



SMERA RATINGS LIMITED

**CODE OF CONDUCT
ASSESSMENT
FOR
BSS MICROFINANCE
PRIVATE LIMITED**

Date of Report - 28th February, 2014



EXECUTIVE SUMMARY

The Code of Conduct report for BSS MICROFINANCE PRIVATE LIMITED (BMPL) evaluates the company's adherence to various code of conduct parameters. The study examines and comments upon the common minimum indicators such as:

- Client Origination & Targeting
- Loan Pricing & Transparency
- Loan Appraisal
- Privacy of Client Information
- Staff Behaviour & Client Grievance Handling
- Integrating Social Values Into Operations
- Relationship Management and Feedback Mechanism
- Compliance Status of MFI vis-à-vis the Recent RBI Guidelines

SMERA believes that BMPL exhibits an **above average level of adherence** to all parameters and consequently complies well with the code of conduct laid out. This document details SMERA's approach and methodology for this study and gives observations of its assessment team while conducting the evaluation. The Approval; Documentation; Dissemination and Observance (ADDO) framework has been used for assessment and measuring BMPL's adherence towards ethical operational practices.

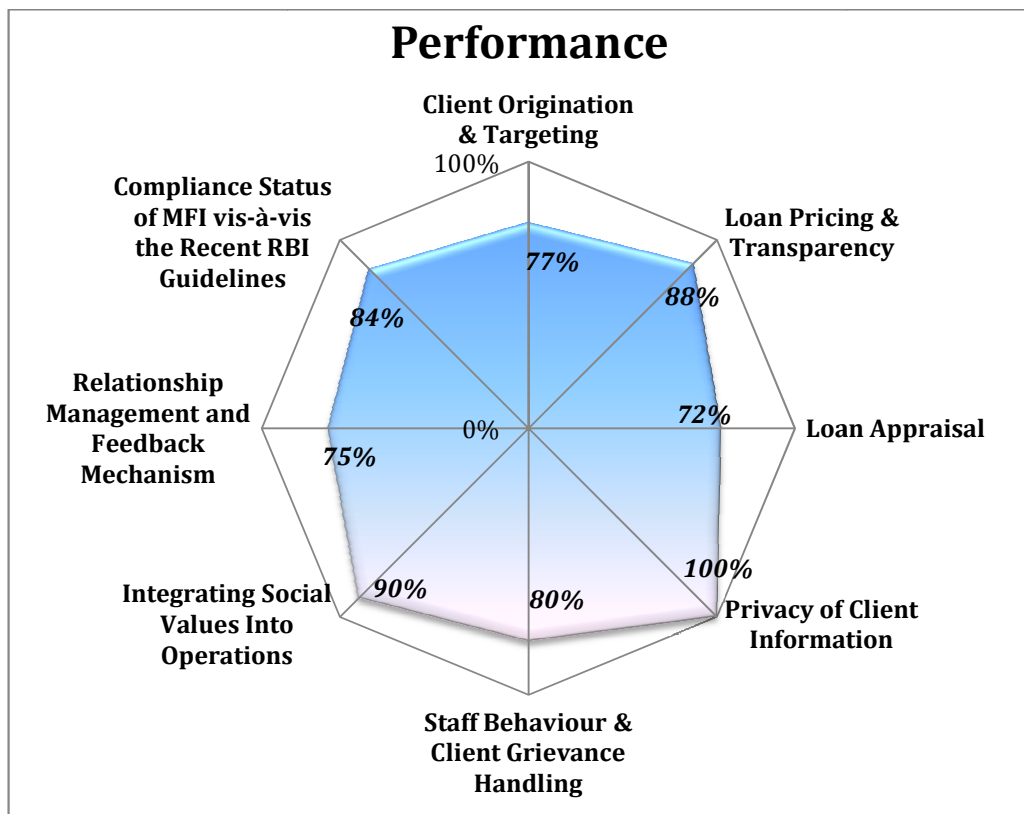
RATING

Code of Conduct Assessment Score : 81%,
COCA Rating - COCA 3 (Above Average Level of Adherence)

RATING SCALE

Rating	Rating Definition
COCA 1	Very High Level of Adherence
COCA 2	High Level of Adherence
COCA 3	Above Average Level of Adherence
COCA 4	Average Level of Adherence
COCA 5	Below Average Level of Adherence
COCA 6	Low Level of Adherence

MATRIX



**SCORES ON PARAMETERS**

Code of Conduct Parameters	Obtained	Maximum Score	% Performance
Client Origination & Targeting	17	22	77%
Loan Pricing & Transparency	14	16	88%
Loan Appraisal	13	18	72%
Privacy of Client Information	8	8	100%
Staff Behaviour & Client Grievance Handling	28	35	80%
Integrating Social Values Into Operations	9	10	90%
Relationship Management and Feedback Mechanism	21	28	75%
Compliance Status of MFI vis-à-vis the Recent RBI Guidelines	27	32	84%

**SNAPSHOT**

D&B D-U-N-S® Number	87-120-5247
MFI Name	BSS MICROFINANCE PRIVATE LIMITED
Tradesytle	BMPL
Head Office Address	No. 11, 2 nd Block, 2 nd Stage, Outer Ring Road, Near BDA Complex, Nagarabhavi Layout, Bengaluru - 560 072 Karnataka India
Telephone	(91) (80) (65732387) (91) (80) (32711266)
Fax	(91) (80) (23188349) (91) (80) (23188350)
Webpage	www.bssmicrofinance.co.in
Email	swamukti@swamukti.com bss@bssmicrofinance.co.in
Line of Business	Microfinance services under Joint Liability Group (JLG) Model
Chief Executive	Dr. Ramesh Bellamkonda, Managing Director
Legal Form	Non-Deposit Taking Non-Banking Finance Company (NBFC) Microfinance Institution (MFI)
Incorporation Date	05/Apr/1994
Management Takeover Year	2007
Date of Commencement of Microfinance Operations	01/Apr/2008
Company Registration Number	U74899KA1994PTC049746
RBI Registration Number	B-02.00232
Total Employees	408
No. of Active Branches	67
Geographical Reach	Karnataka & Maharashtra (2 States)
Visit of the Assessment Team	20 th February, 2014 to 24 th February, 2014



BACKGROUND

Dr. Ramesh Bellamkonda, medical doctor (Gastro-enterologist) by profession was in practice in the United States till March, 1997. During the 21 plus years that he had spent in the United States, he was deeply troubled by the fact that India was one of the poorest in the world. He was looking for a practical way to involve himself full time to eventually do large scale poverty alleviation in India.

