



CARE/KRO/RL/2018-19/1878

**Mr Animesh Naiya**  
Secretary & CEO  
**Dhosa Chandaneswar Bratyajana Samity**  
CB-35, Salt Lake, Sector-I,  
Near no. 2 water tank,  
Kolkata-700064

October 22, 2018

Confidential

Dear Sir,

Comprehensive Micro Financing Institution (MFI) Grading

Please refer to your request for Comprehensive MFI Grading of your organization.

1. Our Rating Committee has assigned a grading of '**M5C3**' (M Five C Three) to your organization. This signifies modest capacity of the MFI to manage its operations in a sustainable manner and average performance on code of conduct dimensions.
2. The rationale for the grading is enclosed as an **Annexure - I**.
3. Comprehensive MFI grading provides an opinion of CARE on MFI's capacity to carry out its micro finance operations in a sustainable manner and its adherence to Industry code of conduct. It does not constitute a recommendation to buy, hold or sell any financial instrument issued by the organization or to make loans/ donations/ grants to the said organization.

Thanking you,  
Yours faithfully,

**Ravi Bihani**  
Deputy Manager  
Encl. – As above

**Richa Bagaria**  
Senior Manager

**Disclaimer**

CARE's microfinance (MFI) grading is a one-time assessment and the grading is not kept under periodic surveillance. CARE's analysis draws heavily from the information provided by the microfinance institution as well as information obtained from sources believed by CARE to be accurate and reliable. However, CARE does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. It does not imply that CARE performs an audit function to detect fraud. In case of NGO MFIs, gradings apply only to their microfinance programs.

CARE's MFI grading is not a recommendation to buy, sell or hold any financial instrument issued by the MFI or to make loans/ donations/ grants to the MFI. It is not an assessment of the debt servicing ability of the MFI. The grading assigned by CARE cannot be used by the MFI in any form for mobilizing deposits/savings/thrift from its members or general public.

CARE's MFI grading also does not indicate compliance/violation of various statutory requirements. CARE shall not be liable for any losses incurred by users from any use of the microfinance grading.

**CARE Ratings Limited**

(Formerly known as Credit Analysis & Research Limited)

**Grading Report**  
**Comprehensive MFI Grading**

**Dhosa Chandaneswar Bratyajana Samity (DCBS)**

**Comprehensive Grade Assigned: M5C3**

Date assigned: October 16, 2018

Scale	C1	C2	C3	C4	C5
M1					
M2					
M3					
M4					
M5			<b>M5C3</b>		
M6					
M7					
M8					

Dhosa Chandaneswar Bratyajana Samity (DCBS) has been assigned a comprehensive MFI grade of **M5C3**. This signifies modest capacity of the MFI to manage its operations in a sustainable manner and average performance on code of conduct dimensions.

**Grading Rationale**

<b>Microfinance Capacity Assessment Grade</b>	The sample MFI obtains “ <b>M5</b> ” as its performance grade which signifies “modest capacity of the organization to carry out its activities in a sustainable manner”. The organization has excellent portfolio quality and management system but it has a relatively low capital base. Its loan portfolio is also concentrated in a limited geographical area and size of operations is very small.
<b>Code of Conduct Assessment Grade</b>	The Sample MFI obtains “ <b>C3</b> ” as its Code of Conduct Assessment Grade which signifies average performance on COCA dimensions.

*Comprehensive MFI Grading provides opinion of the Rating Agency on MFI’s capacity to carry out its microfinance operations in a sustainable manner and its adherence to Industry code of conduct. MFI Capacity Assessment Grading has been done on the dimensions of **Capital Adequacy, Governance, Management Quality and Risk Management Systems**. Assessment on Code of Conduct has been done on the indicators pertaining to **Transparency, Client Protection, Governance, Recruitment, Client Education, Feedback & Grievance Redressal and Data Sharing**. Some of these indicators have been categorized as Higher Order indicators consisting of indicators on **Integrity and Ethical Behaviour and Sensitive Indicators**.*

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### Conflict of Interest Declaration

CARE (including its holding company and wholly owned subsidiaries) has not been involved in any assignment of advisory nature for a period of 12 months preceding the date of the comprehensive grading. None of the employees or the Board members of the Rating agency have been a member of the Board of Directors of the MFI during for a period of 12 months preceding the date of the comprehensive grading.

