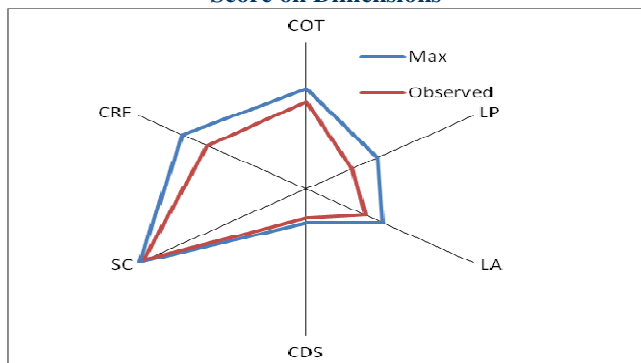


**Bandhan Financial Services Pvt Ltd**

**West Bengal, India**

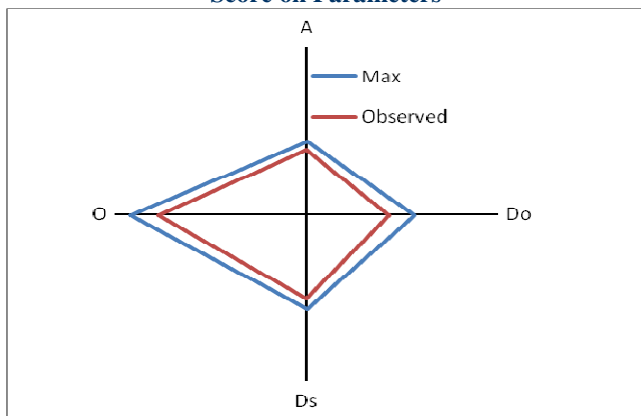
**Composite COCA Score: 84%, Very high level of adherence**

**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**

Bandhan has a culture that ensures high standards of staff conduct with clients. Its lending and loan collection practices do not cause undue stress on its clients, as Bandhan does not insist on the group paying up for clients who have a difficulty in making repayments. Bandhan’s client origination practices minimize the scope of involvement of agents. Every client is provided with a helpline number and every branch has a complaint box. There is a Grievance Redressal and Ombudsman committee that handles serious complaints made by clients or staff members.

**Highlights**

- Bandhan’s client origination practices focus more on ensuring sound group quality and there is no direct monetary incentive for enrolment of clients.
- Group lending mechanism is used for primary screening of clients and ensuring that willful default does not occur. However, if one member of the group is unable to pay her installments, others are not required to pay on her behalf.
- There is a very strong emphasis on treating clients with respect and dignity.
- Bandhan has a well developed mechanism to collect client feedback and complaints, and to act upon them.
- Bandhan has evolved in-house training modules for effective dissemination of its policies and practices, particularly those related to operational practices and code of conduct dimensions.

**Areas to Improve**

- While Bandhan communicates the APR to clients in its loan cards, it accounts for interest on a flat basis. It should account for interest on a diminishing balance basis.
- Bandhan should include staff conduct and client relationship in its internal audit checklist.

**Code of Conduct Assessment Compliance Assessment Tool**

This tool requires scores to be assigned on the six Code of Conduct dimensions – **Client Origination, Loan Pricing, Loan Appraisal, Client Data Security, Staff Conduct and Client Relationship and Feedback**, across the four parameters – **Approval, Documentation, Dissemination and Observance**. While the tool does not measure adherence to any code of conduct in particular, the six dimensions have been drawn from a review of the norms prescribed for MFIs including Sadhan’s and MFIN’s code of conducts, guidelines from the Reserve bank of India and CGAP’s client protection principles. The methodology followed for this assessment is presented in annexure 2 and the framework of the tool is presented in annexure 3. Distribution of COCA scores will be used to develop a grading system once data from 30 MFI assessments have been analyzed.