In the year 1997, Dr. Ramesh Bellamkonda quit his practice. Upon his request, a registered public charitable trust "Bharatha Swamukti Samsthe" registered under the Indian Trust Act, 1982 was started in 1997 for the purpose of doing large scale poverty alleviation work in India and he has been in-charge of running the day to day affairs of the trust since its inception.

The promoters of Bharatha Swamukti Samsthe Trust acquired Delhi based NBFC, "Oyster Capitals Private Limited" in the year 2007, subsequently Dr. Ramesh Bellamkonda had become the managing director. Later in the year 2008, name of the company was changed to "BSS Microfinance Private Limited (BMPL)" and the microfinance operations of the trust were taken over by the BMPL.

BMPL operations are spread in two states namely Karnataka & Maharashtra with the mission to do large scale poverty alleviation by providing micro-finance services to poor women, and through them to their families, facilitating increased earnings, better money management, and life quality improvement

Majority loan portfolio of BMPL is maintained at Karnataka state. Currently BMPL operations are running through sixty seven active field offices (FO). Seven FOs were closed in May, 2013 by transferring the members with their outstandings to the nearby FOs.

BMPL is having membership of Sa-Dhan and Association of Karnataka Microfinance Institutions (AKMI).



Business Model

Loan Products

BMPL follows sub-group based lending approach with a joint liability within the center. The sub-group consists of five members, to open a new center, there must be minimum 2 sub-groups are compulsory, later there can be up to maximum 6 sub-groups. First loan from BMPL is given only for the income generation activities. Second loan onwards member can utilize maximum 25% of loan amount for the life quality improvement activities.

Repayment Frequency	Fortnightly Repayment			Weekly Repayment	Monthly Repayment
	Product - 1	Product - 2	Product - 3	Product - 4	Product - 5
Loan Products	Long Duration - Fortnightly General Loan (LD - FGL)	Long Duration - Fortnightly Supplementary Loan (LD - FSL)	Fortnightly General Loan (FGL - 18)	Weekly General Loan (WGL)	Monthly General Loan (MGL)
Loan Term/Duration	53 Fortnights (A little over 24 months)	54 Fortnights (A little over 24 months)	18 Fortnights (Approx 9 months)	50 Weeks (Approx 12 months)	12 months
Loan Size	Max ₹ 30,000	Max ₹ 15,000	₹ 5,000 Fixed	₹ 6,000 Fixed	₹ 6,000 Fixed
Interest Rate	26% per annum on diminishing balance method with Fortnightly rest (Rounded to nearest rupee)				
Loan Processing Fee	01% on the disbursed loan amount plus applicable service tax. (rounded to next rupee)				
	Prepayment Charges & Onetime Membership Fee : Nil				



OBJECTIVE OF THE STUDY

The objective is to evaluate BMPL's adherence to the code of conduct laid down by Sa-dhan and MFIN,

The broad parameters for assessing the Code of Conduct are as follows

- Client Origination & Targeting
- Loan Pricing & Transparency
- Loan Appraisal
- Privacy of Client Information
- Staff Behaviour & Client Grievance Handling
- Integrating Social Values into Operations
- Relationship Management and Feedback Mechanism
- Compliance Status of MFI vis-à-vis the Recent RBI Guidelines



FRAMEWORK AND SCOPE

The current perception surrounding Indian microfinance paints all entities across the sector in the same shade. However the fact that microfinance organizations display significant variations is important and needs to be adequately brought out. SMERA has always comprehensively and holistically assessed the risks involved in MFI operations and the resultant social impact of MFI operations.

Besides evaluating creditworthiness of MFIs, SMERA also assess trustworthiness, operational excellence, quality of loans of MFIs, socio-economic impact and MFIs emphasis towards ethical behavior and responsible lending.

SMERA has used the following framework for assessment of MFIs - The Approval; Documentation; Dissemination and Observance (ADDO) framework for measuring adherence of MFIs towards ethical operational practices.

As part of the assessment, SMERA visited 09 branches of BMPL in Karnataka. The assessment was conducted as per a specific methodology and questionnaire.

**BOARD OF DIRECTORS**

List of Board of Directors		Board Appointment date
Dr. Ramesh Bellamkonda	Managing Director	05/Apr/2007
Sri. K. S. Nagendra	Director	05/Apr/2007
Sri. Panchakshari S.	Executive Director	10/Feb/2010
Smt. Kavitha P. B.	Executive Director	10/Feb/2010
Sri. CA Kumar S.	Executive Director	10/Aug/2013
Sri Krishna Kumar Bellamkonda	Director	30/May/2008
Sri. Vijay Nath Bhat	Professional Director	23/Oct/2010
Sri. V. Nagaraja	Professional Director	23/Oct/2010
Sr. A. Ramanathan	Professional Director	30/Sep/2011

