SAGE Impact

Microfinance India
The Social Performance Report 2013

Girija Srinivasan

An ACCESS Publication

Microfinance India

Thank you for choosing a SAGE product! If you have any comment, observation or feedback, I would like to personally hear from you. Please write to me at contactceo@sagepub.in

—Vivek Mehra, Managing Director and CEO,
SAGE Publications India Pvt. Ltd, New Delhi

Bulk Sales

SAGE India offers special discounts for purchase of books in bulk. We also make available special imprints and excerpts from our books on demand.

For orders and enquiries, write to us at

Marketing Department
SAGE Publications India Pvt. Ltd
B1/I-1, Mohan Cooperative Industrial Area
Mathura Road, Post Bag 7
New Delhi 110044, India
E-mail us at marketing@sagepub.in

Get to know more about SAGE, be invited to SAGE events, get on our mailing list. Write today to marketing@sagepub.in

This book is also available as an e-book.

Microfinance India
The Social Performance Report 2013

Girija Srinivasan

SAGE www.sagepublications.com
Los Angeles • London • New Delhi • Singapore • Washington DC

Copyright © ACCESS Development Services, 2014

All rights reserved. No part of this book may be reproduced or utilized in any form or by any means, electronic or mechanical, including photocopying, recording or by any information storage or retrieval system, without permission in writing from the publisher.

First published in 2014 by

SAGE Publications India Pvt Ltd
B1/I-1 Mohan Cooperative Industrial Area
Mathura Road, New Delhi 110 044, India
www.sagepub.in

SAGE Publications Inc
2455 Teller Road
Thousand Oaks, California 91320, USA

SAGE Publications Ltd
1 Oliver's Yard, 55 City Road
London EC1Y 1SP, United Kingdom

SAGE Publications Asia-Pacific Pte Ltd
3 Church Street
#10-04 Samsung Hub
Singapore 049483

ACCESS Development Services
28, Hauz Khas Village
New Delhi 110 016
www.accessdev.org

Published by Vivek Mehra for SAGE Publications India Pvt Ltd, Phototypeset in 10/12 pt Minion Pro by Diligent Typesetter, Delhi and printed at Saurabh Printers Pvt Ltd, New Delhi.

Library of Congress Cataloging-in-Publication Data Available

ISBN: 978-81-321-1736-0 (PB)

SAGE Production Team: Rudra Narayan, Archa Bhatnagar, Nand Kumar Jha, Umesh Kashyap, and Rajinder Kaur

Cover photograph courtesy: ACCESS.

Sponsors & Partners

CORE SPONSOR

OTHER SPONSORS

Citi Microfinance

TECHNICAL PARTNERS

MEDIA PARTNER

Contents

List of Tables, Figures, Boxes, Annexes, and Abbreviations ix
Foreword by Radhika Agashe xv
Preface xvii

1. Overview: Confidence returning to the sector—will credibility follow? 1
2. Investors and lenders—demanding responsibility and also delivering? 19
3. Responsible finance standards and assessments—need for consolidation of tools and methodologies 37
4. Measuring and reporting social performance 61
5. Responsible financing practices in SHG–bank linkage programme 79
6. Regulations and responsible microfinance 99
7. Human resource practices in microfinance institutions 103
8. Unique institutions 127
9. Conclusion 141

Bibliography 145
Index 149
Technical Partners 155
About the Author 157

List of Tables, Figures, Boxes, Annexes, and Abbreviations

Tables

1.1 Key indicators of business of small MFIs 3
1.2 Total cost of lending under different channels 7
1.3 Indebtedness levels of households in Andhra Pradesh 12
1.4 Sources of credit for households in AP 13
3.1 Results of smart assessments (average scores for 17 MFIs) 44
3.2 Observation on adherence to the seven CPPs (from CPP assessments, certifications, and CoCA) 46
3.3 Compliance on each USSPM metric (average across 21 MFIs worldwide) 50
4.1 Target market 62
4.2 Top five states in loan disbursement (both by number and amount of loans) to backward districts 63
4.3 Tools and frequency of client poverty data collection 64
4.4 PPI measurements reported to MIX by Indian MFIs for three poverty lines (FY 2009–11) 64
4.5 Financial product and services offered 65
4.6 Loan products portfolio of the sample MFIs (FY-2013) 66
4.7 Operating costs and yields of Indian MFIs 67
4.8 Development goals and their associated outcome indicators (or proxies) 67
4.9 Indian outcome reporting in global perspective (FY-2011) 68
5.1 Percentage of groups by the factors that influence people to save with SHGs 82
5.2 Risks perceived in saving with SHG 82
5.3 ICICI bank's SHG-lending practices 86
7.1 The major key performance indicators based on which assessments are made for different levels of staff 113
7.2 General contents of most HR manuals 115
8.1 Considerations for designing of the business model by IndusInd Bank 129
8.2 Interest rate charged by each structure 132
8.3 Cumulative enrolments by KGFS 133
8.4 Customers enrolled by KGFS 135
8.5 Number of active customers of KGFS under different products 135
8.6 Financial sustainability as of 31 March 2013 137
8.7 Key financial parameters of Pudhuaaru KGFS 137

Figures

1.1 Gender composition of Indian boards and staff in global perspective (FY-2011) 11
2.1 Top 10 lenders as on 31 March 2013 19

3.1 Code of conduct assessments by legal form 39
3.2 Code of conduct assessment scores by legal form 39
3.3 Institutional size versus CoCA scores 39
3.4 Microfinance institutional rating framework 51
3.5 Social rating framework 52
4.1 Number of clients served by MFIs 61
4.2 Top 10—loan amount outstanding, March 2013 62
4.3 Comparison of MFI portfolio concentration 65
4.4 Portfolio distribution of loan outstanding (n = 35, FY-2013) 66
4.5 Operating cost ratio (n – Tier 1 = 9; Tier 2 = 7; Tier 3 = 8) 66
4.6 Return of equity (n – Tier 1 = 8; Tier 2 = 6; Tier 3 = 6) 66
4.7 Return on assets (n – Tier 1 = 9; Tier 2 = 7; Tier 3 = 8) 67
5.1 Percentage of groups by the challenges in implementing voluntary savings 83
7.1 Type I organization structure 104
7.2 Type II organization structure 105
7.3 Women staff in MFIs studied 108
8.1 Phased approach for delivery of products 130

Boxes

1.1 Vasudevan CEO, Equitas 4
1.2 Monitoring of social outcomes by CASHPOR board 4
1.3 Suresh Krishna, CEO, Grameen Financial Services 5
1.4 MFIs unable to offer different products 6
1.5 Financial Sector Legislative Reforms Commission (FSLRC) report assessment of suitability of a product 6
1.6 Loan defaults versus over-indebtedness in rural Tamil Nadu—CGAP blog 8
1.7 Analysis of the pricing data by MFT 9
1.8 Global trends and initiatives—what the global thought leaders say 14
2.1 Focus of a private sector bank 19
2.2 Small MFIs need support 20
2.3 Liquidity constraint of small MFIs 20
2.4 Observations of CEO in Uttar Pradesh 21
2.5 Sustainable Livelihood Initiative (SLI) by HDFC bank 23
2.6 Voluntary covenants of CASHPOR to its social investors 24
2.7 Observations of a funder 26
2.8 Thrust of global investors 27
2.9 Screening tools on balanced returns 28
2.10 Study on the drivers of over-indebtedness of microfinance borrowers in Cambodia: An in-depth investigation of saturated areas 29
2.11 Principles of responsible investment 30
2.12 Developing incentives for social performance 31
2.13 Social performance mentoring by Oikocredit 31
3.1 SIDBI's initiative 38
3.2 A few comments on CoCA methodology 40
3.3 Ujjivan's initiative to ensure service quality 41
3.4 Usefulness of CoCA to MFI 43
3.5 How investors use the external assessments 45
3.6 Usefulness of the external assessments on CPPs 45
4.1 Poverty aspects examined by the Grameen Foundation study in Karnataka 64
5.1 Allocation of programme areas—good practice by Government of Rajasthan 81
5.2 Distribution of group savings by mature groups 83
5.3 Low savings to credit ratio for bank loans in tribal areas 85
5.4 Concerns of a banker about cash credit system 85

5.5 Federations as business correspondents 88
5.6 MIS initiative of SERP, AP 90
5.7 Early warning system—the case of belstar investment and finance private limited 92
5.8 Individual lending to SHG member 93
5.9 Not so desirable practices of leader capture 93
5.10 MAVIM's VLCs take up gender issues concerning SHG women 94
5.11 Leadership development by MYRADA 94
5.12 Institutional capacity building of SHGs not to be compromised 96
7.1 Good practice of Samhita 107
7.2 Equitas assesses employee fitment 107
7.3 Ujjivan prefers women employees 108
7.4 HR issues faced by small MFIs 109
7.5 Equitas' HR mission 109
7.6 Ujjivan trains staff intensely 110
7.7 Service providers in HR for MFIs are inadequate in number 115
7.8 Snack allowance for employees by Equitas 116
7.9 CASHPOR's staff grievance redressal system 117
7.10 Janalakshmi targets for staff welfare as well 118
7.11 Common causes of dissatisfaction among staff based on staff satisfaction survey 119
7.12 Attrition of staff: A major challenge 120
7.13 What employees look for in a workplace 121