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

Code of Conduct dimensions	Maximum	Observed	%
Client Origination and Targeting (COT)	24	21	88%
Loan Pricing (LP)	15	10	64%
Loan Appraisal (LA)	16	12	78%
Client Data Security (CDS)	8	7	88%
Staff Conduct (SC)	35	34	97%
Client Relationship and Feedback (CRF)	26	21	80%
<b>Total</b>	<b>124</b>	<b>105</b>	<b>84%</b>

Compliance parameters	Maximum	Observed	%
Approval (A)	22	19.5	89%
Documentation (D)	28	21.5	77%
Dissemination (D)	28	25	89%
Observance (O)	46	39	84%
<b>Total</b>	<b>124</b>	<b>105</b>	<b>84%</b>

MFI's profile	
Name of the MFI	Bandhan Financial Services Pvt Ltd (BF SPL)
Legal form	Non Banking Financial Company (NBFC)
Operational Head	Mr Chandra Shekhar Ghosh
Year of starting microfinance	2002
Branches	1,550 (September 2010)
Operational area	17 States across India
Total number of staff involved in microfinance	8,798 (September 2010)
Visit of the Assessment team	December 2010
Correspondence address	Bandhan Financial Services, EC-76, Sector-1, Salt Lake City, Kolkata-700 060

### Microfinance Methodology

Bandhan primarily lends to women who organize themselves in groups of between 10 and 20 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.

<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.

Loan product profile					
Product	Description	Loan size	APR*	EIR**	% in portfolio
<b>Micro Loans (Suchna)</b>	These loans are provided to women-members of Bandhan's groups. Loans are repayable in 44 to 45 equal weekly installments of principal along with interest which is charged at 10% flat in West Bengal & North East States and 12.5% flat in other states. The equivalent reducing balance rate of interest (18.97% in West Bengal & North East states which accounted for 88% of Bandhan's portfolio as of 31 March 2010 and 22% in other states) is communicated to the clients. Client Mentoring Charges of 1% is charged on the disbursements. A refundable security deposit of 10% of the loan amount is collected from the clients upfront.	Rs1,000 – Rs25,000	19.4% (corresponding to 10% flat), 23.7% (corresponding to 12.5% flat)	23.5% (corresponding to 10% flat), 28.5% (corresponding to 12.5% flat)	93.27%
<b>Microenterprise Loans (Srishti)</b>	The terms and conditions on these loans are same as those on Suchna except the refundable security deposit, which is 5% for these loans and that these loans can be given to men too.	Rs25,000 – Rs50,000	19.4% (corresponding to 10% flat), 23.7% (corresponding to 12.5% flat)	21.3% (corresponding to 10% flat), 25.9% (corresponding to 12.5% flat)	6.70%
<b>MSME Loans (Samridhi)</b>	Similar to Srishti except that no security deposit is collected upfront.	Rs100,000 – Rs300,000	19.4% (corresponding to 10% flat), 23.7% (corresponding to 12.5% flat)	19.4% (corresponding to 10% flat), 23.7% (corresponding to 12.5% flat)	0.02%

<b>Health Loans (Suraksha)</b>	Similar to Suchna except that no security deposit is collected upfront, and the loan is repaid in 50 weekly installments.	Rs1,000 – Rs5,000	19.0% (corresponding to 10% flat), 23.5% (corresponding to 12.5% flat)	19.0% (corresponding to 10% flat), 23.7% (corresponding to 12.5% flat)	0.01%
--------------------------------	---	-------------------	--	--	-------

\* The APR includes interest, fees, commissions, and the calculation method on the loan principal stated in an annualized figure. It does not include effect of security deposits, compulsory savings or loan linked life insurance.

\*\*EIR represents the effective price that the client pays for taking the loan and includes the effect of security deposits and Client Mentoring Charges. The loans have been assumed to be repaid in 44 installments over a period of 52 weeks.

Key facts and figures			
Parameters	Mar-09	Mar-10	Sep-10
Active borrowers	1,454,834	2,301,433	27,77,041
Number of branches	675	1,050	1,550
Number of states	11	15	17
Total staff involved in microfinance	4,118	6,620	8,798
Portfolio outstanding (Rs mn)	7,034.85	14,951.28	19,836.79
Amount of loans disbursed (Rs mn)	12,988.28*	27,180.15*	27,208 **
PAR <sub>60</sub>	0.08%	0.14%	0.23%
Yield on Portfolio (YoP)	27.6%	33.0%	27.24%
Operating Self-Sufficiency (OSS)	172%	171%	146%
Return on Assets (ROA)	5.0%	5.9%	NAv

\*Disbursement during the full year

\*\*Disbursement during the half year.

Equity structure		
	Mar-10	Sep-10
Promoters & Associates	30.13%	26.64%
SIDBI	12.23%	10.81%
Financial Inclusion Trust*	57.64%	50.97%
North East Financial Inclusion Trust*	Nil	11.58%
<b>Total</b>	<b>100%</b>	<b>100%</b>

\* The trusts have been capitalized through donations received from Bandhan Konnagar. 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 twenty 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.