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### Historical Rating Grades

Date	Rating Agency	Comprehensive rating grade
March 2017	COCA	M5C3
May 2016	CARE	MFI Grading: MFI3 ( MFI Three )
May 2015	CARE	MFI Grading: MFI3 ( MFI Three )
July 2014	CRISIL	MFI Grading: MFR5

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### Microfinance Capacity Assessment Grading symbols and definitions

Grading Scale	Definitions
M1	MFIs with this grade are considered to have <b>highest</b> capacity to manage their microfinance operations in a sustainable manner.
M2	MFIs with this grade are considered to have <b>high</b> capacity to manage their microfinance operations in a sustainable manner.
M3	MFIs with this grade are considered to have <b>above average</b> capacity to manage their microfinance operations in a sustainable manner.
M4	MFIs with this grade are considered to have <b>average</b> capacity to manage their microfinance operations in a sustainable manner.
M5	MFIs with this grade are considered to have <b>modest</b> capacity to manage their microfinance operations in a sustainable manner.
M6	MFIs with this grade are considered to have <b>low</b> capacity to manage their microfinance operations in a sustainable manner.
M7	MFIs with this grade are considered to have <b>very low</b> capacity to manage their microfinance operations in a sustainable manner.
M8	MFIs with this grade are considered to have <b>lowest</b> capacity to manage their microfinance operations in a sustainable manner.

### Code of Conduct Assessment scale and definitions

C1	MFIs with this grade have <b>excellent</b> performance on Code of Conduct dimensions
C2	MFIs with this grade have <b>good</b> performance on Code of Conduct dimensions
C3	MFIs with this grade have <b>average</b> performance on Code of Conduct dimensions
C4	MFIs with this grade have <b>weak</b> performance on Code of Conduct dimensions
C5	MFIs with this grade have <b>weakest</b> performance on Code of Conduct dimensions

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MFI's profile (March 2018)	
Name of the MFI	Dhosa Chandaneswar Bratyajana Samity
Legal form	Society
Operational Head	Mr Animesh Naiya
Year of starting microfinance	2003
Branches (March 2018)	10
Active borrowers	11,417
Total staff	63
Operational area	South 24 Paragnas, Uttar Dinajpur, Birbhum, Malda and Kathihar
Visit of the Assessment team	September 20 to September 28, 2018
Correspondence address	Block- CB35, Salt Lake, Sector 1, Kolkata – 700064

Details of Loan Products (March 2018)				
Product	Description	Loan size (Rs)	Interest Rate	APR (Interest Rate and Processing fees)
Micro Loan (Unnati III)	Loan for income generating activities	11,34,76,417	26%	26.74%
SME	Loan for small & medium Enterprises	38,68,957	24%	24.68%

Ownership/Equity Structure

Shareholding Pattern (March 2018)	
Shareholder	% Shareholding*
Mr Animesh Naiya	91.34
Mr Santosh Kumar Halder	2.11
Mr. Subhankar Mandal	6.55
<b>Total</b>	<b>100.00</b>

\* Expressed as a % of Donated equity

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**Profile of Board Members**

Board Members (March 2018)			
Sr. No	Name	Education	Brief profile
1	Mr. Santosh Kumar Haldar	BA	More than 13 years of work experience in micro finance activities
2	Mr. Animesh Naiya	BA	More than 20 years of work experience in micro finance activities. He has also attended several training programmes, meetings and seminars arranged by ACCESS Development Services, SADHAN, AMFI, NAM, M2i, etc.
3	Mr. Nabin Chatterjee	B. Com	Has more than 10 years of work exposure in micro finance activities with 'Bandhan Financial Services Limited'
4	Mrs. Aparna Roy Mondal	MA	More than 13 years of experience in micro finance
5	Mr. Subhankar Mandal	B. Com	More than 16 years of exposure in micro finance activities.
6	Mr Balaram Bar	B.Com	More than 26 years of experience in micro finance activities
7	Mr Utpal Kumar Gharui	B.Com	More than 11 years of experience in micro finance activities.