**HIGHLIGHT OF OPERATIONS**

Particulars	31/Mar/2011	31/Mar/2012	31/Mar/2013	31/Jan/2014
No. of states	2	2	2	2
No. of districts	21	19	17	17
No. of field offices	97	85	74	67
No. of sub-groups	54,078	39,755	37,240	30,411
No. of centers	13,699	11,455	9,389	8,319
No. of total members	238,152	185,728	152,640	139,260
No. of active borrowers	213,240	138,346	144,022	137,547
No. of active loans	242,267	141,496	154,909	193,089
No. of loans disbursed during the period	355,053	170,599	99,743	109,998
No. of total employees	916	647	437	408
No. of field staff	817	565	361	334
Loan disbursements during the period (₹ in thousands)	2,780,869	1,999,669	1,627,272	1,949,668
Net Loan portfolio outstanding (₹ in thousands)	1,148,878	1,249,782	1,592,132	2,208,828
Loan amount outstanding per active loan (In ₹)	4,742	8,833	10,278	11,439
Active borrowers per field staff	261	245	399	412

**CLIENT ORIGINATION & TARGETING****Score - 77 %**

Client origination is central to ethical microfinance operations. The code of conduct requires MFIs to practice ethical client origination while extending access to financial services. Also, an MFI's commitment to targeting low income clients demonstrates its social mission. The way an MFI identifies and grows its client base must be approved by the board. The board should also ensure that the MFI's product and services reach suitable clientele.

Center Manager (CM) is responsible for client origination in BMPL. BMPL conducts study of the potential new area and conducts survey on the basis of primary and secondary data of area to be entered. The criteria for selecting a new area for lending are: type of area (rural/semi-urban/urban), residential area for low-income groups, population density, proximity to existing operational areas, sources of income, socio-economic and political features, occupational activities, other loan sources, other MFI's in the area, etc.

Eligibility criteria for membership and group formation are: age, household income, availability of know your customer (KYC) documents, no family members in the same group, members belonging to same locality, willing to take group responsibility, majorly lending for income generation purposes only.

Once the area is selected, CM organizes orientation meeting to inform the members about BMPL, objective, product & services, lending methodology and group & centre formation, etc. CM forms sub-group of five members. The objective of center meeting is to educate the members on financial and non financial aspects such as product & services, interest rate structure, repayment schedule, group responsibilities, proper utilization of loan, prompt repayment, attendance, KYC documents etc.

Once the sub-group/center is formed, CM provides Compulsory Group Training (CGT) to members, duration of this training is 8 to 10 days approximately. CM also conducts the evaluation of the members to ascertain the eligibility of customers for taking loan and to obtain complete required information of each member. CM also visits the house of each member and fills the membership application form and collects KYC documents from the members and verifies the same with the original. CM will form a center which includes minimum 02 to maximum 06 sub-groups; each center selects their leader by themselves. CM requests the members to attend the group recognition test (GRT) to check whether the member's have understood the details provided during the CGT. *Membership form is capturing most of the data/details regarding the borrower & its family; however same has been filled only once that is at the time of joining the BMPL. There is no system for evaluate the same on timely basis. It was observed that one of the active center had filled their membership form in the year 2008, however no evaluation has been done thereafter.*



For a Know Your Customer (KYC) purpose BMPL is collecting photocopy of any one document issued by the government institutions containing photograph and date of birth of the member.

The identification of right target client, household income, and individual income is a challenge for BMPL. Targeting poor is the approach which BMPL follows. However, BMPL depends on self-declaration given by the clients rather than capturing an alternative source such as housing index or asset classification. *SMERA's assessment team has observed that few members of the BMPL were living in well constructed & furnished houses and income level was quite high, however annual household income declared in the loan application form is very less (As per example no.1).*

BMPL also takes self-declaration from the members for the loans availed from different MFIs / sources; however in few of the personal information form verified, the details were not provided by the members. BMPL has tie-up with "High Mark" RBI approved credit bureau for sharing clients' data to check the indebtedness of the members; hence indebtedness is promptly captured in the MIS system.

Staffs have been trained on how to apply this aspect of client origination and BMPL also provides an incentive to the CM on the basis of sub-group/center formation.

Example 1 – Mrs. Bhagirat, member of – Mysore II branch.

The borrower was availing two loans of ₹15,000 & ₹25,000 from BMPL. Assessment team has observed that she has been living in well constructed & furnished house and income level was quite high. However, in the loan application form annual household income declared by her was only ₹55,000.



Approval	Documentation	Dissemination	Observance
<ul style="list-style-type: none"> • BMPL has approved principles of ethically originating clients. This includes ensuring identity of clients before application of loans through appropriate documentary evidences and non-involvement of unauthorised agents in the client origination process. • For capturing annual household income BMPL depends on self-declaration given by the clients. 	<ul style="list-style-type: none"> • Policy document clearly specify the directions for obtaining KYC documents from client. The procedure for conducting center meeting and client origination is clearly laid out. • As per policy notes, capturing annual household income is mandatory, however no detailed directions for capturing annual household expenses. 	<ul style="list-style-type: none"> • BMPL has a moderate system of dissemination of its approved policies through training. 	<ul style="list-style-type: none"> • Interviewed Staff members were aware of the client origination process and products. • Annual household income declared by few of the borrowers in application form was less as compare to their standard of living observed, as per example no. 1.

Client Origination & Targeting	17	22
Approval	3	4
Documentation	2	3
Dissemination	4	5
Observance	8	10

**LOAN PRICING & TRANSPARENCY****Score - 88 %**

The transparency observed by the MFI in terms of pricing of loans is examined in detail. The pricing of loans covers interest rate, loan processing charges, additional charges taken if any, security deposits or advance installments, etc. Considering these costs while pricing the loans may change the effective interest rate charged to the clients. 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.

SMERA covers transparency by assessing honesty, communication, and accountability of the practices of MFI through sub parameters such as frequency of training given to clients, disclosure of terms and conditions of MFI, measuring awareness of the terms and conditions through client visit, language used in the disclosure and surprise visit conducted by the MFI staff.

Currently BMPL charges interest of 26% per annum on diminishing balance method with fortnightly rest (rounded to nearest rupee) for all the loan products with processing fee of 01% on the disbursed loan amount plus applicable service tax. (rounded to next rupee).