## Section 2: Observations

### 2.1 Client Origination and Targeting (COT)

**Observed score-88%**

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

The Credit Officers have the primary responsibility of organising clients in groups. They tell the potential clients about the products and policies of the organisation in detail and invite them to form in to 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 two weekly meetings, the Credit Officer further tells the group members about the products and policies and addresses their queries. Details of the sources of livelihood, income, expenses and indebtedness are collected from the clients at the time of their admission. The Credit Officer visits the house of the each client to collect this information. Groups start from 10 and new clients can join existing groups anytime till the time the number of clients in the group reaches 20.

Credit officers of the branches 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. This is a reasonable target to achieve and would not put undue stress on the branch staff. Typically, 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. Importance of this is emphasised in various trainings. Further, lack of monetary incentives for originating new clients or disbursement of loans discourages involvement of such agents. For ensuring identity of clients, proof of identity and proof of address from each client is collected. No other document from the clients is collected. Branch Manager also undertakes house visits to ensure identity of the clients.

Approval (A)	Documentation (D)	Dissemination (D)	Observance (O)
Bandhan has been the first or the second lender in most areas it is operating in. The board has approved a code that requires Bandhan to prefer commencing operations in underserved areas. Similarly Board has approved of the documents that have to be collected from clients.	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.	There is a strong culture of training staff at Bandhan. The training also includes discussions on how origination of clients should be undertaken in order to maintain a sound portfolio quality. Each of the branch visited was found to have the operations manual readily available.	It was observed during interactions with clients that Bandhan had been the first or the second MFI to lend in all the cases. The group meetings were conducted in an orderly manner. None of the clients revealed that they had to make any payment to an external party for enrolling with Bandhan.

## 2.2 Loan Pricing (LP)

Observed score 64%

*Bandhan's score on Loan Pricing is moderate primarily on account of flat rate system of interest calculations. Further, interest for the entire duration of the loan is collected if the loans are prepaid after 30 weeks of disbursement of loans. There is, however, no evidence to suggest that the organization encourages prepayment in order to increase its interest income.*

Bandhan follows flat rate of interest calculation for accounting purposes. For the Micro loans interest of 10% in West Bengal & North East states and 12.5% in other states, is charged on the disbursed amount. Bandhan has reduced its interest rates significantly over a period of time. In West Bengal for example the interest rates have been reduced in the following manner:

<b>Bandhan's interest rate over time (flat rate)</b>	
Before Jul-05	17.50%
Jul-05	15%
May-06	12.50%
May-10	10%

Principal along with interest is repaid by the borrowers in 44 equal weekly installments spread over a maximum of 52 weeks. In West Bengal, for example, a loan of Rs10,000, is payable in weekly installments of Rs250 for 44 weekly installments with a tenure of 52 weeks. This consists of Rs10,000 as principal and Rs1,000 as interest.

### Upfront fees and deposits

Bandhan charges 1% as upfront fees on the loan. It is communicated to the borrowers that in case of death of the borrower or her spouse, the outstanding is waived off. In case of death of the borrower, difference between the loan amount and the outstanding at the time of the death is also given back to the nominees of the borrowers. It also collects a security deposit of 10% on its micro-loans which comprise over 89% of its total loan portfolio.

### 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 overdues.

### Prepayment charges

In case the loan is closed before 30 installments are completed, proportionate interest for the unexpired period is waived off. However, if the loan is closed on or after 30 installments is completed, client has to pay the total contracted amount (Principal plus interest). There are no prepayment charges, but interest charged for the unexpired period

of the loan is not refunded. This results in increase in the effective rate of interest in case the loans are prepaid. The table below presents how the effective interest rate to the micro-loan borrowers changes in case they prepay their loans. The calculations assume an upfront security deposit of 10% on the loan principal and a 1% Client Mentoring Charges. It should be noted that microloans constitute 89% of Bandhan's portfolio and approximately 88% of Bandhan's portfolio is in West Bengal and the North East where it charges a flat 10% rate of interest.

Flat Rate	Repayment in Weeks (Micro loans)		
	44	48	52
10%	30.40%	26.50%	23.50%
12.50%	36.90%	32.20%	28.50%

The table above shows that in case the loan is prepaid in less than 52 weeks, the effective cost to the borrowers increase considerably. Bandhan, however, does not encourage prepayments.