Annexes

2.1 Key learnings from the studies on financial literacy commissioned by IFC, GIZ, and UNDP 33
2.2 Savings and Credit Co-operative (SACCO) XXX: analysing possible actions for improved effectiveness 33
3.1 Key features and strengths of the various CoCA tools 53
3.2 Parameters and weightages assigned for the RBI index 54
3.3 CoCA 55
3.4 Smart client protection assessments 56
3.5 Comparison of various tools in the SPM universe 57
4.1 Profile of Indian MFIs reporting SP profile data to MIX 69
4.2 Summary of social metrics—2013 70
4.3 Key highlights of impact/outcome studies conducted by MFIs in 2012–13 72
4.4 State-level comparison of outreach of MFIs—all districts versus backward districts 74
4.5 State-wise status of MFI loans—2013 75
4.6 State-wise status of MFI loans in backward districts—2013 76
7.1 Basic data as on 31 March 2013 for MFIs studied 123
7.2 MFI—compensation, benefit policies, and HR trends benchmarking study 2012 124

Abbreviations

A-D-D-O Approval - Documentation - Dissemination - Observance
ALM Asset Liability Management
AP Andhra Pradesh
APL Above Poverty Line
APR Annual Percentage Rate
BC Banking Business Correspondents
BFSPL Bandhan Financial Services Private Limited
BLT Basic Level Training
BPL Below Poverty line
BWD Backward Districts

CBS	Core Banking System
CDOT	Centre for Development and Orientation and Training
CDR	Corporate Debt Restructuring
CEO	Chief Executive Officer
CGAP	Consultative Group to Assist the Poor
CGT	Compulsory Group Training
CGT	Centre Group Training
CMF	Centre for Microfinance
CMS	Customer Management System
CoC	Codes of Conduct
CoCA	Code of Conduct Assessments
CP	Client Protection
CPP	Client Protection Principles
CREC	Credit Relation Executive–Collection
CREM	Credit Relation Executive–Marketing
CRES	Credit Relation Executive–Sales
CRR	Customer Relation Representative
CTC	Cost to Company
DCCBs	District Central Cooperative Banks
DFCs	Daily Finance Corporations
DFID	Department for International Development
DFIs	Development Financial Institutions
EECA	Eastern Europe and Central Asia
EMFIL	ESAF Microfinance and Investments Private Limited
ESI	Employee State Insurance
ESOP	Employee Stock Option Plan
EWS	Early Warning System
FD	Fixed Deposit
FGD	Focused Group Discussion
FMO	Dutch Development Bank
FSLRC	Financial Sector Legislative Reforms Commission
FWR	Financial Well-being Report
GFSPL	Grameen Financial Services Private Limited
GIS	Geographic Information System
GNI	Gross National Income
GRT	Group Recognition Test
IDBI	IDBI Bank Limited
IFAD	International Fund for Agricultural Development
IFC	International Finance Corporation
IFMR	Institute for Financial Management and Research
IIMs	Indian Institutes of Management
IJP	Internal Job Posting
IKP	Indira Kranti Patham
IMaCS	ICRA Management and Consulting Services
IMEF	India Microfinance Equity Fund
IRDA	Insurance Regulatory and Development Authority
IRIS	Impact Reporting and Investment Standards
IRR	Internal Rate of Return
ISMW	Indian School of Microfinance for Women
JFS	Janalakshmi Financial Services
JLG	Joint Liability Group
KGFS	Kshetriya Grameen Financial Services
KRAs	Key Result Areas
KYC	Know Your Customer

LAC	Latin America and Caribbean
LWE	Left Wing Extremism
M-CRIL	Micro-Credit Ratings International Limited
MFIN	Microfinance Institutions Network
MFIs	Microfinance Institutions
MFT	MicroFinance Transparency
MIR	Microfinance Institutional Rating
MIS	Management Information System
MIVs	Microfinance Investment Vehicles
MIX	Microfinance Information Exchange
MMS	Mandal Mahila Samakhyas
MP	Madhya Pradesh
MS	Mandala Samkhya
MSRLM	Maharashtra State Rural Livelihood Mission
NABARD	National Bank for Agriculture and Rural Development
NABFINS	NABARD Financial Services Limited
NBFC	Non-Banking Financial Companies
NCAF	New Capital Adequacy Framework
NEFT	National Electronic Fund Transfer
NGO	Non-Government Organization
NOC	No Objection Certificate
NPA	Non-Performing Asset
NPS	National Pension Scheme
NRLM	National Rural Livelihood Mission
OCR	Operating Cost Ratio
OID	Over-indebtedness
PF	Provident Fund
PFRDA	Pension Fund Regulatory and Development Authority
PGPD	Plan-Grow-Protect-Diversify
PIIF	Principle for Investors in Inclusive Finance
PPI	Progress out of Poverty Index
PRI	Principles for Responsible Investment
PSIG	Poorest State Inclusive Growth
PTSLP	Post-Tsunami Sustainable Livelihood Project
RBI	Reserve Bank of India
RBIndex	Responsible Business Index
RBLT	Repeat Basic Level Training
RD	Recurring Deposit
ROA	Return on Assets
ROE	Return on Equity
RRB	Regional Rural Bank
RTGS	Real Time Gross Settlement
SACCO	Savings and Credit Co-operative
SBI	State Bank of India
SCDS	Samhita Community Development Services
SCNL	Satin Creditcare Network Limited
SERP	Society for Elimination of Rural Poverty
SFMC	SIDBI Foundation for Micro Credit
SGSY	Swarnajayanti Gram Swarojgar Yojana
SHG	Self-Help Group
SHPI	Self-Help Promoting Institution
SIDBI	Small Industries Development Bank of India
SLF	Self-Help Group Level Federation
SMERA	SME Rating Agency

SP	Social Performance
SPM	Social Performance Management; Social Performance Measurements
SPTF	Social Performance Task Force
SRLM	State Rural Livelihood Missions
TLF	Town-Level Federation
UNDP	United Nations Development Programme
UP	Uttar Pradesh
USSPM	Universal Standards for Social Performance Management
UTI	Unit Trust of India
VFS	Village Financial Services Private Limited
VLC	Village-Level Committees
VOs	Voluntary Organizations
WDC	Women Development Corporations
WSG	Women's Self-Help Group

Foreword

I am glad that the idea of an India Social Performance Report has established within the microfinance sector and the third edition of the SPM Report will be released on the occasion of the Microfinance India Summit 2013. While several efforts are being made to restore the credibility and image of the sector, particularly among the policymakers and regulators, scepticism on the intent and ethics of microfinance institutions continues. Unfortunately, very few institutions had voluntarily reduced their margins and interest rates, and had justified high interest rates as inevitable due to high transaction costs of doorstep servicing of clients. It took the serious crisis of 2010 and subsequently the issue of regulatory guidelines by the Reserve Bank of India to get the Indian MFIs bring down the prices of loans, and also to introspect and improve practices on the ground. The question, however, is whether we are just responding to a crisis and the resulting scrutiny by the regulator, or is the sector embracing the responsible finance and social performance standards in the right earnest, with the appreciation that these are core to the business of lending to the poor and low-income clients. Perhaps the need for reporting on SPM will continue to be important till clear evidence is available of its self-induction within the operations of MFIs and the intention of doing good and doing well discernible at the higher level of governance within institutions.

The concept of SPM in microfinance evolved significantly since 2005 when CGAP, the Argidius Foundation, and the Ford Foundation brought together leaders across the industry to agree on a common social performance framework and develop an action plan. The Universal Standards for Social Performance Management (USSPM) released by the Social Performance Task Force (SPTF) last year are expected to provide a much more exhaustive structure for MFIs and technical agencies to comprehend the nuances of social performance and devise policies and practices aligned to the standards. This SPM Report seeks to align the narration and analysis along the USSPM, and an attempt is also being made to initiate an objective 'work in progress' template for tracking the sector's performance year on year.

