sustainable relationships with its clients. It has made efforts at creating financial awareness among its clients. The leaflet that ASA provides to its clients has been an effective source of communication to its clients. The clients interviewed reported a high level of satisfaction with ASA’s field staff. All of them were aware of ASA’s name and the location of its local branch office. The leaflet ASA provides to its clients contains a helpline number. All except one of the client in the sample revealed that they had received this leaflet. Most of them were also aware of how to proceed in case they had suggestions or complaints for ASA.

ASA is evolving an effective feedback mechanism. It has a system of placing complaint boxes in all its branches. The assessment team found that the complaint boxes had been placed outside each of the branches visited. The regional manager keeps the keys of the complaint boxes in his operational area. The complaint boxes are opened once a month and the complaints received are discussed with the respective branch manager. However, the regional managers do not maintain a record of the complaints received. The calls made at the helpline number go to ASA’s head office in Kolkata. There is a dedicated staff who receives these calls and records the complaints received in a register. Depending on the nature of the complaints, these are passed on to the relevant authorities for follow-up. The resolution of the complaint is also maintained in the register. The existing operational manual do not present clear step by step guidelines on how to proceed once the complaints have been received. Also, the complaint redress mechanism does not form a part of the internal audit checklist at ASA. While the responsibility of resolving client complaint rests with primarily the operations team, the organization is yet to evolve a mechanism of independently assessing the effective resolution of the complaints.

Approval (A)	Documentation (D)	Dissemination (D)	Observance (O)
ASA’s policy is to develop sustainable relationships with its clients.	Although help line numbers have been printed in leaflets which have been widely circulated, the process of proceeding in case of client complaints including recording such complaints by the regional manager needs to be evolved and documented.	ASA needs to provide training to its field staff on how to proceed in case complaints are received so that these are addressed well. The guidelines pertaining to complaint redressal also need to be widely circulated.	Clients had been provided leaflets which had a help line number. The calls made to this number and the action taken upon these have been recorded at the head office. However, the regional managers have not been recording complaints received through complaint boxes places in the branches. Also, at present the internal audit checklists do not provide for audit checks on complaints made by borrowers through complaint boxes or calls to helpline numbers.

## **2.7 Opinion of important stakeholders**

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

**Annexure 1: Matrix of Score Obtained**

Indicators	A		Do		Ds		O		Total	
	Max	Obt	Max	Obt	Max	Obt	Max	Obt	Max	Obt
Client origination and targeting	5	5	5	5	5	5	9	8	24	23
Loan Pricing	3	3	1	1	2	2	9	8	15	14
Loan Appraisal	4	4	4	2	3	1	5	5	16	12
Client Data Security	1	1	3	3	2	1	2	2	8	7
Staff Conduct	7	7	7	7	10	10	11	11	35	35
Client Relationship and Feedback	2	2	8	2	6	4	10	9	26	17
<b>Total</b>	<b>22</b>	<b>22</b>	<b>28</b>	<b>20</b>	<b>28</b>	<b>23</b>	<b>46</b>	<b>43</b>	<b>124</b>	<b>108</b>

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



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

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

<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

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

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

### Illustration

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

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

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

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

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

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

### Methodology

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

### Key Aspects

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

This exercise requires:

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

As part of this assessment, we visited 9 branches of ASA in West Bengal. The details of the branches visited are provided below.

Sr No	Branch	District	No of clients interviewed
1	Ghughumali	Darjeeling	30
2	Champasari	Darjeeling	32
3	Champasari	Darjeeling	23
4	Jalpaiguri-1	Jalpaiguri	43

5	Jalpaiguri-2	Jalpaiguri	0
6	Sonarpur	South 24 Parganas	24
7	Bashirhaat	North 24 Parganas	33
8	Baliaghata 1	Kolkata	23
9	Shyam Bazar	Kolkata	7

## 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.

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