BMPL maintains high transparency in the interest rates charged to its clients. The organization discloses all terms & conditions of all financial products to the borrowers including interest rate on the loan and processing fees in written as well as verbal communication at the time of training. The details are printed on the loan passbook as well as on the loan disbursement voucher cum agreement copy (i.e. client copy) of the borrower in the regional language. *The assessment team of SMERA has observed in few cases that the borrowers were not aware of interest rate and other fees charged; however they were familiar with the installment amount.*

BMPL loan ranges from ₹ 5,000 to ₹ 30,000. The loan amount is depends on the loan cycle, repayment track record of previous loan and attendance of center meeting. There is no uniformity of loan amount within the group. According to its policy, BMPL does not charge any prepayment charges & onetime membership fees from its members.

Pre payment of loan is allowed in case a group or an individual wants to drop out or close their account. Further, an individual can pre close the loan but she will be liable for the loan availed by the other members till the end of the tenure. On the event of pre-payment; borrower has to pay interest due on the date of pre-payment along with the remaining principal amount.

Approval	Documentation	Dissemination	Observance
<ul style="list-style-type: none"> • BMPL board has approved principles of pricing loans and transparency in a responsible manner. 	<ul style="list-style-type: none"> • The loan pricing criteria and method of charging have been clearly documented in the loan policy document of the organization. 	<ul style="list-style-type: none"> • Interest rate and loan processing fee on the loans are mentioned clearly on the loan passbook & client copy provided to the borrower at the time of disbursement. • Borrowers are already informed about the interest rate & charges during the orientation meeting conducted by the CMs. 	<ul style="list-style-type: none"> • Awareness level of the borrowers about the interest rates and method of application and other charges was observed to be moderate. However, almost all the clients are aware of the installments size & duration. • Few of the borrowers were not aware of interest rate and other fees charged; however they were familiar with the installment amount.

Loan Pricing & Transparency	14	16
Approval	3	3
Documentation	1	1
Dissemination	2	2
Observance	8	10

**LOAN APPRAISAL****Score - 72 %**

The selection of the right kind of borrower and proper assessment is critical for the success of the MFI. The appraisal processes followed by the MFI, the checks and balances, know your customer (KYC) documents collected by the MFI to verify the genuineness of the borrowers, the process adopted by the MFI to avoid multiple lending / over-indebtedness and requirement of the loan are assessed in detail. The loan appraisal should take into account the repayment capacity of the clients given the loan sizes and the duration of the loan.

Loan appraisal is primarily the responsibility of the Center Manager (CM) and Field Office Manager (FOM). FOM conducts Group Recognition Test (GRT) to check whether members have understood the BMPL's loan product and loans are provided only after successful completion of GRT. In GRT, FOM seek clarifications on the dynamics of the group, credit mechanisms, organization products & services, terms & conditions, interest rate, purpose of loan etc. FOM visit member's residence to check the ownership of house, cross verification of personal information form.

After approval of center, CM fills application forms of eligible members and collects photocopy of mandatory KYC document after verifying it with original. Sub-group/center has an authority to approve, reduce or reject the loan amount of any member and to approve or disapprove the member's loan purpose. Loan applications received from the members have been sent to High Mark (Credit Bureau), after receiving verification report from High Mark eligible applications have been considered for loan disbursement.

BMPL has a policy of recording the annual household income of the borrower in the application form and the value of loan taken from BMPL and value of loan outstanding from other MFIs based on the information provided by the client. However, BMPL does not captured annual household expense of the borrower.

In field office, loans are approved or rejected by the loan sanction committee. The loan sanction committee (including FOM and all CMs of the respective branch) verifies all the loan forms along with KYC documents. They will approve the loan based on the points such as member's attendance, discipline, economic condition, details of loan taken from other financial sources, repayment capacity etc. At any time, the senior officers of the organization may verify the approved loan application. *SMERA's team came across few application forms where borrowers have availing two to three loans, however annual*



household income of the borrowers have mentioned quite low in the application forms as per example no. 2.

Once the loans are approved, the initial centre meeting is held, here the concerned CM intimates members about the sanction of loan, charges to be paid, etc.

The loans of BMPL are extended for income generation based on past repayment record and whether the borrower has sufficient i.e. minimum 75% attendance in center meetings. BMPL conduct loan utilization check (LUC) for all the loans. CM conducts compulsory LUC within next center meeting after disbursing the loan and senior officer also conducts the LUC on random basis, if there is any discrepancy observed then same has been mentioned in borrower's passbook. However, BMPL is not maintaining the same in any documented format. There is a field in the loan passbook to mention the purpose for which the loan has been taken; *however, it is observed that in few cases purpose of loan was wrongly mentioned in the loan pass book (As per example no 3 & 4).*

Loan disbursement takes place by way of cash in center meeting. BMPL has made it compulsory that members along with their guarantor should be present at the time of loan disbursements; further minimum 75% of members of the center should be present at the time of disbursement. BMPL collects the processing fees at the time of disbursement and also issues the receipt to the center for the same.

As per the policy; centre meeting, loan repayment and loan disbursement should be conducted at a designated place decided by the center members. BMPL issues 'loan passbooks' and 'loan disbursement voucher cum agreement copy (i.e. Client Copy)' to each borrower and informs them to keep the respective passbook and client copy with themselves at the time of sub-group formation; *however in some of the sub-group visited it was observed that the passbook of the borrowers were kept with the center leader. Further some of the borrowers have misplaced the client copy.*



Example 2 – Client no. 175-02-04, member of – Hosakote branch.

While going through loan file of above mentioned member, it was observed that she was having two ongoing loans of ₹ 25,000 & ₹ 12,000 from BMPL and one ongoing loan of ₹ 25,000 from other MFI. However, in the loan application form annual household income declared by her was only ₹44,000.

Example 3 – Mrs. Jeyamma, member of – Srirangapatana-II.

She was availing two loans of ₹ 25,000 & ₹ 10,000 from BMPL. Purpose for both the loan was mentioned as purchase of cow on loan passbook. However, she has utilized the second loan for animal feed and partially for agricultural activity.