To bolster the content, ASSIST sought structured feedback from specific stakeholders on SPM Report 2012, including from sponsors, technical partners, and others, and organized two stakeholder consultations, to deliberate on the feedback and generate ideas for the next report. The two critical themes identified through this process for 'deep dives' were (a) Human Resource practices in MFIs and (b) responsible finance practices in Self-Help Group–bank linkage. Human resources are undoubtedly the most critical pillar for any organization, but more so for MFIs, since the translation of the best of policies into practices on the ground and the consequent 'client interaction and experience' depends substantially on the sensitivity and motivation of the staff. In order to generate adequate information on practices in HR management and issues and challenges faced by MFIs in this regard, a separate study covering 25 MFIs across sizes, legal forms, and states was initiated by ASSIST. While preliminary findings have been incorporated in the SPM Report, a full report of the study is also being released during the Summit. Also, the SPM Report for the first time this year includes a critique on the SHG–bank linkage programme when benchmarked with the standards and practices of responsible finance. This has also been supported by an additional sample study of 600 SHGs across three states conducted in partnership with GIZ and IFMR Research. Data on SHG practices and processes on the ground, however, continues to be a limitation, making evidence-based discourse difficult. Thanks to Jennifer and Girish at IFC, to Mr P K Saha and the SFMC team at SIDBI and Ranjani and Saneesh, Dia Vikas Capital, for providing additional support for the HR study. Jonna at GIZ quickly

agreed to support the study on SHG practices. The ASSIST management is highly encouraged with such forthcoming support to our proposals and efforts.

I would like to thank the author, the very spirited Girija Srinivasan, for continuing to support this ACCESS ASSIST initiative and for helping it evolve year on year into a comprehensive and balanced document. We value the continued association of all the technical partners—M-CRIL, CMF-IFMR, MicroSave, MIX, SMART Campaign, and the SPTF for their contributions to the report and support to the author. Equifax joined the SPM Report initiative this year with important credit bureau data. Laura Foose at SPTF spared time for an interview and cordially helped organize Girija's interactions with stakeholders at the SPTF Annual meeting, in spite of her being the busy host. I would like to also thank all the MFIs that provided their data for the report, and the institutions and individuals that Girija visited and interviewed, for enriching the report with information and their experiences and perspectives. Thanks to the team at SAGE for publishing this report, along with other sector documents of ACCESS, in really stiff timelines.

I take this opportunity to thank Prashant and Balaji, and the team at Standard Chartered Bank, for supporting this initiative as the Lead sponsor, and also graciously being hosts for feedback consultations in their Gurgaon and Mumbai offices and providing inputs on content and structure. Citi, in addition to supporting other initiatives of ACCESS, perceives value in their association with the SPM Report; thanks to Bob and Maneesha for maintaining the faith in this idea and ASSIST's ability to deliver. Thanks also to IFC and SIDBI for continuing to be on board for all the three years that this report has been published.

I would like to appreciate the efforts of the small ASSIST team, specifically Sudipto, Juhi, Nilesh, Nidhi, and Praveen, for providing efficient professional support to the author in organizing meetings, backstopping, formatting, reviewing, and data collection and analysis. Thanks to Lalitha for her excellent logistics management; and others in program support team at ACCESS. Vipin continues to be the spirit behind all initiatives of ASSIST, contributing with ideas and instilling vigour and pace in their implementation.

The endeavour of the microfinance sector should be to gradually diminish the difference between 'performance' and 'social performance', and make the two synonymous, both in spirit and practice. I hope this ACCESS ASSIST initiative will help in sectoral movement in that direction.

Radhika Agashe
Executive Director, ACCESS-ASSIST

Preface

This year's report brings in, apart from the national trends, key international developments in social performance management (SPM) sphere thanks to Vipin Sharma and Radhika Agashe who ensured that I attended the annual meeting of the Social Performance Task Force (SPTF) in Panama in June 2013. While travelling to Panama, I was stuck by the global views of my co-passengers about the sector. An IITian settled in Silicon Valley queried, 'Isn't microfinance too costly for the poor? Is it really benefitting them?' A Peruvian lawyer commented, 'In Peru we are worried about the cost of microfinance.' Coincidence or is it a universal view? In Panama as well several speakers reiterated the need to know more about clients, their livelihoods and enterprise returns, and affordability of credit.

The SPTF annual meeting enabled me to get the perspective of several social investors. Laura Foose, SPTF, ensured that I attended the key round table discussions. In spite of a hectic schedule she spared time and shared her views on global trends and what the sector needs to focus on. I am very grateful to her. Global thought leaders—Antonique Koning, Consultative Group to Assist the Poor (CGAP), Emilie Goodall, Principle for Investors in Inclusive Finance (PIIF), Frances Sinha, EDA Rural Systems, Isabelle Barress, Smart Campaign, and Kate McKee, CGAP—liberally shared their time and rich insights which benefit this report. Special thanks to Alok Misra, M-CRIL, and Lucia Spaggiari, Micro Finanza Rating, for sharing the global trends in social rating and other external assessments.

I commenced my field visits and discussions this year in Tamil Nadu with Hand In Hand. Kalpana Sankar, N. Jeyaseelan, and Raghavender Anand not only shared their rich organizational experiences and practical suggestions on improvement needed but also arranged for discussions with key bankers in the state. Senior executives of the Institute for Financial Management and Research (IFMR) group—S.G. Anil, Anand Sahasranamam, Bama Balakrishnan—were a pleasure to talk to brimming with new ideas and willing to share the innovations they are exploring to meet client needs. P.N. Vasudevan, Equitas, M. Naryanan, Madura Microfinance, Sateesh Kumar, SKS, senior management team of SMILE Microfinance, Chandrasekhar Ghosh, Bandhan, Suresh Krishna, Grameen Financial Services, C.P. Mohan, NABFINS, G.V.S. Reddy, Stree Nidhi, Rahul Mitra, Margadarshak, and Shubankar Sengupta, Arohan, spent a lot of time sharing their experiences and concerns despite their busy schedules.

The deep insights of the industry leaders such as Brij Mohan, Y.C. Nanda, N. Srinivasan, Vijayalakshmi Das, Ananya Finance, and Manoj Sharma MicroSave have enriched the report. MIX Market team, Rema Karat and K. Jayachandran, HR Axis, Alok Misra and Berenice Da Gama Rose, M-CRIL Hema Bansal, Smart Campaign, Amulya Champatiray, Centre for Microfinance (CMF) drafted some important sections of chapters for the report.

Girish Bhaskaran Nair and his team in International Finance Corporation (IFC), Venkat Natarajan, Lok Advisory Services, Sundar Rao and his team in Maanaveeya Development and Finance, Saneesh Singh and his team in Dia Vikas Capital, and Abhijit Ray, Unitus Capital, brought in the perspectives of the investors and their work.

Ragini Chaudhary, Department for International Development (DFID), Prakash Kumar, Small Industries Development Bank of India (SIDBI) and his team from Poorest State Inclusive Growth (PSIG), Chandni Ohri, Grameen Foundation, and Ramakrishna and Jonna Bickel, GIZ, provided valuable inputs from their work.

Chief General Managers (CGMs) of NABARD—K.K. Gupta, Uttar Pradesh, K.R. Nair, Andhra Pradesh (AP), G.R. Chintala, Karnataka, S. Padmanabhan, West Bengal, and H.R. Dave, BIRD—have shared their perspectives of the sector and were generous with their time and resources for which I am thankful. Sitaramachandra Machiraju, World Bank, and Leena Bansode, Maharashtra State Rural Livelihood Mission (MSRLM), enthusiastically shared their work for financial inclusion of poor households under National Rural Livelihood Mission (NRLM). Vikram Kapur, IAS, and his team in Post-tsunami Sustainable Livelihoods Project (PTSLP), Sonali Vayangankar, IAS, and her team in MAVIM, Hand in Hand team, Narendranath, PRADAN, Joslin Thambi, BWDA, Umamaheswara Rao, Indur Intideepam MACS Federation, bring in the perspectives of Self-Help Group Promoting Institutions (SHPIs) and large scale government programmes in Self-Help Group (SHG)–bank linkage. C.S. Reddy and his team in APMAS shared information and insights on SHG–bank linkage programme.

Achla Savyasaachi, Sa-Dhan, and Alok Prasad, Microfinance Institutions Network (MFIN), shared the work that has been carried out by the industry associations. AKMI (Karnataka) and West Bengal Association of Microfinance Institutions (AMFI-WB) arranged for discussions with their members and the section on regulation draws heavily from their inputs. Frances Sinha and her team in EDA Rural Systems, Yamini Annadanam, MicroSave, shared the work their organizations are doing and also results of the technical assistance to microfinance institutions (MFIs).

This year, I could meet with several bankers. P.K. Saha and his team in SIDBI, M.R. Venkiteswaran, AXIS Bank, J.K. Thakar and Sathiayamoorthy, State Bank of India, senior officials of Andhra Bank, M. Balakrishnan, Indian Bank, Manohara Raj, HDFC Bank, Sarat Yadav, ICICI Bank, Bonam Srinivas, IndusInd Bank, Balaji Iyer, Standard Chartered Bank, Ajay Desai, Yes Bank, Praveen Kumar, ADFT, Chennai, E. Kotti Reddy, Andhra Bank, Kunal Mehta, Ratnakar Bank, and several branch managers of commercial banks and Regional Rural Banks (RRBs) bring in the bankers' perspective to the report.