Key Performance Ratios		
	March 2018	March 2017
Portfolio at Risk (>30 days)/Total loan portfolio	0.74%	2.74%
Capital to Risk Weighted Capital Adequacy Ratio (CRAR)	39.94%	44.54%
Operating Expense Ratio (OER) (Operating Expense/Total Capital Employed)	10.64%	12.42%
Funding Expense Ratio (FER) (Interest/Average Borrowed Funds)	11.09%	9.86%
Write-offs to average portfolio	0.36%	0.64%
Return on Assets (RoA)	3.88%	4.68%
Return on Equity (RoE)	12.72%	13.08%
Active borrowers per staff (Total active borrowers/total staff)	224	173
Active borrowers per branch (Total active borrowers/Branches)	1142	1616

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**Compliance with RBI's Directions for MFIs**

Sr No	RBI's Direction	Status
1	85% of total assets to be in the nature of qualifying assets	In compliance
2	Net worth to be in excess of Rs 5 Crore**	Not In Compliance
3	Income of borrower not to exceed Rs 100,000 in the rural areas and Rs 160,000 in the urban and semi-urban areas*	In compliance
4	Loans size not to exceed Rs 60,000 in first cycle and Rs 100,000 in subsequent cycles*	In compliance
5	Total indebtedness of the borrower not to exceed Rs 100,000 (excl medical and education loans)*	In compliance
6	Tenure of loans not to be less than 24 months for loan amount in excess of Rs 30,000, with prepayment without penalty*	In compliance
7	Pricing guidelines are to be followed	In compliance
8	Transparency in interest rates to be maintained	In compliance
9	Not more than two MFIs lend to the same client	In compliance

\* For the assets classified as qualifying

\*\* Since DCBS is a society, it is not required to have a minimum net owned fund.

## Section 1: Microfinance Grading

### Transparency

- Registered as a society under the West Bengal Societies Registration Act, 1961. Legal status is a constraint for mobilizing equity from private equity players or microfinance-specific funds.
- Experienced founder and reasonably experienced executive committee. Supported by a four-member advisory committee.
- Credit policies & HR policies are well-established, documented and communicated.
- Written documentation and training is provided to the borrowers on the lending policies
- Majority of the borrowers are aware about the lending policies
- Transparency in lending process is adequate.
- Transparency in usage of funds is adequate.
- Overall disclosures on the public disclosure is high
- Internal audit team is present; audit is carried out on a quarterly basis.
- DCBS furnishing the financial and operational data to IMFP, such as SADHAN (National Micro Finance Association), AMFI-WB and MIX Market
- DCBS is a member of Equifax credit bureau.

### Operational Setup

- Separate departments with clearly defined roles.
- Moderate experience of senior management in the area of MFI sector.
- Supported by seven-member executive committee with experience across banking, financial services and MFI sector
- Separate training team along with senior management providing compulsory 3 days induction training along with 6 days of training conducted by AMFI-WB (External)
- Strong loan appraisal & monitoring systems.
- Adequate system for tracking over-dues and collection of delinquent loans after escalation depending on duration of overdue.
- Accounting and record maintenance is done using a web based software enabled programme developed by Force Ten Technologies which includes modules like clients, loan, General and savings accounting.
- Presence of Demand collection book capturing information of demand, collection, over-dues and prepayments at the HO, branch and field officer level
- Presence of back-up system at Force Ten Technologies
- DCBS follows a group based approach to extend loans to individuals. While the loan given to a member of the group is not guaranteed by other members of the group, peer pressure among the group members acts as a strong recovery tool.

### Scale of Operations

- Society has moderate track record of lending under the JLG model.
- Small client base. As on March, 2018 DCBS covered 12,541 active borrowers.
- The geographical concentration risk of DCBS is diversifying with the society increasing its presence in more than 1 state. DCBS is having presence in West Bengal and Bihar. As on September 30, 2018, DCBS has increased its presence to 6 districts (South 24 Paragnas, Uttar Dinajpur, Birbhum, Malda and Kathihar).
- Loan portfolio outstanding of Rs.1201.89 lakhs as on Mar.31, 2018.