Communication about interest rates in other charges

Bandhan clearly mentions interest and all other charges on loan cards provided to the clients. The organization is in the process of communicating equivalent effective interest rate to its borrowers.

Approval (A)	Documentation (D)	Dissemination (D)	Observance (O)
While the Board has provided guidelines for communicating all the charges to the clients clearly, as well as telling them the declining balance equivalent interest rate, it has so far not directed Bandhan to start accounting on a diminishing balance rate of interest.	The theoretical IRR of the loan is mentioned in the loan cards, as well as the operational manual. It is also stated in the loan agreements.	Given that the interest has to be accounted on a flat basis, most of the branch staffs continue to use this as a point of reference. Bandhan has issued a circular to the branches regarding communication of the reducing balance rate of interest to its clients.	Most of the clients were found to be aware of the loan charges and the flat rate of interest. However, their awareness regarding the reducing rate of interest was low.



**2.3 Loan Appraisal (LA)**

**Observed score 78%**

*Bandhan's score on Loan Appraisal is moderate primarily because cash flow analysis of client's households has been incorporated only recently in its loan forms. Most of the forms verified by the assessment team did not have an analysis of cash flows.*

The Branch Manager visits the house of the client for the purpose of loan appraisal. Bandhan has recently incorporated details pertaining to income, expenses, cash flows and indebtedness in the loan applications for the micro-loans. Earlier loan application forms of Micro loans did not contain these details. Cash flows of the enterprises and households, however, are formally analysed for MEP loans and the MSME loans. On an average, each branch manager has to undertake about 10-15 loan appraisals every day. While the branch managers interviewed revealed that they perform informal assessment of loan applications which includes an assessment of incomes and expenses of potential clients, the loan appraisal for the microloans has till now been not incorporated formal analysis of the cash flows of the households, as most of the loan forms being used are old ones which did not include this analysis.

Approval (A)	Documentation (D)	Dissemination (D)	Observance (O)
Bandhan's policy requires that adequate loan appraisal be performed before disbursing a loan.	The guidelines for appraising a loan application is clearly presented in the operations manual. The new loan forms include a cashflow analysis of the clients business and household incomes and expenses. It links the loan size to the profit from the business. However, the older loan forms for second or subsequent cycle loans did not require credit officers to collect this information. Many of these older forms are currently in use.	The branch staffs were found to be well aware of the loan appraisal criteria. They had access to manuals and circulars which clearly presented these criteria.	Given that many of the old forms are currently in use, we did not come across a cashflow analysis in 90% of the loan forms reviewed. Bandhan maintains that the system of informal appraisal has been effective in helping it maintain a sound portfolio quality. Still, it has initiated the process to standardize and formalize loan appraisal with the introduction of the new forms.

**2.4 Client Data Security (CDS)**

**Observed score 88%**

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

The MFI maintains client data in files which are kept in the branch offices. While these files are stored in safe places, Bandhan still does not use a computerized MIS. This reduces its ability to retrieve client data in a timely fashion. However, it was found that only authorized people had access to sensitive data.

Approval (A)	Documentation (D)	Dissemination (D)	Observance (O)
Bandhan's policy requires that adequate safety to ensure privacy of client data.	Bandhan has issued circulars regarding filing and access rights on data collected from clients.	The branches were aware of how client data had to be stored.	Client documents pertaining to current loans could be retrieved easily by the branch managers.

## 2.5 Staff Conduct (SC)

Observed score 97%

*Bandhan's score on Staff Conduct is very good and reflects organizations culture of treating clients with respect and dignity. Further, policies and practices of the organization pertaining to collection of installments do not put clients under significant stress.*

Professional conduct with the clients is at the center of Bandhan's microfinance programme. "Be strict in your principle but not in your behaviour" is the guiding principle which has defined the conduct of the staff members of Bandhan towards its clients since the beginning. Important aspects of Staff's behaviour towards clients are

1. Staff should address clients as *Didi* (sister) in all situations.
2. Staff should behave politely with the clients as well as the family members of the clients.
3. Staff should not accept any gifts/eatables from the clients.
4. Staff should arrive at the venue of the center meeting at least five minutes prior to the schedule.
5. Staff should not visit house of the client after dark in any situation.
6. In case the Credit Officer is visiting the house of the delinquent client, he should first ask about the well-being of the client and the family members before asking about the delayed installments.