ASSIST provided all necessary support to make the report development a smooth affair. Radhika Agashe backstopped the report technically. Sudipto Saha read through the drafts and made useful suggestions for improvement. Juhi Natu, Nilesh Arya, and Deepak Goswami arranged meetings with key stakeholders. Nidhi Joshi and Praveen Shrivastava helped in analysis. Lalitha Sridharan as usual has been her efficient self and enabled the logistics.

I am thankful to N. Srinivasan for his very useful suggestions on the framework and content of the report.

Even as I send in the final draft of the report, the questions on affordability of credit for poor clients continue to nag me; we still haven't found an answer to cost-effective financial services for the poor. Nor do we know enough about their financial lives. This is the concern that microfinance should focus on; hopefully with support from the state.

Girija Srinivasan

Overview: Confidence returning to the sector—will credibility follow?

1

Chapter

Microfinance market showed obvious signs of improving in the last year as compared to the previous two years. The Reserve Bank of India (RBI) regulations focusing largely on customer protection ensured the stability of the sector. Microfinance Institutions (MFIs) outside of Andhra Pradesh (AP) have stabilized and many of them are back on the growth path. Banks have resumed lending at moderate and increasing levels to MFIs enabling many to stabilize and a significant number of Tier 1 and 2 MFIs to post growth.

SHG–BANK LINKAGE PROGRAMME

Self-Help Group (SHG)–bank linkage programme has been relaunched as SHG 2 by National Bank for Agriculture and Rural Development (NABARD). SHG 2 of NABARD lays emphasis on mobilizing voluntary savings within groups as well as with the banks, smoothening credit flow through cash credit system, facilitating larger loans for select members through Joint Liability Groups (JLGs) within SHGs apart from risk mitigating measures to build confidence of bankers in lending to SHGs. NABARD also launched its five-year training strategy for capacity building of various stakeholders in SHG 2.

National Rural Livelihood Mission[1] (NRLM) has been rolled out and has achieved varying degrees of progression in 12 states. As a flagship poverty reduction programme of the government, the programme focuses on inclusion of poorest poor into SHGs and their federations. Recent RBI guidelines for the banks to finance SHGs under NRLM has made an important departure in the savings-led programme—the groups are eligible to get credit of specific amounts in each loan cycle irrespective of the savings amount. Thus savings to bank credit ratio has been dispensed with. NRLM has a credit push approach and aims to dispense subsidized credit to spur livelihood promotion.

Under SHG–bank linkage programme as of 31 March 2013, 7,317,551 SHGs have a savings account with the banks which is 6 per cent lower as compared to the previous year. However, the savings amount with the banks registered a 25 per cent increase and stands at ₹82.17 billion. The average savings per SHG with the banks is ₹11,229. However, the total savings of the groups will be higher since bulk of the savings is internally lent. During the year, 1,219,821 SHGs were disbursed bank loans to the tune of ₹205.85 billion (average per group disbursement was ₹169, 000).

As of 31 March 2013, 4,451,434 SHGs (61 per cent of those with savings accounts with banks) have outstanding bank loans and the loan outstanding was ₹393.75 billion (average per group loan outstanding was ₹88,000). The loan outstanding has registered an increase of 2 per cent in number of groups and 8 per cent in amount as compared to last year. The bank linkage seems to be plateauing. The cause for concern is the rising level of non-performing assets (NPA) to total outstanding at 7.08 per cent an increase of 1 per cent over the previous year. NPAs in absolute amounts have increased by 26 per cent.

PROGRESS OF MFIs

As of 31 March 2013, Microfinance Institutions Network (MFIN) members had 24.44 million clients.[2] These are not unique clients and there is an overlap of clients between MFIs. Non-AP MFIs reported an increase of 22 per cent in clients over financial year 2011–12. Large MFIs (gross loan portfolio of more than ₹5 billion) account for 82 per cent of the total

client base. As per MFIN data, which represents 41 Non-Banking Financial Companies (NBFC)–MFIs and 85 per cent of microfinance clients in the country, the outstanding loan portfolio as of March 2013 was ₹212.45 billion. Gross Loan Portfolio growth has been fairly broad-based, with 82 per cent of MFIN members reporting growth in 2012–13 over previous fiscal year. Loan disbursed during 2012–13 was ₹233.64 billion, an increase of 13 per cent, as compared to a reduction of 38 per cent in the previous year. During 2012–13, MFIN members disbursed 18.10 million loans, an increase of 5 per cent over 2011–12.

Average loan amount disbursed on a pan-India basis remained below ₹15,000 though some MFIs had substantially increased loan size. Total funding to the industry increased by 79 per cent, wherein, funding increase for non-AP MFIs[3] was 66 per cent. Portfolio quality has been very high with Portfolio at Risk (PAR) figures (PAR 30, 90, 180) for the non-AP MFIs remaining under 1 per cent for 2012–13. Loan disbursements in states such as West Bengal, Tamil Nadu, Kerala, Bihar, Assam, and Uttar Pradesh have shown high growth. Overall, the branch network and staff strength of MFIs continued to drop in 2012–13. However, group of non-AP MFIs increased their branch network by 4 per cent and employee base by 9 per cent.

RBI regulations have brought about some stability to the sector. Though the NBFC–MFIs have applied to RBI in October 2012, the licences are yet to be issued. RBI has given reprieve to larger MFIs till 2014, to comply with the margin cap of 10 per cent. At present, all MFIs have to adhere to 12 per cent margin cap. RBI introduced some changes to the fair practices code for adoption by NBFC–MFIs.

The margin and interest caps imposed by the RBI are forcing MFIs to be disciplined and to improve their efficiency. Margin caps have brought about pressure to improve operating efficiency and cut down costs. Many MFIs had to roll back their business plans especially those in the expansion mode. Operational strategies were revised in terms of consolidating/merging branches, changed repayment frequency from weekly to fortnightly/monthly, increasing number of members in the centres thus increasing the case load and business per branch/credit officer. A few institutions such as CASHPOR are investing in technology to improve efficiencies.[4] Loans are approved on a centralized basis in many institutions which might have increased operational expenses but improved asset quality and processes. Some MFIs increased the loan size and client load per staff in order to improve efficiency. Whether these measures will weaken interaction with clients and customer care will need examination.

MFIs operating in hill and remote areas have very high cost of operations but provide a very useful service to their clients since few formal institutions operate in these remote areas. Applying the uniform margin cap on such institutions is likely to reduce service availability in such areas.

The regulatory norms still prohibit NBFC–MFIs from operating as a business correspondent (or bank agent). MFIs in NBFC format have to work with institutions in other legal forms to offer other financial services to the clients.

MICROFINANCE REGULATION

The sector is eagerly awaiting the passing of the Microfinance Development and Regulation Bill by the Parliament which will establish legitimate space for MFIs to operate. There is apprehension that some states might promulgate Andhra Pradesh like Ordinance. Sa-Dhan and MFIN have jointly been meeting the Parliamentarians to canvass for the early passing of the Bill. The Bill envisages that the RBI would be the regulator of the MFI sector, regardless of legal structure. The aims of the Bill are to regulate the sector in the customers' interest and to avoid a multitude of microfinance legislations in different states. Requiring all MFIs to register is a critical and necessary step towards effective regulation. Compulsory registration of the MFIs would bring the erstwhile moneylenders into the fold of organized financial services in the hinterland who had been acting as MFIs so far.

Two MFIs have filed applications for banking licence. Many large MFIs want to serve poor and low-income clients with full range of financial services and are hopeful that RBI will enable setting up of microfinance banks. As Chairman of the Committee on Financial Sector Reforms,[5] the present RBI Governor Raghuram Rajan had laid out a comprehensive agenda to improve access to finance including setting up of small financial institutions. The RBI has recently put out a discussion paper on banking structure which invites public opinion on the institutional architecture in financial sector. The space for small banks and financial institutions is also a subject of discussion. A newly constituted financial inclusion committee will now examine the role of MFIs as well as SHGs and their federations in financial inclusion. The committee will hopefully lay down the blueprint for some MFIs to transform to full service providers.

In terms of their operations, MFIs are highly dependent on banks for satisfying the client need for loans. Lending banks seem to prefer NBFC–MFIs and Section 25 companies. MFIs in other legal forms have to largely depend on personal rapport with local offices of public sector banks to raise loan funds. The loan sanctions and disbursements tend to be concentrated around the last quarter and subject MFIs and their customers to avoidable liquidity stress.