Example 4 – Client no. 029-01-01, member of – Vijayapura branch

The borrower has availing two loans of ₹ 20,000 & ₹ 10,000 from BMPL and one loan from other MFI. Loan purpose was mentioned as purchase of bullock on loan passbook. However, during the discussion with the borrower it has observed that she has purchased two bullocks from first loan at ₹ 37,000 and additional funds she had arranged from its relatives. Further second loan from BMPL is taken for the repayment of debt taken from the relatives. However field staff was also unaware of the same.



Approval	Documentation	Dissemination	Observance
<ul style="list-style-type: none"> • BMPL policy requires that adequate loan appraisal could be performed before disbursing a loan and proper examine of the repayment capacity of the borrowers. • BMPL have a policy to check multiple lending / indebtedness of the borrower through credit bureau check. • BMPL does not have any policy to maintain records regarding loan utilization check in documented form. 	<ul style="list-style-type: none"> • The guidelines for appraising a loan application are clearly documented in the loan policy document. Information pertaining to income, purpose of loan, savings and loan taken from other source is obtained at the time of membership form / loan application. • BMPL does not have particular format to capture LUC details. 	<ul style="list-style-type: none"> • The branch staffs were found to be aware of how to conduct the loan appraisal and LUC as per the guidelines. However, LUC was not conducted adequately in few cases. 	<ul style="list-style-type: none"> • All the loan applications verified contained details of annual household income; however the details pertaining to annual household income were not captured in application forms. • CM conducts compulsory LUC within next center meeting after disbursing the loan and senior officer also conducts the LUC on random basis. • It is observed that in few cases purpose of loan was wrongly mentioned in the loan pass book. • Few borrowers have availing two to three loans, however annual household income of the borrowers have mentioned quite low in the application forms.

Loan Appraisal	13	18
Approval	4	5
Documentation	3	4
Dissemination	2	3
Observance	4	6



PRIVACY OF CLIENT INFORMATION

Score - 100 %

Client confidentiality is an important function of any organization. MFI collects personal information about its clients that is either required or necessary to provide with financial products or services. The MFI should not disclose or misuse non-public personal information to affiliates or non-affiliated third parties, except as permitted by law or client privacy policy disclosure. For this, SMERA assessed whether MFI maintains physical, electronic and procedural safeguards for the client information.

BMPL has an adequate system of storage and retrieval of documents and information collected from the clients. The files containing documents and members profile are kept at the respective branches. The relevant data is entered into the MIS software “Kredits” at branch level, which has well defined access rights by the staff who have their individual user ID and password. As per designation, access to the certain data is provided to the staff of the branch.

Approval	Documentation	Dissemination	Observance
<ul style="list-style-type: none"> BMPL’s policy requires that the information received from the clients is stored properly and unauthorised access is prohibited. 	<ul style="list-style-type: none"> BMPL provided adequate guidelines on how the client documents and information has to be recorded and files have to be stored. 	<ul style="list-style-type: none"> All the branches visited displayed consistent awareness of data storage processes. 	<ul style="list-style-type: none"> All the files are kept properly in all the branches. Branch staffs have access to entire data of client. Individual user ID and password is provided to Field Office staff as well as other members in MIS department at HO.

Client data security	8	8
Approval	1	1
Documentation	2	2
Dissemination	2	2
Observance	3	3

**STAFF BEHAVIOUR & CLIENT GRIEVANCE HANDLING****Score - 80 %**

This section evaluates the process of the MFI with respect to staff selection, appraisal and incentive mechanism, staff behavior with clients, effectiveness of the client grievance mechanism.

Staff Behaviour -

BMPL has adopted policies that lay adequate emphasis on the conduct of its staff members towards the members. The following are the important aspects of the expected behaviour of field staff towards the clients.

1. While collecting loan repayment from members, field staff should not behave indecently with the members and their family members, and should not use bad words.
2. Field staff should not visit member's house during odd hours.
3. Should not practice any kind of muscle power methods in order to collect loan repayment.
4. If member lodge complaints with regards to their grievances, then staff should resolve that as early as possible.
5. Any kind of bribe, gift and hospitality cannot be accepted from the members and their families.
6. Should not have any kind of personal financial business with the members and their families.
7. Member's or organization's money should not be misused.
8. Any kind of false assurance should not be given to members under any circumstances.
9. Discrimination on basis of cast, religion, race, etc. cannot be done with any member.
10. Staff should not engage in any work which damages the organization's name.
11. Staff should not engage in any political activities, have association with political people or get involved with any political parties, etc.

BMPL has written HR circular related to selection, recruitment, training, evaluating the staff performance and promotions. BMPL has the following criteria to recruit the field staff -

- Age between 21 to 30 years (Sometimes based on the work experience and considering the performance in the interview, candidates above 30 years is also selected).
- Minimum education: SSLC passed (10th standard passed).
- Should have sound health.
- Should not have any bad habits.
- His family background should be good.



One of the important aspects of staff's induction training is conduct towards clients. Detailed guidelines have been provided to staff in the policy documents regarding the way they should interact with the clients.

BMPL also provides incentives to the field staff on performance basis i.e. number of client handling, asset quality, punctuality etc. Promotion of staff is done in the organization from one job position to another on the basis of the staff performance and organization requirement.

Loan collection and recovery process -

MFIs should develop collection practices that require all clients to be treated with dignity and respect, even when they fail to meet their contractual commitments. 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.

All center members are required to meet every fortnightly at centre meeting for the purpose of repayment of their fortnightly installments. These meetings are conducted by the CM, who carries collection sheets which contains the loan installment member-wise generated through system in the Field Office. The center leader collects the installments from the respective sub-groups and hands over the amount collected along with the loan passbook to CM. CM after ensuring that the amount is correct updates the each member's passbook and issues the receipt to whole center generated through hand held device. As per BMPL's policy, center meeting usually conducted in the morning time and it should be conducted up to 30 minutes only.