### Sustainability

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- Comfortable asset quality with PAR > 30 days of 0.74% as on Mar. 31, 2018.
- Legal form does not allow equity infusion from private equity investors.
- CAR at 39.94% as on Mar.31, 2018 was at satisfactory level.
- OSS is at satisfactory level (above 100%) over the last three years.
- Reasonable second line of leadership; strategic decision making continues to remain centralized with the Secretary.
- Comfortable asset-liability maturity profile.
- Presence in areas with low penetration of MFIs.
- High collection efficiency of more than 99.00% over the last three years.
- Moderate resource base. Has access to funds from public sector banks and other financial institutions. Have banks and financial institutions like State Bank of India, IDBI Bank, Bangiya Gramin Vikash Bank, SIDBI, Friends of Women World Banking, Ananya Finance for Inclusive Growth Pvt. Ltd., Reliance Capital Limited, Nabard, etc. as their partners.
- **Industry Outlook**

Microfinance has reached an important inflection point in India and other Asian countries. Most large and established MFIs have transformed into Small Finance Banks and will have access to deposits and greater operational leverage. Fin-Tech is reshaping financial services and particularly the MFI sector in many ways. New age players are disrupting the micro-credit segment using digital data and technology. MFIs will need to respond to these transformative changes in the ecosystem by embracing technology, establishing enduring partnerships, diversifying product portfolio and moving beyond the traditional group lending model. There are areas in which MFIs will see major transformation. (i) MFIs will need to broaden their range of loan products to include housing loans, clean energy loans, working capital loans, as well as other financial products such as micro-insurance. This will necessitate diversifying the customer segments from the current group-lending segment to adjacent and more affluent segments (ii) As the loan process gets unbundled, the MFI industry will see Fin-tech becoming an integral part of the microfinance ecosystem. New age players will use data, machine learning and artificial intelligence to help MFIs with digital on-boarding and more efficient credit assessment (iii) MFIs will need to build strong partnerships to offer more products and services and enhance efficiencies. (iv) MFIs will need to look at models that enable relaxation of formal group liability, although the group structure will continue to facilitate interaction and offer incentives for peer support (v) With the advent of mobile-wallets and electronic-money, financial literacy has become dependent on digital literacy and MFIs will need to invest in technology and establish a strong online presence through interactive applications.

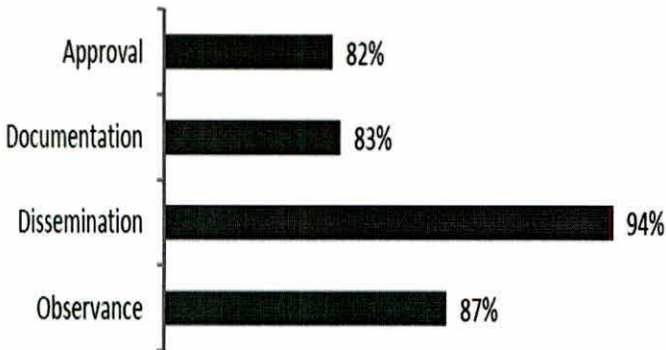
To mitigate the risk of disasters that MFIs are exposed to they need reinsurance. The reinsurance product will provide fixed disbursement to the MFI during a disaster, based on the intensity of the disaster. With this money, MFIs can offer grace periods or new loans for rehabilitation, repairs and reconstruction to existing as well as new microfinance customers. Swiss Reinsurance Co. Ltd and the World Bank have created such a product for earthquakes in Indonesia.

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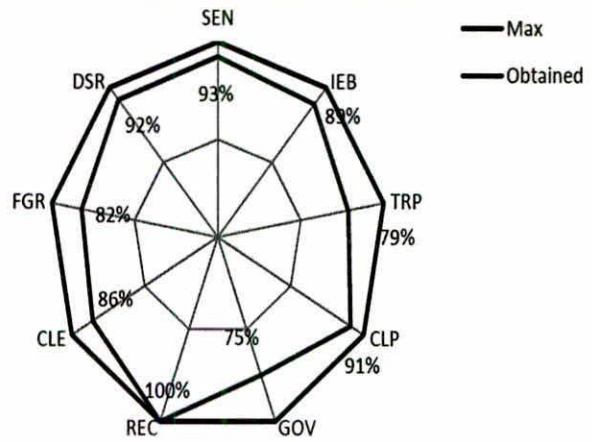
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**Section 2: Code of Conduct Assessment**

**ADDO Scores**



**COCA Dimension Scores**



SEN: Sensitive Indicators; IEB: Integrity and Ethical Behaviour; TRP=Transparency; CLP=Client Protection; GOV=Governance; REC=Recruitment; CLE=Client Education; FGR=Feedback and Grievance Redressal; DSR=Data Security

**Code of Conduct Assessment Summary**

DCBS was found to have a reputed Board with long experience in MFI activities. Board is majorly constituted of independent members and DCBS has a strong organizational structure with standard operating processes in place. The staff was found to be trained and ethical while dealing with clients and there is good amount of transparency in the operations. However, the governance of DCBS was found to be moderate owing to non-compliance with periodical review of policies and code of conduct.