Industry watchers mention that growth in the last year has been in Tier 1 and 2 cities and peri-urban towns. State-wise analysis undertaken by MFIN shows that in terms of growth in gross loan portfolio, Punjab, Kerala, Uttar Pradesh, Bihar, Haryana, and Jharkhand are the fastest growing states. MFIs have been cautious in expanding to new areas especially interior rural areas probably because of high cost of operations. Largely new area/branch expansion decisions have been taken only after considering the effect of the existing competition and also the scope for business in such areas. RBI instructions on the maximum number and amount of loan per customer have had a sobering effect in choice of new markets by MFIs.

WOES OF SMALL MFIs CONTINUE

There is a perception that small localized Tier 3 institutions do not have economies of scale and thus are not viable. Larger MFIs operating in several states are preferred by banks. Credit rating agencies also routinely award higher scores for such institutions. As per MFIN data, large MFIs (gross loan portfolio > ₹5 bn) accounted for 80 per cent of the loan amount disbursed during 2012–13. Some of the small MFIs are facing operational challenges and, therefore, closing branches and are reducing staff strength.[6] Small localized MFIs have in depth local knowledge, client focus, and rootedness in the community they serve and some of the stakeholders are concerned that the social capital these institutions have built should not be lost. However, these institutions are getting marginalized and are not able to raise adequate levels of debt or capital (please refer to Table 1.1. for key indicators of business of small MFIs). Stakeholders interested in spread of financial services to remoter areas should focus on the smaller institutions.

All business and efficiency parameters are lower for small NBFC–MFIs primarily because of lack of funding from banks and other financial institutions. Given the fact that MFIs in other legal forms are not preferred, the overall situation of all other small MFIs is likely to be similar if not worse.

Table 1.1 Key indicators of business of small MFIs

Key indicators	Total for non-AP MFIs	Non-AP MFIs with loan outstanding		
		Less than ₹1 billion	₹1 to 5 billion	Greater than ₹5 billion
Client per credit officer	509	370	527	523
Clients per branch	2,565	1,622	2,041	2,928
Average loan outstanding per client	9,766	6,956	8,960	10,251
Gross loan per branch	25.04	11.28	18.29	30.01
Gross loan outstanding per loan officer	4.97	2.57	4.75	5.36
Funding from banks (year-on-year change from 2011–12 to 2012–13)		43%	68%	85%
Positive growth rate in gross loan portfolio (number of all MFIs)	33 out of 41	10 out of 15 reporting to MFIN (includes 1 AP MFI)	15 out of 15 reporting (includes 4 AP MFIs)	8 out of 11 (includes 4 AP MFIs)

Source: MFIN, 2013, *MFIN micrometer*, data as on 31 March 2013, New Delhi.

UNIQUE AND INNOVATIVE INITIATIVES BY PRIVATE SECTOR BANKS

A recent trend in commercial banks, especially private sector banks, is providing direct financial services to the customers in the bottom of the pyramid. Unique and innovative initiatives are being undertaken by them for not only dispensing credit but also in providing other financial services such as savings, insurance, etc., RBI norms for NBFC–MFIs in respect to client household income, maximum loan size are followed by them. While they utilize the credit bureau reports to assess the over-indebtedness levels of the customers, they are not active subscribers to these credit bureaus and do not share their data. The interest rate charged is also close to what MFIs charge to the customers since these initiatives are yet to break-even. Some of the industry watchers believe this will be the best way forward for financial inclusion.

EQUITY INVESTORS MAKE SIGNIFICANT INVESTMENTS BUT BREADTH IS LOW

During the year, significant equity investments were made in the sector. During the financial year 2012–13, the equity investors invested ₹8.69 billion in about nine MFIs. Developmental financial institutions (DFIs)—International Finance Corporation

(IFC), FMO—were the major investors. While the NBFC–MFIs attracted these investments, MFIs in other legal forms were supported by Small Industries Development Bank of India (SIDBI) through Indian Microfinance Equity Fund. Smaller MFIs continued to struggle for equity.

Reportedly, investment appetite of equity investors is not as robust as before. Social investment is limited and private investment is subdued. Most of the global microfinance investment vehicles (MIVs) are fully committed and are in the process of raising additional funds. Given a choice many of the foreign investors may like to invest through debt instruments rather than equity. The state governments' power to invoke the provisions of Moneylenders Act worries the investors. With the margin cap the returns to investors are limited. With operating expense ratio of 8 per cent, the expected return on equity at 10 per cent and with 20 per cent annual growth rate, the internal rate of return (IRR) on equity investments is likely to be less than 15 per cent. A sector which promised 25 per cent and above returns now offers more balanced returns. Operationally efficient institutions are in a position to deliver better financial returns to the investors and thus attract equity. Some of the social investors have exited from their existing investees. They have largely sold to another set of social investors or DFIs. The returns have been robust for some of the investors who invested early.

GOVERNANCE AND SOCIAL PERFORMANCE MANAGEMENT

Board's attention on responsible finance agenda and social performance management (SPM) has significantly increased during the last year. Board committees for SPM/responsible financing have been set up by some MFIs. Some boards have inducted new board members with responsible finance or SPM expertise. Boards of many MFIs seem to have more independent directors than in the past. Board committees to deal with audits, social performance (SP), and remuneration have been set up in a number of institutions. The Board of Equitas has taken a unique measure of analysing each board proposal from the lens of clients, staff, and other stakeholders.

The boards have also ensured appointment of key persons within the management of MFIs to attend to SPM issues and to report on the same. Several boards require that a SP report be discussed periodically in their meetings. A report card on the corporate social responsibility activities undertaken by the MFIs is also placed before the boards. More MFIs have consciously taken the decision to cap their return on equity (ROE)/return on assets (ROA). Internal audit teams in many MFIs systematically check on compliance to regulatory norms and these reports are also placed before boards. MFI boards are taking serious cognizance of the regulatory compliance. Few boards such as SKS are not merely satisfied with internal reports on compliance of customer protection but are mandating the third party verification of ground level practices.[7]

However, most of the governance attention on SPM is more in a compliance mode. Many boards do not proactively seek to look at what makes the customer better and how to secure the interest of the customer in a manner that a customer is satisfied with the institution. The boards require improved capacities to attend to SPM-related issues. Board members should talk directly to staff and clients (and not just management) and should listen to their suggestions on improving field practices. Balancing between higher operating cost, lower profits, and increased SPM activities is an area that the board needs to consciously address.

Box 1.1 Vasudevan CEO, Equitas

Governance committee of Equitas, whose mandate is to improve governance practices, has decided that every resolution put up to the board will have an analysis on potential impact on stakeholders not represented in the board, viz. clients, employees, regulator, society, and other minority shareholders. Thus the business plan proposal will discuss fair pricing to the client, work-life balance of employees, etc.

Source: Personal interview.

Box 1.2 Monitoring of social outcomes by CASHPOR board

CASHPOR's Board goes beyond the regulatory minimum to measure social outcomes of its clients. The Board is very active in ensuring assessment of social outcomes, prioritizing, and regularly reviewing the MFI's system to track growth in borrower wealth holistically through variables such as assets, income, as well as access to education and health services.[8]

Source: CASHPOR, 2013, *Annual Progress Report,* Varanansi.

FINANCIAL PRODUCTS AND OTHER SERVICES

MFIs have been consolidating their business including products and services. Some MFIs continue to offer vanilla loan products with some variants. Microfinance Information Exchange (MIX) market reports that one in 10 MFIs offer only a single credit product and no other financial services whatever. Many MFIs increased loan sizes of their existing loan products. Some of them almost doubled the loan sizes for mature clients thus fulfilling the demand of the clients for increasing the loan sizes. Some MFIs in order to retain clients and be at least the second lender are sanctioning loans in such a way that as soon as one loan is repaid another loan is disbursed.

Most MFIs remain dependent on group-based mono-credit products. Industry leaders find fatigue in group methodology—both JLGs as well as the SHGs. Field-level interactions and stakeholder discussions reveal that there is impatience in attending the meetings. While MFIs track the drop out ratio of the clients, several SHG programmes do not track this consciously.

Box 1.3 Suresh Krishna, CEO, Grameen Financial Services

There is no separate 'social performance' about microfinance; to be in business, we need to be with the clients. Today clients have more choices. We have to be client-centric in processes and products. Otherwise we cannot exist.

Source: Personal interview.

Generally client feedbacks obtained by MFIs point to two key requirements—larger loans and savings facilities. Long-time clients whose businesses had grown beyond group loans reported they were unable to obtain larger bank loans and wanted MFIs to offer suitable enterprise development products to them. However, regulatory environment is not conducive for MFIs to offer larger loans. MFIs that were offering individual loans for enterprises had to roll back/curtail the product to meet the RBI norms.

Savings, health/livestock/integrated insurance, micro housing, micro enterprise, micro pensions, and gold loans are some of the new products that some of the MFIs are piloting. Social investors and lenders such as IFC, DiaVikas, Manaveeya have been supporting such initiatives.