Other aspects of the operations which guides staff conducts are the following:

1. There are no incentives for client origination or loan disbursements. Staff therefore do not have incentives for using unauthorized agents for enrolment of clients or to encourage clients to take large loans.
2. Staff are not penalised in case there is delinquency. Staff are, therefore, less likely to put undue stress on the clients for repayment of installments.
3. Clients are allowed grace period of up to 4 weeks for repayment in case of a mishap in the family of illness of the client. Stress levels of clients and the group is considerably reduced because of this.
4. In case a client is delinquent, other members of the group are not asked to repay on her behalf. There is no extra burden on clients on account of this.
5. In case there is a holiday on the scheduled day of the collections, no collections are undertaken and loan term is extended by one week. Depending on the duration and timing of the loan a borrower can avail a maximum of four such holidays.
6. In case of there has been mishappening (death/accident) in the family or if the client is seriously ill, installment holiday is declared for that particular client. No collections are done for that particular week and the loan term is extended by a week. Staff or clients are, therefore, under no pressure to get repayments under such situations.

Policies and practices regarding recovery of installments

Regular collections: Credit Officers of Bandhan collect loan installments from the clients in the scheduled group meetings. In the group meetings, clients hand over their installments to the treasurer of the group. The cashier, after counting the money hands it over to the Credit Officer along with the loan passbooks. The credit officer puts his signature in the loan passbook as acknowledgement of the amount received from the client. In the group meeting, clients put their signature as mark of their attendance. The credit officer also notes any significant policy changes and acknowledgement of receipt of loan application in the resolution book of the group. The regular duration of the group meeting is about one hour, but usually transactions are completed in less than 30 minutes and thereafter some social issues are discussed in the group meeting.

Delayed collections: Collections are occasionally delayed on account of one or more group members not being able to pay the scheduled installments. The credit officer first tries to find out the reasons for such inability to repay. 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 for such clients voluntarily.

**Caselet-1, Ms. Akhtari Begum, Diya Group, Sangam Vihar, New Delhi**

Ms. Akhtari Begum lives in a one room rented house in Sangam Vihar, Delhi. Her husband is a painter who works on daily wages. She occasionally gets orders to cook food in social functions. She has two minor children. She had earlier taken loan from SKS, which she repaid fully. She then took loan from Bandhan on 03.06.2009 of Rs. 10,000/- to be paid back in 46 week. She stopped paying her weekly installment of Rs. 250/- since the 34<sup>th</sup> week as her husband fell sick who has not been able to resume work. The amount due on her has now accumulated to Rs. 3000/-.

Ms. Akhtari informed that the Bandhan Credit Officer and Branch Manager have paid her visit on many occasions to remind her to pay, but they have understood and empathised on her genuine constraint. She also told that she has herself seen other women being subjected to harassment by another MFI. She expressed that she has not suffered any kind of harassment or harshness from them, for which she was grateful.

**Caselet-2, Ms. Manju, Jasmin Group, Sangam Vihar, New Delhi**

Ms. Manju lives in a rented house in Sangam Vihar along with her husband, her children and her in-laws. She does tailoring and threads work. She took loan from Bandhan on 23.02.2010 for Rs. 10,000/- wherein she has to repay Rs. 250/- every week for a period of 45 weekly installments within 52 weeks tenure. However she paid her weekly installment last on 19.10.2010 because she fell ill and was diagnosed with chicken pox. Despite her illness, the group meeting continued to take place in her house as in the past. The loan amount due on her has accumulated to Rs. 1,500/-. The Bandhan staff has known about her health for which she was also given a grace of three weeks in repaying her weekly installment.

She remarked that she has no grievance with regard to the conduct of the Bandhan staff due to her non-payment. She told that she is herself keen to repay her loan completely so that she is able to seek a fresh loan to further her tailoring work.

Approval (A)	Documentation (D)	Dissemination (D)	Observance (O)
Bandhan's policy provides adequate and appropriate directions for staff conduct with clients.	Bandhan provides detailed guidelines regarding appropriate conduct by its field staff.	Staff members in all the branches sampled had received adequate training on how to conduct themselves with clients. Moreover, every branch displayed a code of conduct that addressed this issue comprehensively.	None of the clients reported any misconduct by the staff. However, the internal audits were not found covering staff conduct issues adequately and explicitly.