**MFI Strengths and weaknesses pertaining to Code of Conduct**

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>Reputed board members with long experience in MFI activities and independent directors form majority of the board</li> <li>Strong human resource profile through dedicated training.</li> <li>Positive borrower feedback received for the MFI in terms of treating them with utmost respect and transparency.</li> <li>Public disclosures of financial data on website is made</li> </ul>	<ul style="list-style-type: none"> <li>The board members do review qualifying assets, credit appraisal guidelines, and recovery of over-dues from delinquent clients once in a year.</li> <li>Documentation of certain HR policies have not been laid by DCBS</li> </ul>

**Significant observations**

Higher Order Indicators	
<b>Integrity and Ethical Behaviour</b>	<ul style="list-style-type: none"> <li>Standard operating process and policies are in place with strong degree of adherence and the staff is appropriately trained to abide by the code of conduct.</li> </ul>

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	<ul style="list-style-type: none"> <li>• Fair degree of transparency observed while dealing with borrowers and the staff was found ethical and the management treats borrowers and staff members with dignity.</li> <li>• The terms and conditions of the loan are made understood to the borrowers at frequent intervals through dedicated training system.</li> <li>• The incentive structure of staff is linked to number of loans disbursed without any upper limit.</li> <li>• The audit committee does not review the adequacy of scope of internal audit.</li> </ul>
<b>Sensitive Indicators</b>	<ul style="list-style-type: none"> <li>• The clients surveyed were well aware of the loan products, interest rates and charges for loan.</li> <li>• The borrowers had no grievances with respect to conduct, punctuality and behavior of the loan officers.</li> <li>• Borrowers can prepay without any extra charges and penalties.</li> <li>• In a sample analysis of loan files, it was found that credit bureau check was performed 7-14 days prior to loan sanctioning date.</li> <li>• In respect to documentation after loan sanctioning, DCBS provides the client with passbook, wherein it is mentioned about the repayment schedule, interest rate and other details. The passbook act as the sanction letter for the clients where all conditions of DCBS is maintained.</li> </ul>

<b>Building Blocks</b>	
<b>Transparency</b>	<ul style="list-style-type: none"> <li>• DCBS is compliant with the most recent guidelines of RBI except the net worth requirement of Rs 5 crore. However, it is not required for society.</li> <li>• DCBS does not charge or penalize the borrower for prepayment. However, prepayments are discouraged.</li> <li>• Entire communication is done in local language which helps borrowers to understand the terms and conditions easily. The passbook provided to the borrowers is also written in the local language for their better understanding.</li> <li>• All offices of DCBS have product details along with details of ROI, processing fees and insurance.</li> <li>• DCBS gets verification done by CA regarding compliance with RBI guidelines on pricing.</li> <li>• DCBS does not track the base rates of the five largest bank to pricing its loan.</li> <li>• On a sanctioned loan, DCBS issues loan passbook as the only document. They do not provide sanction letters and loan agreements to the clients.</li> <li>• The financial statements of FY18 and code of conduct report</li> </ul>

	<p>of DCBS for March 2018 was made available in the public domain.</p> <ul style="list-style-type: none"> <li>• Repayment schedule is provided to the client stating the EMI (principal and interest breakup not provided separately).</li> </ul>
<p><b>Client Protection</b></p>	<ul style="list-style-type: none"> <li>• The products and charges (interest and fees) were in compliance with the RBI guidelines. CA certificate regarding compliance with RBI norms is present.</li> <li>• On interview with loan officers, it was found that approximately 85% of them had knowledge about the maximum client in-debtiness prescribed by RBI. However there has been no instance of loan given to client that exceeds the maximum limit as each loan is passed through branch manager and then the regional manager.</li> <li>• The borrowers are not given receipts for each repayment. However, the same is updated on the passbook and updated in the MIS on a daily basis.</li> <li>• The field staff is trained to assess the income and indebtedness of clients and DCBS has documented criteria in the operational manual.</li> <li>• The operational manual of the society provides guidelines for conducting meetings with the borrowers and their conduct. The staff is also trained on the same issues.</li> <li>• The field staff is trained for not using any coercive or abusive language or provides any threat in case non-payment by the borrowers. The sample of borrowers surveyed did not have any negative comments about the field staff.</li> <li>• The incentives of loan officer are subject to number of loans disbursed without any upper limit.</li> <li>• The clients are informed about sharing of their data with credit bureaus and other agencies.</li> <li>• The delinquent client details and measures taken for recovery are not presented before the board.</li> <li>• DCBS takes digital back up on a weekly basis instead of monthly basis.</li> </ul>
<p><b>Governance</b></p>	<ul style="list-style-type: none"> <li>• The board members have sound reputation with rich experience in microfinance activities. Out of 7 members, 3 members are independent. All board members have considerable experience in MFI activities. However, DCBS does not have a written policy for 1/3rd board members to be independent.</li> <li>• Board meets six-seven times in a year and minutes are maintained for every meeting.</li> <li>• DCBS has not disclosed the CEO compensation in its audited reports.</li> <li>• DCBS has a dedicated internal audit team which reports to the board directly. The internal audit team visits branches on a quarterly basis.</li> </ul>