Most of the institutions have developed a delinquency management policy and some have got board approval for the same. Many MFIs as part of the policies inform the staff in advance on the penalties for non-compliance with collection practices and violations. However, many institutions still reschedule the loans on an ad hoc basis without proper guidelines.

The development loan products—water and sanitation, housing, solar energy continue to be offered though the scale is limited keeping in view the qualifying asset criteria of RBI. CASHPOR during the year introduced four new developmental loan products but has projected only limited outreach for next three years. Emergency loans are offered by some MFIs to enable the clients tide over sudden shocks. Many of these loans are smaller ticket size and hence the transaction costs for these loans are higher. A key concern is the pricing of such loans; the pricing data published by MicroFinance Transparency[9] (MFT) shows that these developmental loans are usually priced as high as the other loans. Though there is felt need for loans for these purposes and a large market exists, whether the poor can afford these loans at near market rates is an issue for the MFIs to consider while determining the pricing for such loans.

Micro insurance: MFIs in order to meet client needs and earn fee-based income have been offering additional financial services such as insurance and pension. MIX market analysis shows that Indian MFIs provide voluntary insurance to their clients more frequently than South Asian MFIs and in terms of options, over 70 per cent of these voluntary insurance offerings go beyond credit life insurance,[10] 27 per cent include health insurance, and 20 per cent include agricultural insurance. As per the current regulations of Insurance Regulatory and Development Authority (IRDA), MFIs have not been allowed to be distributors of insurance products and the incentive for MFIs to be selling these insurances is also very limited. There is little innovation in micro insurance product development from mainstream insurance companies.

Micro pension: Some MFIs have introduced pension products to low-income clients which are long-term savings products that would provide an avenue for the clients to save and build a corpus for their old age. Products such as NPS Lite allow MFIs to meet needs of clients to save. Although MFIs are not allowed to accept savings, they can distribute pension products where they act as agents of the pension funds managed by financial entities under Pension Fund Regulatory and Development Authority (PFRDA). This eliminates any financial risk for the MFI clients.

Pension products provide alternate option of revenue for the MFIs, thus making the service offering viable for the MFIs as well and making it a win-win situation for both the MFI and the client. The clients have to be informed of this choice they have in depositing their contribution with any of the aggregators. Otherwise, the clients will have a misconception of being bound to the MFI for a long term.

Many MFIs wish to innovate on products and business models; however, only a few have embarked on new products. Research into client needs and developing new products has been minimal. Despite the regulator specifying that 75 per cent of all the loans should be for income-generation activities and supporting livelihoods, product development has really not taken place to support this loan portfolio. Current products tend to support businesses and enterprises which produce regular and periodic income from which clients can service weekly, fortnightly, or monthly instalments. But they do not support livelihoods which produce lumpy cash flows such as production and marketing of crops, livestock, etc., so one can't really say that product development has kept pace with the requirements of what the regulator wants and what responsible finance agenda is about. The real needs of the customer in developing their enterprises, developing their livelihood activities, are yet to be systematically captured and addressed.

Poor households set aside periodically a sum of cash for repayment of loans. If the poor have an opportunity to save a similar amount in a safe channel, they can avoid taking high cost small loans. Poor and low-income households are forced to take a loan for emergencies since there is little opportunity for mobilizing their savings and building an asset base. If the clients had an opportunity to access a safe savings channel, promoting savings products aimed at education, health, and life cycle events should be possible.

Box 1.4 MFIs unable to offer different products

MFIs keen on offering multiple products have to find ways within a complex and challenging regulatory environment. Today saving services has to be offered through a Banking Business Correspondent (BC), credit and pension is through MFIs, and insurance through other agencies. None of the products other than credit are cost covering.

Source: CEO of MFI.

Suitability of product—A paradigm shift: There have been some thinking on a new paradigm on customer protection in financial services. Product suitability paradigm advocates shifting the onus of consumer protection from the buyer to the seller of financial services, to offer products that are suitable for the clients, through legal liability on the financial services provider for misspelling.[11]

Box 1.5 Financial Sector Legislative Reforms Commission (FSLRC) report assessment of suitability of a product

The draft Code establishes certain basic rights for all financial consumers and creates a single unified Financial Redressal Agency (FRA) to serve any aggrieved consumer across sectors. Retail consumers may be in a situation where they are not able to fully appreciate the features or implications of a financial product, even with full disclosure of information to them. This makes a strong case for a thorough suitability assessment of the products being sold to them. The draft Code provides this protection by requiring that any person who advises a retail consumer in relation to the purchase of a financial product or service must obtain relevant information about the needs and circumstances of the consumer before making a recommendation to the consumer.

The draft if enacted will have far-reaching implications in the way financial services including microfinancial services are designed and delivered in the country.

Source: Report of the Financial Sector Legislative Reforms Commission, Volumes 1 and 2, Government of India.

Appropriate and fair pricing: While, globally there is debate on what is the appropriate pricing and what is balanced returns, in India the pricing has been determined by the regulation. Absolute adherence to the interest rate ceilings is reported by MFIs and industry associations confirm this. Microfinance transparency has updated the pricing information on 39 NBFC–MFIs in association with MFIN. The income-generation loans are priced between 22 to 32 per cent; individual enterprise loans (beyond ₹50,000) are charged higher. Surprisingly, some of the developmental loans including for emergencies are charged higher than the income-generation loans by a few institutions.

A few institutions—CASHPOR, Ujjivan—reduced their interest rate during the year. The MFIs are

tracking their margins as required by the RBI and endeavouring to ensure adherence to the ceilings imposed. NBFC–MFIs have an obligation to satisfy the RBI norms on the ceilings. Banks ensure that MFIs in other legal forms follow the RBI regulations. Clients are also educated of the effective interest rates and adequate information is provided in the loan cards.

Code of Conduct Assessments (CoCA) have found that MFIs are largely satisfying the RBI norms. However, a few aberrations in practices are found on the ground in a few MFIs such as charging fees for credit bureau checks, loan cards, passbooks, etc., MFIs reportedly are taking corrective action after the assessments. Lenders to the MFIs and enforcement committees of the industry associations will need to take cognizance of these practices and ensure adherence to the regulations.

MFIs are not bundling other products with credit except credit life insurance. Life and health insurance products, pension products are offered as standalone products by some MFIs.

The interest rate the MFIs charge has always been a point of issue for the state which wants the poor to benefit from low cost of credit. MFIs are recovering from the problems of 2010 and many are yet to get back to the level that they were in terms of business volumes and operating costs. Unless their operating cost comes down substantially and business volume per staff increases they can't work within the reduced margin of 10 per cent. In the case of the larger MFIs the proposed margin reduction will have potential to bring down the interest rate to the clients; but that will depend on the cost of funds which seems to remain content in its high perch.

So a definition of what is fair price has to be evolved through consensus; means of adopting fair prices should be thought of. If a fair price means a low price then welfare objective of the state has to take responsibility. Governments then have a role to play as they do in the case of SHG–bank linkage loans and crop loans for farmers. They must subsidize the final prices so that the MFIs are able to offer what government thinks is a fair and low cost.

MFIs are the most cost-efficient in delivering credit in rural India as per Institute for Financial Management and Research (IFMR) Foundation study.[12] The model for the study is that a bank has a total of ₹100 million (₹10 crores) of credit that has to reach 10,000 rural customers for an amount of ₹10,000 each, through three channels: (a) bank branches, (b) through SHGs, and (c) through MFIs (see Table 1.2). Four components of cost have been taken into account for calculating the total cost of credit delivery—cost of debt, cost of equity, loan loss provision, and transaction costs. The cost of delivery to the bank and observed price to the customer have been computed.

Table 1.2 Total cost of lending under different channels

Source	Channel	Total optimized cost	Observed price to customer
Public Sector Bank	Bank branch	41.53	11.25
	SHG linkage	28.93	24
	MFI (rated BBB)	17.29	27
	MFI (rated A)	14.71	27
	MFI (rated AAA)	13.75	27
Private Sector bank	Bank branch	32.07	14
	MFI (rated BBB)	17.29	27
	MFI (rated A)	14.71	27
	MFI (rated AAA)	13.75	27

Source: Cost of Delivering Rural Credit in India, IFMR Finance Foundation, Chennai.

Two key findings that emerge from the study are banks lose less money while meeting the policy goal of lending at 12 per cent to the customer if they work with low-cost partners. SHG lending because of high risk cost end up consuming significant Tier 1 capital of banks. If interest subvention is provided to low-cost partners such as MFIs the credit can be provided at reasonable rates to the customer and without much losses to the system.