An important aspect of the recovery procedure is that although there is high degree of emphasis on timely recovery and application of peer pressure, this does not always mean that all the scheduled installments should come on the same day. In case one or more members of the center are unable to pay the installment, other members of the center are asked to contribute on their behalf, reminding them of the group liability. In case of delay or default from the member or center, CM conducts special meeting for center members to motivate them to make repayment. Further, FOM and other senior staff also visit the delinquent member or center as per necessity. *The assessment team has observed that the CMs or other senior staffs visit the house of the delinquent client for overdue installments. Further, during the discussion with overdue clients, the assessment team came across that behavior of center manager & other senior staff was cordial with the borrowers during the time of delay as well.*

Example 5 – During the visit of Hosakote field office it was observed that, complaint of Mrs. Latha against one of her sub-group member dated 27/Nov/2013 was entered by the CM in complaint register. However actual nature of the complaint as well as action taken against that was not mentioned in the register.

Approval	Documentation	Dissemination	Observance
<ul style="list-style-type: none"> • Various policies of the organization provide adequate directions for staff to treat client with respect and dignity. Clear directions are there on how to deal with situations where one or more clients are facing problems in repayment of installments. • In case of delay or default in installment repayment, BMPL has the policy to visits the house of borrowers or conducts the special meeting for center members to motivate them to make repayment. • BMPL policy does not provide adequate guidelines regarding grievance redressal mechanism. However, every branch has to have a complaint register in branch & complaint box outside the branch office. 	<ul style="list-style-type: none"> • There are detailed guidelines in the policy on the expected conduct of the staff members with the client. 	<ul style="list-style-type: none"> • The entire branch staff members interviewed displayed moderate level of awareness on staff behaviour & client grievance handling. • Few visited branches grievance redressal was not adequately captured in complaint register. 	<ul style="list-style-type: none"> • All staff was found to be aware of the rules of staff conduct and grievance handling. • Behaviour of staff towards clients was found to be professional in almost all situations encountered. • It was observed that action taken against the complaint received was not maintained in complaint register, as per example no. 5.
Staff Behaviour & Client Grievance Handling		28	35
Approval			5
Documentation			7
Dissemination			6
Observance			10
		8	12

**INTEGRATING SOCIAL VALUES INTO OPERATIONS****Score - 90 %**

Sustainability is an increasingly relevant issue for MFIs; accordingly sustainability management strategies and practices are significant. For example, appropriate environmental and social performance objectives, targets and indicators need to be integrated with quality, cost and other more conventional performance measures. SMERA assess governance, board composition, and area of expertise of the board, how social values are assessed by the management or board and the transparency in financial accounting.

BMPL maintains a high standard of governance and integrity by inducting persons with good and sound reputation in the industry and understanding of microfinance as members of board of directors or governing body. BMPL has qualified and professional board having diversified functional expertise. The board members are actively involved in policy making and approvals, fund mobilization, responsible for all decisions at a strategic level, approving business plan & new products, reviewing the performance and other important decisions pertaining to BMPL. Board also performs functions such as review of financials and discussion on the auditor's report, committee report, etc. The senior management team updates the board regularly on operations and key developments in each department.

BMPL maintains a high standard of integrity by adopting policies to attain the vision of the organization to see an India where every child, woman and man can be the best that god meant for him or her to be, without the burden of poverty. BMPL provides the financial support to women mainly for income generation purpose to establish a sustainable business and in turn enabling them to reduce their poverty and to attain the social value.

BMPL does not charge any prepayment charges or onetime membership fee from the borrowers. BMPL has not made insurance compulsory to its borrowers and their spouse. However, in case of death of the borrower BMPL write off the remaining loan amount.

Group / related entity of BMPL i.e. Bharatha Swamukti Samsthe Trust is having sole trusteeship with Dr. Ramesh Bellamkonda, managing director of BMPL. In the past two years or so, Bharatha Swamukti Samsthe Trust has been supporting a few poor school students in the form of paying their school fees, and in addition, is also providing financial support under its "Student Capital Investment Program". Though, in quantity, the number of students is small, Bharatha Swamukti Samsthe Trust intends to provide such support in the future to its greatest degree reasonably possible.



Approval	Documentation	Dissemination	Observance
<ul style="list-style-type: none"> • BMPL has approved principles of integrating social values into operations. 	<ul style="list-style-type: none"> • BMPL maintains integrity by adopting policies or process notes to attain the vision of the organization to see an India where every child, woman and man can be the best that god meant for him or her to be, without the burden of poverty. 	<ul style="list-style-type: none"> • BMPL has a system of dissemination of its social values. 	<ul style="list-style-type: none"> • BMPL maintains an adequate standard of governance and integrity in operation. • BMPL has not made insurance compulsory to its borrowers and their spouse. However, in case of death of the borrower BMPL write off the remaining loan amount.

Integrating social values into operations	9	10
Approval	2	2
Documentation	2	2
Dissemination	2	2
Observance	3	4

**RELATIONSHIP MANAGEMENT AND FEEDBACK MECHANISM****Score - 75 %**

MFI's need to build sustainable and long term relationship with clients. Sound relationship management enhances the quality of the clients' experience with the MFI. This allows the MFI to better understand clients' needs and grievances. MFI's need to have formal mechanisms to get feedback and complaints from the clients. Customer complaints should be taken seriously, investigated and resolved in a timely manner. Responsibilities relating to receiving client grievance, feedback and action plans need to be clearly identified and allocated. SMERA evaluates these practices in detail.

BMPL has a moderate procedure to be responsive to client feedback and to established dedicated feedback and grievance redressal mechanisms. As per the policy every branch has to have a complaint register in branch & complaint box outside the branch for clients and employees.