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	<ul style="list-style-type: none"> <li>• The statutory auditor M/s.S.K. Mallick &amp; Co. has given a favourable feedback on the accounting practices and systems followed by the organization.</li> <li>• DCBS does not have any restructuring policy and hence none of the staff are aware about the restructuring program.</li> <li>• The code of conduct compliance report has been placed before board on a yearly basis.</li> </ul>
<b>Recruitment</b>	<ul style="list-style-type: none"> <li>• A proper HR policy with criteria for selection of employees and a proper notice period for its employees is in place.</li> <li>• Every new joinee undergoes a training period of 3 months. The training is provided by a separate dedicated training team.</li> <li>• DCBS does not have any written guidelines regarding reference checks of its employees. However, there is documentary evidence to prove that reference checks have been done.</li> </ul>
<b>Client Education</b>	<ul style="list-style-type: none"> <li>• There is a continuous initiative by DCBS to train its clients at regular intervals. The terms and conditions are repeatedly communicated to the borrowers during the loan tenor.</li> <li>• During interview with borrowers, it was found that approximately 60% of them had knowledge about insurance settlement process.</li> </ul>
<b>Feedback and Grievance Redressal</b>	<ul style="list-style-type: none"> <li>• Grievance redressal mechanism is in place and the surveyed borrowers were aware of such mechanisms. The number of grievance officer in the Head Office is present on the front page of passbook.</li> <li>• DCBS has a written guideline to dispose of with the grievances within a time frame of 5 days.</li> <li>• Operation manual describes the grievance redressal mechanism but fails to mention the escalation process in case borrower is not satisfied with the resolution.</li> <li>• Out of eight branches visited, SRO contact details were not made clearly visible at two branch.</li> <li>• DCBS does not prepare monthly reports about the number, nature and resolution of grievance</li> </ul>
<b>Data Sharing</b>	<ul style="list-style-type: none"> <li>• Data is shared on a monthly basis with the credit bureaus like Equifax as well as SROs like Sa-dhan on annual basis. It also submits reports to Mix Market on a quarterly basis.</li> <li>• Operational performance is present in the public domain. Latest Audited financial statements have also been made available on society's website.</li> </ul>

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## Annexure: Methodologies

### Microfinance Grading Methodology

#### CARE Ratings' MFI Grading Framework

CARE's MFI grading is a one-time assessment of a Micro Finance Institution's (MFI) operational and financial capability to undertake and sustain the targeted level of operations.

CARE evaluates an MFI under a four point framework:

- I. **Transparency;**
- II. **Operational setup;**
- III. **Scale of operations and**
- IV. **Sustainability.**

The various aspects covered under each parameter are given below:

<p><b>I. TRANSPARENCY</b></p> <ul style="list-style-type: none"> <li>• Governance</li> <li>• Audit Quality</li> <li>• Accounting Policies</li> <li>• Internal Control</li> <li>• Transparency in the lending process</li> <li>• Transparency in the usage of funds</li> <li>• Overall disclosures</li> </ul>	<p><b>III. SCALE OF OPERATIONS</b></p> <ul style="list-style-type: none"> <li>• Geographical spread of operations</li> <li>• Outreach</li> <li>• Income</li> </ul>
<p><b>II. OPERATIONAL SETUP</b></p> <ul style="list-style-type: none"> <li>• Promoter/Management Assessment</li> <li>• Organisational Structure</li> <li>• Systems and Procedures</li> <li>• Quality of Information System</li> <li>• Lending policy</li> <li>• Quality of Loan Monitoring process</li> <li>• Litigation</li> <li>• Risk Mitigating mechanisms</li> <li>• Credit discipline of borrowers</li> </ul>	<p><b>IV. SUSTAINABILITY</b></p> <p><b>a) Financial Sustainability</b></p> <ul style="list-style-type: none"> <li>• Resource Profile</li> <li>• Cost Structure</li> <li>• Interest rate policies</li> <li>• Capital Adequacy Ratio</li> <li>• Asset quality</li> <li>• Earnings</li> <li>• Liquidity and Asset Liability Management</li> </ul> <p><b>b) Operational Sustainability</b></p> <ul style="list-style-type: none"> <li>• Succession planning</li> <li>• Competition</li> <li>• Resource arrangements</li> <li>• Vision</li> <li>• Efforts to increase out-reach and coverage</li> </ul>

### COCA Methodology

The Code of Conduct Assessment (COCA) tool was developed as a response to the need expressed in a meeting of stakeholders in Indian microfinance by the Small Industries Development Bank of India (SIDBI) and the World

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Bank in December 2009. The code of conduct dimensions were identified by reviewing the various norms for ethical finance. These included RBI's fair practices guidelines for Non-Banking Financial Companies (NBFC), industry code of conduct (Sadhan-MFIN) and Smart Campaign's Client Protection Principles (CPP).

In 2016, need was felt to harmonize COCA to the most recent industry code of conduct and to standardize COCA tools of different rating/assessment agencies. This grading is based on the harmonized COCA tool. In the harmonized COCA tool, the dimensions were classified in three categories – highest order, higher order and building blocks. This grading is based on the harmonized COCA tool.

Highest Order	
Sensitive Indicators	
Higher Order	
Integrity & Ethical Behavior	
Building Blocks	
Governance	Client Protection, Recruitment
Transparency	Feedback/Grievance Redressal
Client Education	Data Sharing

Chart: COCA Indicators Framework

Number of indicators in each category is presented below

Higher Order Indicators	Number of Indicators
Integrity and Ethical Behaviour	32
Sensitive indicators	27
Building Blocks	Number of Indicators
Transparency	40
Client Protection	123
Governance	30
Recruitment	13
Client Education	14
Feedback & Grievance Redressal	25
Data Sharing	6
<b>Total</b>	<b>251</b>

### Methodology

The Code of Conduct exercise is spread over four to eight days. The first day is spent at the head office. The assessment team visits the branches over the next three to eight days. Depending upon the size and the operational area of the MFI, eight to fifteen branches and between 120 and 300 clients are sampled for primary survey (except in cases where number of branches in an MFI is less than eight).

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**Sampling guidelines**

The following is taken as the guideline to determine the sample size for a COCA exercise.

<b>MFI Size</b>	<b>No. of branches to be visited</b>	<b>No. of borrowers to be visited</b>
Small MFI (Less than 8 branches)	All branches	15 clients per branch covering minimum two centers.
Small / Mid size MFI (up to 2,50,000 borrowers)	8 – 10 branches (geographically distributed)	120-150 clients (15 clients per branch covering minimum two centers).
Large MFI (>2,50,000 borrowers)	12 – 15 branches (geographically distributed)	240-300 clients (20 clients per branch covering minimum two centers).
Large MFIs (Loan portfolio outstanding of Rs.500 crore or more, irrespective of the number of borrowers)	18 – 20 branches (geographically distributed)	360-400 clients (20 clients per branch covering minimum two centers).

Code of Conduct Assessment exercise requires:

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






*Comprehensive MFI Grading: Dhosa Chandaneswar Bratyajna Samity*

As part of this assessment, we visited 8 branches of the MFI. The details of the branches visited are provided below.

Sr No	Branch	State	No. of clients interviewed
1	Dhosa	West Bengal	20
2	Jaynagar	West Bengal	30
3	Dakshin Barasat	West Bengal	15
4	Dhamua	West Bengal	20
5	Telta	Bihar	15
6	Karandighi	West Bengal	15
7	Sakuntala	West Bengal	15
8	Tulsihata	West Bengal	15
<b>Total</b>			<b>145</b>

*RB*

*AA*