## 2.6 Client Relationship and Feedback (CRF)

Observed score 80%

*Bandhan's score on Client Relationship and Feedback is reasonable and reflects organisation's commitment towards being responsive to client's feedback and complaints. Scores can further improve if the issues related to clients complaints are checked and reported by the Internal Audit function of the organization.*

Bandhan has a well defined client relationship and feedback mechanism. It has a research division that regularly conducts client satisfaction and loyalty studies. A summary of this is presented to the board and this is also used for making modifications to existing products as well as designing new products.

Each of Bandhan's branches has a complaint box where clients can provide their grievances. These grievances are accessed by the regional manager, who depending on the seriousness of the issue takes appropriate actions. In addition to this, clients loan cards have a stamped helpline number. Almost all of the clients were aware that this number gave them access to Bandhan's head office.

Bandhan has also formed an ombudsman committee consisting of three senior members who are not involved in field operations. This committee addresses serious complaints either by clients or by staff members. Discussions with committee members revealed that they have not yet received any serious client complaints since they were formed six months ago.

Approval (A)	Documentation (D)	Dissemination (D)	Observance (O)
Bandhan's policy provides adequate and appropriate directions for collecting feedback from clients and maintaining sound relationships with them.	Bandhan provides detailed guidelines regarding collection of feedback and actions to be taken upon them.	Each branch had a complaint box. 95% of the loan cards reviewed had helpline numbers. The operations manual was found in all the branches.	All the clients were aware of Bandhan's office address. Almost all were aware of the helpline numbers and the complaint boxes in the branches.

## 2.7 Opinion of important stakeholders

Discussions with the Bandhan's lenders revealed that they had a favorable opinion of the it's field practices and client relationships. Bandhan also enjoys a healthy reputation among its peer for its operational practices. It has played an important role in establishing a regional network chapter for MFIs in West Bengal. No adverse news report on the organization has appeared over the course of the past twelve months.

**Annexure 1: Matrix of Score Obtained**

Indicators	A		Do		Ds		O		Total	
	Max	Obt	Max	Obt	Max	Obt	Max	Obt	Max	Obt
Client origination and targeting	5	4	5	4	5	4	9	9	24	21
Loan Pricing	3	1.5	1	0.5	2	1	9	7	15	10
Loan Appraisal	4	4	4	3	3	3	5	2	16	12
Client Data Security	1	1	3	2	2	2	2	2	8	7
Staff Conduct	7	7	7	7	10	9	11	11	35	34
Client Relationship and Feedback	2	2	8	5	6	6	10	8	26	21
<b>Total</b>	<b>22</b>	<b>19.5</b>	<b>28</b>	<b>21.5</b>	<b>28</b>	<b>25</b>	<b>46</b>	<b>39</b>	<b>124</b>	<b>105</b>

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

## Annexure 2: Methodology

This tool requires scores to be assigned on the six Code of conduct dimensions – Client Origination, Loan Pricing, Loan Appraisal, Client Data Security, Staff Conduct and Client Relationship and Feedback, across the four parameters – **Approval, Documentation, Dissemination and Observance**. The assessment requires visits to the MFI’s head-office as well as branch offices. The visit is spread over a period of four to six days. The first day is spent at the head office. The assessment team visits the branches on days 2 to 6.

This assessment includes:

1. Discussions with key staff members and the senior management at the head office, particularly the senior operational management team as well as the human resources team. These discussions focus on key issues of the code of conduct identified above.
2. Review of policy documents and manuals at the head office. These are reviewed in order to assess the policy as well as documentation regarding important aspects of the code of conduct.
3. Sampling of branches at the head office. The assessment team samples between three to fifteen branches, depending on the size of the MFI for review. The branches are chosen in across different states in case the MFI operates in more than one state. Care is exercised to include older branches as well as branches that are distant from the head office or the regional office. The sampling of the branches is performed at the head office of the MFI.
4. Discussions with the branch staff at the branch office. Discussions with branch managers and the field staff is carried out to assess their understanding of the key code of conduct principles.
5. Sampling of respondents in the selected branches. A judgmental sampling is performed on the MFI’s clients by the assessment team to draw respondents from the interest group. Around 100 to 150 clients are selected for interviews. Of these around, 30 respondents are those that have been having problems in attending meetings or making repayments. The remaining respondents are chosen to reflect different locations within the MFI’s branch.
6. Interview with the clients. Information from the clients is collected ideally during the group meetings. If this is not possible, visits are made to the clients’ locations for collecting information.
7. Review of loan files at the branch office. This review focuses on loan appraisal performed before disbursing loans as well as the documents collected from the clients.