For any grievance field office phone number is pasted on the passbook and client copy provided to the clients. Members have been informed of this mechanism during training and group formation; *however few members were not aware of the same*. However if any complaint is received, it is forwarded to respective Center Manager. They take the necessary step to resolve the grievance and try to resolve the complaints to the satisfaction of the client. *However, during the field office visit it has been observed that few of the field offices were not maintaining any records for the action taken against the complaint registered.*

Currently BMPL has not undertaken any initiatives or activities (i.e. Business development training, training on leadership, self development & income generating activities etc.) to improve its relationship with the clients. However as informed by management, BMPL is planning to undertake some social initiatives or activities in future.



Approval	Documentation	Dissemination	Observance
<ul style="list-style-type: none"> The board has provided formal and informal channels for feedbacks; however the policy does not provide adequate and appropriate directions for addressing complaints from clients and feedback mechanism. 	<ul style="list-style-type: none"> BMPL policy does not provide detailed guidelines regarding collection of feedback from client and actions to be taken upon them. However it is mandatory to have field office number to be printed on the loan passbook for any complaints. 	<ul style="list-style-type: none"> Field office phone number is pasted on the passbook and client copy provided to the clients. Every branch was having a complaint register in branch & complaint box outside the branch office. 	<ul style="list-style-type: none"> Most of the clients visited were aware of the phone numbers of the field office given to resolve their grievances which were pasted on loan passbook. Generally clients said that they were satisfied overall with the services of the BMPL. Currently BMPL has not undertaken any initiatives or activities to improve its relationship with the clients. It has been observed that few of the field offices were not maintaining any records for the action taken against the complaint registered

Relationship Management and Feedback Mechanism	21	28
Approval	1	2
Documentation	5	7
Dissemination	5	6
Observance	10	13

COMPLIANCE STATUS OF MFI VIS-À-VIS THE RECENT RBI GUIDELINES
Score - 84 %

SMERA examines the adherence level of the MFIs with respect to the recent draft guidelines issued by RBI. Thus the Code of Conduct exercise involves a comprehensive review of MFIs policies and systems and whether these translate into ethical microfinance practices. BMPL fall under the purview of RBI, hence they have complied with the most of the terms and conditions of guidelines issued by RBI. Such as-

<u>Conditions as per RBI Guidelines</u>	<u>BMPL's Policy</u>	<u>Compliance</u>
Household annual income levels for eligible borrowers in Rural Areas not exceeding : ₹ 60,000 Non-Rural Areas not exceeding: ₹ 120,000	The company obtains the declaration from the borrowers regarding annual household income in loan application form.	During the branch visit, the assessment team has not observed any loan application form having household annual income exceeding prescribed amount. However, in few applications annual household income declared by few of the borrowers was less as compare to their standard of living observed.
Loan amount does not exceed ₹ 35,000 in the first cycle and ₹ 50,000 in subsequent cycles.	BMPL loan ranges from ₹ 5,000 to ₹ 30,000. The loan amount is depends on the loan cycle, repayment track record of previous loan and attendance of center meeting.	BMPL meets the criteria.
Total Indebtedness of the borrowers should not exceed to ₹ 50,000	BMPL takes a declaration from the client for the amount of indebtedness in the application form. Further BMPL cross verify the same with the report from "High Mark".	The assessment team has not observed that clients have borrowed from more than 2 MFIs or borrowed more than ₹ 50,000.
Tenure of the loan not to be less than 24 months for amounts in excess of ₹ 15,000	The maximum loan size is ₹ 30,000 repayment tenure ranges from 09 to approx 24 months.	The assessment team has observed that loans in excess of ₹ 15,000 are having tenure of approx 24 months.
Repayment frequency should be weekly, fortnightly or monthly at the choice of the borrower	Repayment of general loan & supplementary loan is collected on fortnightly installment basis.	BMPL is offering weekly, fortnightly & monthly repayment loan products. However, BMPL offers only fortnightly repayment option



		for its major products i.e. general loan & supplementary loan.
Interest rate should not exceed 26% p.a. on a reducing balance basis	BMPL charges 26% per annum on diminishing balance method with Fortnightly rest (Rounded to nearest rupee).	BMPL meets the interest rate criteria.
Loan pricing to include processing fee (not exceeding 1% of the loan amount)	BMPL is charging processing fee of 01% on the disbursed loan amount plus applicable service tax. (rounded to next rupee).	BMPL meets the processing charges criteria fully.
Collateral free loans	BMPL does not accept any collateral for extending the credit.	No collateral have been accepted from the clients.
MFIs shall not collect any Security Deposit / Margin from the borrower.	BMPL does not collect any security deposit / margin from the borrower.	BMPL meets the criteria fully.
No late payment or prepayment penalties	BMPL does not take late payment or prepayment penalties from the clients.	BMPL meets the criteria fully.
Share complete client data with at least one Credit Information Company (CIC) established under the CIC Regulation Act 2005, as per the frequency of data submission prescribed by the CIC.	Currently BMPL is availing credit bureau check from High Mark.	Currently BMPL is sharing its client data with High Mark.
Minimum 75% of the MFIs portfolio should be given for income generation activities	First loan from BMPL is given only for the income generation activities. Second loan onwards member can utilize maximum 25% of loan amount for the life quality improvement activities.	Income generation loans constitute ~99.9% of total loan outstanding as on 31/Jan/2014.

Approval	Documentation	Dissemination	Observance
<ul style="list-style-type: none"> The policies framed by board of BMPL mostly adhere with respect to the guidelines issued by RBI. 	<ul style="list-style-type: none"> Circulars have been issued to follow the RBI guidelines. 	<ul style="list-style-type: none"> Policies were updated / modified on most of the recent guidelines issued by RBI. 	<ul style="list-style-type: none"> Most of the guidelines issued by RBI are adhered by BMPL.



Compliance Status of MFI vis-à-vis the Recent RBI Guidelines	27	32
Approval	5	6
Documentation	4	5
Dissemination	8	9
Observance	10	12

WEIGHTS

The following matrix presents the weights given to the various parameters in the assessment tool.

