

## **Code of Conduct Assessment (COCA): Evolution and Growing Importance**

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M2i maintains that for micro-finance to sustain, sound operational management practices, which strongly emphasize on ethical behavior and responsible lending are imperative.

In order to assess adherence to ethical operational practices, M2i pioneered Code of Conduct Assessments (COCA), performing the first of these assessments in the microfinance sector across the globe.

### **Development of COCA tool**

Between 2005 and 2009 Indian MFIs registered very high growth rates. By 2010, concerns were being raised regarding operational practices of MFIs – high interest rates, lack of transparency, coercive recovery practices and general insensitivity of the MFI staff towards clients.

Responding to this, Small Industries Development Bank of India (SIDBI), one of the leading funders for MFIs, invited advisory firms to develop a tool to assess adherence of MFIs' to code of conduct. M2i was the first agency to develop the tool and conduct first 8 assessments.

### **M2i's COCA tool**

M2i's COCA tool requires scores to be assigned on the seven Code of Conduct dimensions – Client Origination, Loan Pricing, Loan Appraisal, Client Data Security, Staff Conduct, Client Relationship and Feedback and Integrating Social Values into Operations, across the four parameters – Approval (A), Documentation (D), Dissemination (D) and Observance (O).

ADDO<sup>1</sup> framework was developed by M2i for comprehensive assessment of organizational policies, systems and practices. The seven dimensions have been drawn from a review of the norms prescribed for MFIs including industry's code of conduct, fair practices' code of RBI and CGAP's client protection principles (Smart Campaign). The COCA tool also specifically assesses the MFI for compliance against the RBI's guidelines and scores it as well.

### **Mainstreaming of Code of Conduct Assessments**

After successful completion of first 8 assessments, SIDBI invited other service providers to develop the tool. We shared our methodology and reporting format with other service providers to help them develop the tool. Finally, four other service providers developed COCA assessment tools largely based on the assessment framework developed by M2i.

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<sup>1</sup> ADDO © Prime M2i Consulting Private Limited



Since the time the first COCA was performed by M2i in December 2010, these assessments have been used widely by banks and MFIs in India to assess adherence to ethical operational practices. COCA now forms part of covenants of many banks and other financial institutions lending to the MFIs. Many equity investors also require MFIs to undergo Code of Conduct Assessment as part of their investment agreements.

Analysis of Code of Conduct Assessment reports of the MFIs now forms an important input for evaluating sector level practices pertaining to transparency, fair practices and client protection.

### **Impact of Code of Conduct Assessments**

Between 2010 and 2014, over 100 Code of Conduct Assessments have been carried out by all the service providers, with M2i performing 42 of these assessments. The COCAs commissioned by SIDBI have been published on its website. Since these reports are in the public domain, there is increased focus on the part of MFIs to improve their operational practices. These reports also provide a repository of desirable and undesirable practices.

M2i's COCA reports highlight best practices of MFIs on code of conduct dimensions. These also highlight undesirable consequences of undesirable operational practices such as indiscriminate application of joint liability and disproportionate staff incentives on disbursement of new loans.

Code of Conduct Assessments have led to significant improvement in operational practices of MFIs. Many MFIs have undertaken comprehensive review of their policies and intensive training of their field staff after undergoing Code of Conduct of Assessment.

#### **Bandhan's view on Code of Conduct Assessments**

The first ever Code of Conduct Assessment was performed on Bandhan by M2i in 2010. M2i again performed a Code of Conduct Assessment of Bandhan in 2012.

**Mr CS Ghosh, CEO of Bandhan, as quoted in Microfinance India: The Social Performance Report 2013<sup>2</sup>, says:**

*"Third party CoC assessment establishes out good practice guidelines that better enable MFIs to face challenges of accessing long-term finance. The report benefits funders, investors, customers, owners, regulators and partner organizations. Investors use such evaluations as a second independent opinion for their investment decision– making processes. The CoCA helped us to judge (a) Extent to which policies and systems had been adopted and implemented in letter and spirit, (b) real status at the field, across several issues, (c) extent of client education efforts and whether results were commensurate, (d) unbiased view of staff performance and several operational aspects, which enhanced our confidence in our policies and systems."*

<sup>2</sup> Microfinance India: The Social Performance Report 2013, Girija Srinivasan, Sage publications, 2014. [http://www.accessdev.org/downloads/SPM\\_Report\\_2013.pdf](http://www.accessdev.org/downloads/SPM_Report_2013.pdf). Accessed on 21 April 2015

## Preference of lenders and investors for COCA over Client Protection Certifications and Social Ratings

COCA is increasingly emerging as the preferred tool for lenders and investors to assess MFIs' performance on client protection and social performance aspects. Many lenders and investors have now included COCA as part of their lending covenants and investment term-sheets. This is evident from the number of MFIs undergoing COCA as compared to those undergoing other assessments and certifications.

M2i's research suggests that till March 2015, only 6 Indian MFIs had obtained CPP certification<sup>3</sup> and only 4 had undergone Truelift assessment<sup>4</sup>. In comparison, over 100 Code of Conduct Assessments<sup>5</sup> have been performed, with some MFIs having undergone multiple assessments between 2010 and 2015.

The Microfinance India: The Social Performance Report 2013 has the following to say about COCA and the tools measuring client protection and social performance.

*“While CPP assessments and certifications are useful, lenders are attaching importance to CoCA since they cover compliance with regulatory aspects as well and are perceived to have the strong support of SIDBI. This is further compounded by the fact that CoCA overlap with several aspects of CPP evaluations, though not in a comparable level of detail. CPP assessments are currently donor funded; when donor support tapers off, how the assessments will be carried out has to be worked out.”* (page 49)

*“Social Ratings, which were conceived as a tool to evaluate MFIs performance in implementing their social objectives and achieving their double bottom line goals, have taken a back seat in the wave of new developments in the SP space”* (page 51)

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<sup>3</sup> Source: <http://www.smartcampaign.org/>

<sup>4</sup> Source: <https://sealofexcellence.wordpress.com/> and references available in public domain.

<sup>5</sup> According to Microfinance India: The Social Performance Report 2013, information about 48 COCAs conducted in Financial Year 2011-12 and 2012-13 is in public domain. Based on our discussions with MFIs banks and information available on MFIs' websites, M2i estimates that by March 2015, at least 100 COCAs had been done.