As part of this assessment, we visited 12 branches of Bandhan in three states. The details of the branches visited are provided below.



Sr No	Branch	District	State	No of clients interviewed
1	Bagnan	Howrah	WestBengal	40
2	Kolaghat	Howrah	WestBengal	0
3	Panskura	West Midnapur	WestBengal	5
4	Gaighata	Kolkata Metropolitan	WestBengal	21
5	Chandpara	North 24 Paragana	WestBengal	5
6	ThakoreNagar	North 24 Paragana	WestBengal	0
7	Baguiati	North 24 Paragana	WestBengal	0
8	Danapur-2	Patna	Bihar	22
9	Maner	Patna	Bihar	16
10	Bihta	Patna	Bihar	0
11	Khanpur	South West Delhi	Delhi	14
12	Sangam Vihar	South West Delhi	Delhi	14
			<b>Total</b>	<b>137</b>

### Annexure 3: Code of Conduct Assessment – Framework

#### Code of conduct dimensions

- Client origination and targeting: Client origination is central to ethical microfinance operations. The code of conduct requires MFIs to practice ethical client origination which results in greater access to financial services. Also, an MFI's commitment to target the low income clients demonstrates its social mission. The way an MFI identifies its clientele and goes about growing a clientele must be approved by the board, which should also see to it that there is adequate attempt by the MFI to ensure that its product and services reach the appropriate clientele.
- Loan pricing: The scientific determination of loan price (interest rates) reflects well on the MFI's management and it also shows how effective the MFI is in providing loans to the clients at the least possible cost. The way its loan products are priced should be approved by the board. Ideally the board members should be aware of the cost of the loan products to the clients.
- Loan appraisal: The lending to a client should be in accordance to her repayment capacity or else she may get over-indebted and her economic situation may deteriorate. The loan appraisal should take into account the repayment capacity of the clients given the loan sizes and the duration of the loan. These are important client protection principles.
- Client data security: The privacy of sensitive data of individual clients regarding their demographic details should be adequately secured so that it is not used by unauthorized parties to cause stress to the clients. For this purpose, MFIs need to define explicitly access rights to all the demographic data pertaining to clients sex, race, age, income, disabilities, mobility (in terms of travel time to work or number of vehicles available), educational attainment, home ownership, employment status, and location.
- Staff conduct: All the staff members of an MFI should treat its clients with respect and dignity. The two important aspects of staff behavior are:
  1. Communication with clients – There should be guidelines for staff to deal with specific situations involving their interface with the clients such as group meetings, loan disbursements and collections. These should ensure that customers with low levels of financial literacy understand the product, the terms of the contract, and their rights and responsibilities. Clients should also be aware of the debt recovery practices of the MFI. They should be aware of what to expect in case there is a delayed payment or a default. Clients should be encouraged to ask questions regarding the product and policies. Also, the staff should ensure that arrive for meeting in time.

2. Loan collection and recovery process - MFIs should evolve collection practices that require all clients to be treated with dignity and respect, even when they fail to meet their contractual commitments. The following should be strictly avoided:
    - Abusive language or threats
    - Harassing borrowers at odd hours
    - Forcible entry into dwelling and forced seizure of property without the legal orders
- Relationship management and feedback mechanism: It is important for MFIs to build sustainable and long term relationship with clients. Sound relationship management enhances the quality of the clients' experience with the MFI. It also allows the MFI to better understand clients' needs and grievances. MFIs need to have formal mechanisms to get feedback and complaints from the clients. Customer complaints need to be taken seriously, investigated and resolved in a timely manner. The responsibilities relating to receiving client grievance and feedback and acting upon them need to be clearly identified and allocated.

## Compliance

In order to fully integrate operations with the principles presented above, MFIs need to adopt a comprehensive approach involving the board, the management as well as other staff members and clients. This tool measures the adherence to these principles on four parameters:

1. Approval at the policy level from the board
2. Documentation of the guidelines and procedures that emerge from the policy
3. Dissemination of the guidelines and procedures across the organization
4. Observance in practice of these guidelines and procedures.

## Weights

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

Weight Matrix	Approval	Documentation	Dissemination	Observance	Totals
Client Origination	4%	4%	4%	7%	<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>