The indebtedness of clients to MFIs is systematically tracked in recent times with the entry of credit bureaus. Most large MFIs are members of the credit bureaus and submit data at least on a monthly basis. MFIN has mandated all members to join both the credit bureaus (High Mark and Equifax). MFIN members have agreed among themselves to use the credit bureau reports for all loans disbursed. This has ensured that at the time of disbursement, the MFIs are in a position to adhere to norms of two lenders per customer and ₹50,000 loan per customer. The overlap in certain locations which was as high as 20 per cent has now declined steeply. This points to much greater adherence to the credit discipline imposed and the customer awareness about credit referencing.[13] The industry has to be lauded for the efforts undertaken for making this mechanism functional.

Some of the MFIs are seeing this is as the total cure for avoiding customers with excessive levels of

debt. An MFI tracked the level of debt of borrowers who have been disbursed loan previously. This exercise showed that around 6 per cent of the customers have more than two MFI loans despite all the verifications done through credit bureau. Of this about 3 per cent or so have three loans from MFIs and the remaining three have more than three loans. If such a study is carried out in other areas, the figures can be higher. Not all MFIs, especially those which are not in the company form, are part of the credit bureau. Due to the monthly data upload system, the time lag between disbursing a loan and submission of information to the credit bureau is long and during this time lag, other institutions can provide fresh loans.

Moreover, the credit bureau mechanism provides only partial information on the debt levels. Data on SHG members' debt are not provided to credit bureaus. Households borrow from informal sources as well. The debt levels arising from all these sources are not part of any kind of centralized mechanism. Some recent small sample-based but focused studies on debt levels of clients show that loans from SHG/MFI are only 20 per cent of the overall debt of the household.

Box 1.6 Loan defaults versus over-indebtedness in rural Tamil Nadu—CGAP blog

In India, the state of Tamil Nadu is not facing a severe crisis. But repayment problems appear increasingly problematic, based on field work I did in January 2013 including interviews with managers of MFIs, NGOs, bankers, and credit officers, visits to 10 villages and group discussions with clients.

Microcredit represents only a small part (on an average microcredit represents around 10–20 per cent of their outstanding debt). The bulk of the debt comes from other sources, often informal: pawnbrokers, local moneylenders (local elite, landowners, etc.), relatives and friends, and private financial companies. However, repayment of loans to micro-lenders may be more problematic than loans from other sources. Microcredit is often rigid, obliging clients to borrow from other sources which might be more expensive (but not systematically), and which are extremely flexible and negotiable.

Credit supply for the poor and the unbanked is highly dynamic. Consumer credit in particular is mushrooming (through credit companies, but also private individual agents) and offers very convenient services (at the doorstep, without any obligation in terms of saving, group meeting, and training). Since they have many alternatives, clients have little incentive to repay their microcredit loan.

The author raises two key questions based on Tamil Nadu experience:

Informal finance: This source of funds is perhaps particularly high in south India but is widespread in many regions. As we seek to measure market saturation and risks of credit crises, can we find ways to include informal finance in our analyses?

Social 'integration' of microfinance: To what extent can microfinance utilize existing local practices and social networks in an appropriate manner to build trust and encourage responsible lending and borrowing, without reinforcing inequality?

Source: Isabelle Guérin. Available at http://www.cgap.org/blog/loan-defaults-versus-over-indebtedness-rural-tamil-nadu, accessed on 10 June 2013.

RBI's fair practice code[14] guidelines direct that the field staff of NBFC–MFIs should be trained to make necessary enquiries with regard to existing debt of the borrowers. Moreover, the staff is also expected to assess the repayment capacity of the clients as part of loan appraisal process. Grameen model with group guarantee mechanism is followed by many of the MFIs and detailed household debt and repayment analysis is traditionally not part of the loan process. MFI staff rely on the self reported data of clients on income, debt repayments, and other expenditure. The income criteria of RBI are adhered to through self-declaration by households and clients often report lower income to fit into the criteria. Stakeholders are concerned that in some pockets clients may be getting more loans than what they can absorb.

MFIs should ensure that the field staff actively gathers information relating to debt levels of the customers and apply their own mind in coming to right conclusion. In several locations, clients don't want to devote a lot of time to give elaborate details probably because they are confident about getting a loan from another MFI. Staff is also under tremendous pressure to lend. Knowing that there is much more to the customer debt level than merely MFIs that are part of credit bureau database, the sector should invest much more in actively gathering information and in

better appraisal systems to ensure that the customers are not over indebted.

All the large MFIs adopt JLG methodology. The joint liability mechanism ensures that recovery rates are high. While some MFIs have done away with the joint liability of the members and the group is utilized for only aggregation purposes, others still insist on the joint liability of the members for loan repayment. MFIs report that this mechanism can be misutilized for coercive recovery and often members don't want to bail out others. The intra group loan adjustment is not captured by the MFI and, thus, not by the credit bureaus as well. The dilemma expressed by MFIs is if the information is captured and monitored, it will weaken enforceability of joint liability mechanism.

Grievance redressal is an area in which MFIs have invested over the last one year. Many MFIs have a toll-free number for clients which are handled by separate cell/staff. A few have appointed ombudsmen usually senior executives not directly involved in operations to look into serious issues. Some of the MFIs have a written grievance redressal policy and framework that requires customer's complaints to be investigated and resolved in a timely manner. There are procedures in place relating to recording of complaints, escalation of complaints to higher levels, and complaints resolution processes.

There is greater communication to the customers on the use of these mechanisms. Some of the boards periodically review the status of complaints and grievances registered and the manner of their disposal. The RBI required the MFIs to indicate the nodal officer of regional office of the RBI as an additional authority to receive and resolve complaints.[15] There are a few MFIs where the grievance redressal mechanism works very satisfactorily. MFIs such as CASHPOR transparently share information on the number and nature of grievances of the clients and the time taken to resolve the grievances in their annual report.

Transparent information sharing in pricing and appropriate disclosures to the clients has vastly improved during the year. MFIs have issued loan passbooks or loan cards that provide information on the loan terms, the number of instalments, the amount of principal and interest payable by the customer, the effective rate of interest (usually expressed as annual percentage rate), the processing charges, and insurance premium payable if any. Loan cards provide information on the loan conditions. The toll-free number for making queries/complaints and other means of contacting the senior MFI officials are printed on these cards. Most MFIs have processes in place to explain the information on the cards to the clients. Visits to the field show that many customers in each group if not all the customers are aware of product and pricing details. They are also aware of ethical behavioural needs of staff. So access to the information required for transactions with the MFIs, are available with clients. This is a positive development arising from the RBIs regulatory guidance.

MFT had more than a kind word for the microfinance sector in India. Based on an analysis of pricing data, MFT concluded that Indian MFIs are more focused on poor, carry lower interest rates, and provide credit plus services despite low interest rates (see Box 1.7).

Responsibility to staff: During last year, as per MFIN data MFI employee count decreased by close

Box 1.7 Analysis of the pricing data by MFT

High transparency scores: All products in the pricing data set of Indian MFIs display a high level of transparency, with 99 per cent of borrowers receiving loans that have a *Transparency Index* in the highest quartile. This is due to the RBI regulation on interest, fees, and insurance that can be charged from the clients and also information to be given to the clients of the pricing.

Low prices: Contrary to trends seen in other countries, prices do not correlate to factors such as loan disbursement size or loan term. Average full annual percentage rates (APRs) of products range from 28 per cent to 30 per cent, across the range of loan sizes and loan terms. The price levels also represent a significant reduction from the prices seen in 2010.

Small loan sizes: India continues to focus on loans for poor and low-income households, with 75 per cent of the borrowers accessing amounts between ₹5,000 to 15,000 representing loans at less than 25 per cent of gross national income (GNI) per capita. These are loans very much targeted at the bottom of the economic pyramid in comparison to microfinance in other countries.

Integration with other services: Despite the relatively low prices, many MFIs bundle other training and technical services together with their credit product. In other markets, the higher cost of bundled services leads to higher prices, but the India prices still remain low relative to other countries.

Source: Micro Finance Transparency.

to 12,000 since AP MFIs shed their staff strength by 38 per cent. However, non-AP MFIs especially large and medium MFIs have increased their employee base by 16 per cent and 6 per cent respectively. Small MFIs in all legal formats including NBFCs have faced difficulties and reduced their staff strength.

Staff training on Code of Conduct (CoC) received high attention in many MFIs. The staff has been trained not just on the contents of the CoC but also on the field practices that will make the clients comfortable. Staff has received guidance on what is appropriate behaviour—places of meeting the customer, forms of addressing the customers, and also the nuances in communication that are appropriate in the local context. Continued efforts at training staff on CoC are required to make MFIs move from compliance with the code to observance of the spirit of the code. Moreover, unless an institution has robust internal audit and fraud control system it is difficult to track staff behaviour with clients. This is an area where some of the MFIs have to improve.