Weight Matrix	Approval	Documentation	Dissemination	Observance	Total
Client Origination & Targeting	2%	2%	3%	6%	13%
Loan Pricing & Transparency	2%	1%	1%	6%	9%
Loan Appraisal	3%	2%	2%	4%	11%
Privacy of Client Information	1%	1%	1%	2%	5%
Staff Behaviour & Client Grievance Handling	4%	4%	6%	7%	21%
Integrating Social Values Into Operations	1%	1%	1%	2%	6%
Relationship Management and Feedback Mechanism	1%	4%	4%	8%	17%
Compliance Status of MFI vis-à-vis the Recent RBI Guidelines	4%	3%	5%	7%	18%
Total	18%	18%	23%	41%	100%



LIST OF BRANCHES VISITED

SMERA has used the following framework for assessment of MFIs - The Approval; Documentation; Dissemination and Observance (ADDO) framework for measuring adherence of MFIs towards ethical operational practices. The assessment requires visits to the MFI's head-office as well as branch offices.

This assessment includes:

1. Discussions with key staff members and the senior management at the head office and branch 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 and systems and process of MFI.
2. Review of manuals and policy documents at the head office. These are reviewed in order to assess the policy as well as documentation regarding important aspects.
3. Sampling of branches at the head office. The assessment team selected nine branches (located in Karnataka) as samples, as per the size of the MFI for review. Care is exercised to include old & new branches as well as branches that are distant from the regional office and branches with the overdue.
4. Discussions with the branch staff at the field office. Discussions with field office managers and center managers are carried out to assess their understanding of the key code of conduct principles and systems and process.
5. Selection of groups from the sample branches. A judgmental sampling is performed on the MFI's clients by the assessment team to draw respondents from the interest group. One/two centers from each sample branches was selected for interviews. Out of which few respondents are those that have been having problems in attending meetings. SMERA has also selected respondents those have defaulted in the past or started repaying on defaulted loans.
6. Interview with the clients. Information from the clients is collected ideally during the center meetings as well as visits are made to the clients' locations for collecting information.
7. Review of loan application 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, SMERA visited following branches of BMPL in Karnataka. The details of the branches visited are provided below.

Sr. No.	Branch Name	District	Branch Opening date	Nos. of Borrowers Visited
1.	FO1 - Kunigal	Tumkur	1999 - 2000	20
2.	FO2 - Ramanagaram	Ramanagaram	2001 - 2002	16
3.	FO3 - Mandya-1	Mandya	2002 - 2003	15
4.	FO16 - Mysore - II	Mysore	15/Sep/2006	17
5.	FO48 - Vijayapura	Bangaluru Rural	05/Apr/2008	18
6.	FO54 - Nelamangala	Bangaluru Rural	19/Jun/2009	15
7.	FO58 - Hosakote	Bangaluru Rural	08/Jul/2009	18
8.	FO61 - Magadi	Ramanagaram	11/Jul/2009	16
9.	FO103 - Srirangapatana-II	Mandya	25/Jun/2010	18
10.	Head Office	Bangaluru Urban	-	-



METHODOLOGY

1. Collecting minimum documents from the MFI to understand in detail the scope of operations in terms of areas, products, borrower profile etc.
2. Sample selection of branches (sample may be decided by taking into account the loan outstanding portfolio, recency customer grievances received, different products concentration, location, type of borrowers, PAR, etc.).
3. Visit to head office and understanding the code of conduct, vision and mission statement, policies, procedures and processes of MFI pertaining to loan appraisal, loan pricing, collection mechanism, documentation, re-scheduling & write off, etc.
4. Interacting with CEO/ Managing Director and the core team and seeking relevant information.
5. Detailed review of the processes framed for selection of areas and villages, client orientation, group formation and pricing of loans.
6. Interaction with the groups to find out the extent of transparent disclosures, the MFI has made to them in terms of product & services, pricing, insurance, terms and conditions, overleveraging or multiple borrowings, frauds or corruption / commission kickbacks asked by the officers for sanctioning of loans if any. Unethical behavior of the staff, if any, would be specifically addressed.
7. Interaction with the CMs/FOMs on sample basis to assess compliance with policies and obtain their feedback / opinion on the policies and systems with specific focus of customer grievances and feedback mechanisms. The incentive structure for the staff would also be assessed.
8. Prepare detailed report and submit to management for review.
9. Prepare final report and submit to the management.

**Questionnaire for the field visit**

1	Name of the Member
2	How did members came to know about the MFI and who motivated to form the group
3	What Kind of training provided before sanctioning of loan?
4	Does anyone visited the house pre and post disbursement
5	Loan amount taken
6	Amount Applied for (If sanctioned is less - Reason)
7	Interest Rate and any other Charges
8	Any commission paid to anyone for availing loan
9	Purpose of Loan
10	Mode of Repayment
11	Installment amount
12	Aware of pending installments or balance outstanding
13	Any penalty charged
14	What are the KYC documents submitted?
15	Where the disbursement of loan happens and under who's presence?
16	Where collections of loan take place?
17	Any delays / default at present or in past, If Yes, what is the reason?
18	Number of Family members
19	Earning Family Member
20	Occupation of Spouse
21	Monthly Family Income
22	Number of Childers going School
23	Aware about any other MFIs operating in the area
24	Loan from Any other MFIs' / Bank / Moneylender / others
25	If Yes,
26	Name of the MFIs' / Bank / Moneylender / others
27	Amount Taken and Interest Rate
28	Is the group formed by the persons living in nearby vicinity?
29	Knows the house / name of each group member?
30	What are the responsibilities of the group?
31	Attendance of members
32	Saving habit among the group members?
33	Dominant nature of group leader?
34	Familiar with the branch manager / staff?
35	How are the interaction / behaviour of the MFI staff?
36	Process / Awareness of feedback / Complaints mechanism?
37	Have made any complaints in past?
38	Any Request / demand
39	Others if any,

*****The End*****