The study commissioned by ACCESS-ASSIST on Human Resources (HR) practices shows that apart from stressing on efficiency and productivity, HR processes from recruitment, training, performance measurement, and incentives focus on various aspects of customer protection, responsible finance, and SP. For some of the institutions their primary stakeholder is clients; however, there has to be a balance and the institutions should have systems to understand and address staff concerns as well. Senior management needs to have more personal touch with field staff. Many institutions are increasing the number of clients handled by a field staff to improve efficiency but larger the client base, the less time the staff gets to interact with the clients meaningfully. There is lot of pressure on staff to be the second lender.

The staff turnover rates are high in India as has been found by studies and SPM assessments. Previous MIX research on the Latin America and Caribbean (LAC) region has shown that, in addition to the direct social and financial implications of high staff turnover, MFIs lose about 150 clients for each staff member who leaves. This loss is attributable to staff members bringing their clients along with them when they leave one MFI for another.[16] Since the social and financial implications of rising staff turnover are high, a more thorough investigation of Indian staff turnover seems warranted.

Despite the problems facing MFIs in staffing, some have ensured that they provide the right environment for the staff to work. In the survey conducted by 'Great Place to Work' for the year 2013, Ujjivan was ranked seventh and was ranked the best in the financial services industry. Equitas stood at 44. The two MFIs were ranked third and fourth respectively in the category of Best Companies for engaging the front line staff.

COST OF COMPLIANCE

MFIs find that the cost of compliance with regulations and investor/lender expectations is increasing. Incremental costs of having independent directors on board, conducting of additional meetings of board and committees, changes in processes to track client incomes, debt levels and purpose of loans, dissemination of information to customers, internal audits, and inspections of responsible finance practice, external assessments,[17] etc., have been increasing. However, these are treated as the price of doing business. Both equity and loan funds should increase so that these costs are distributed over a larger number of customers and large loan portfolio. A study is being commissioned by SIDBI on viability of MFIs under which the cost of compliance related aspects will also be examined.

FINANCIAL LITERACY TRAINING

Many MFIs are making conscious efforts to improve financial literacy of their clients. MFIs running financial literacy programmes undertake these initiatives as either credit plus activities from a client protection perspective (focus is on debt management, prudent borrowing, better budgeting, and planning) or business development activities (specific product linked modules precede the MFI's product offering or linkage with it through BCs or other service providers). In the recent past, MFIs have also offered programmes on the importance of savings and investment. This is expected to drive demand for their BC-related deposit services and pension and insurance products offered through tie-ups. Since a higher number and amount of transactions entails greater revenue for the MFI through commissions, it offsets the cost of the financial education provided.

However, a wide variety of trainings are organized by other stakeholders such as banks, NGOs, specialized agencies, etc. Given the variety of approaches, IFC and GIZ have commissioned Financial Awareness Scoping Initiative study[18] which is an in depth assessment of the major initiatives undertaken in the country on improving financial awareness, the results of which will be useful in scaling up the initiatives with adequate systems to ensure impact on the clients.

Larger MFIs have been able to raise grant funds for financial literacy programmes which are mostly carried out in urban and peri-urban areas. There are unique initiatives such as that of SKS. The board set aside ₹15 crores for training all the clients in client protection principles (CPPs). SKS developed training modules using visual illustrations and has trained all the clients in 10-minute modules for over three weeks after the group meetings.

GENDER BALANCE IN BOARDS AND STAFF

India lags far behind other countries in terms of gender composition of board and staff. While the Indian MFIs on MIX market served about 18.9 million female borrowers at FY-2011 (nearly 72 per cent of all borrowers), the overall representation of women amongst MFI staff was a mere 12 per cent. Female representation in the management of these MFIs was even less at 5 per cent. About 20 per cent of directors on MFI boards were women. The other countries in South Asia had better numbers compared to India in women staff and board members (see Figure 1.1).

These percentages lead one to question whether it is possible for an institution to pursue the goals of women's empowerment and gender equality—cited by 75 per cent of the Indian MFIs reporting such data—when female representation is so low at every level of its management and governance. Can an organization lacking female perspectives truly pursue such an agenda for its clients? Simply targeting of women for loans is not enough.

IMPROVING TRANSPARENCY—REPORTING ON SOCIAL PERFORMANCE

India boasts the largest number of MFIs reporting SP profile data[20] to MIX from any single country: as of mid-July 2013, 74 Indian MFIs have submitted such data. However, these 74 institutions only represent about 46 per cent of the Indian MFIs currently reporting to MIX market.[21]

India Microfinance platform in MIX has been launched which is likely to improve the availability of analytical information about the sector. District level of MFI operations is likely to be made available which will enable analysis of saturated and less serviced areas. The quarterly performance analysis is likely to improve trend analysis and promote transparency.

Indian map of financial inclusion has been launched by MIX and the data sets are drawn on the State Level Bankers' Committees 'Financial Inclusion Plan' data and MIX's collected data tracking the quarterly progress of MFIs currently operating within each district.

MFIN and MF transparency have updated the pricing data for Indian MFIs. The update has been after a gap of three years. In future this has to be

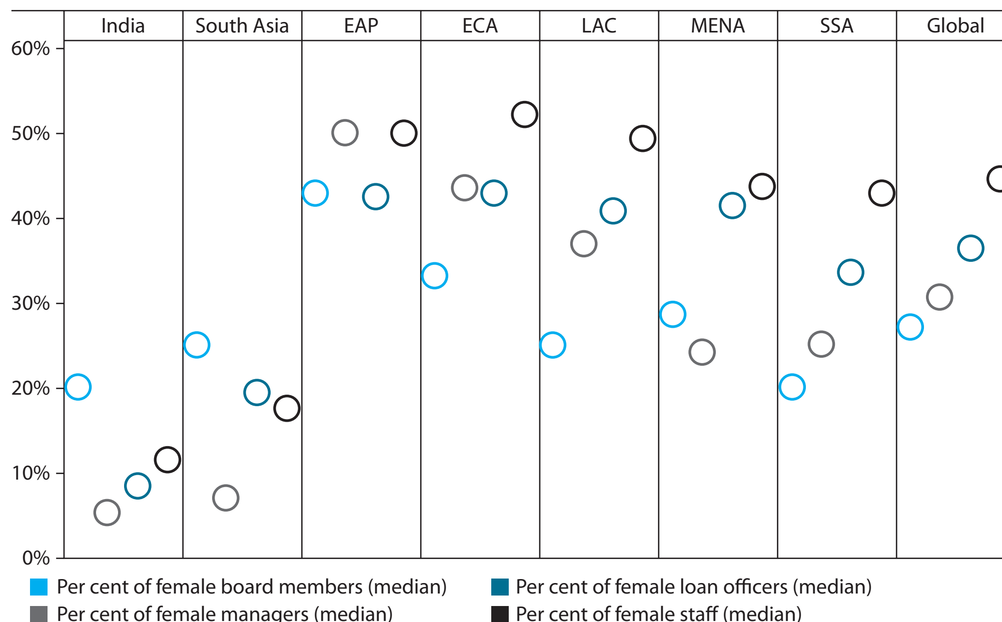


Figure 1.1 Gender composition of Indian boards and staff in global perspective (FY-2011)[19]

Source: MIX market analysis for this report.

done at least annually preferably as and when an MFI changes its pricing norms.

EXTERNAL ASSESSMENTS

About 50 CoC compliance assessments have been commissioned so far and the available reports show high levels of compliance by almost all MFIs. In a number of cases the training of staff and in a few the staff conduct has been rated low. MFIs as well as the industry associations are taking measures to improve the practices. Smart Campaign has continued the client protection assessments and carried out certification on CPPs. With the support of IFC and SIDBI the global tools were piloted in India. The motivations for MFIs to be certified include public recognition, marketing on their websites, and to inform the clients. Out of five MFIs certified globally by Smart, three are from India. Rating agencies carry out a brief assessment of social aspects along with financial rating. Social Performance Task Force (SPTF) standards were beta tested in an Indian MFI.

Those MFIs who underwent some of these assessments find that though the feedback on their systems is generally useful, there is only negligible difference from one tool to another. Industry feels that the donor, investor, and lender should now work towards consolidation of tools. In the near future Smart Campaign's assessment tool methodology will be integrated into CoCA methodologies since there is considerable overlap between the tools. In the medium term, the rating tool and CoCA will need to be merged. While the separate assessments can still be available for those MFIs who are interested in getting specific certification and assessments, there should be more integration of tools.

As stated earlier higher compliance costs have to be offset with incentives in the form of lower interest rates to MFIs that exhibit high levels of compliance with responsible finance norms. For MFIs with low quality of compliance, a higher rate of interest might serve as deterrent. Lenders should make use of their pricing power to secure desirable behaviour in MFIs.

EFFECT OF THE MICROFINANCE CRISIS ON THE CLIENTS IN ANDHRA PRADESH

In AP MFIs have come to a standstill. SKS, L&T Finance Limited, and a few other MFIs renewed their registration to conduct operations in AP. However, the MFIs have to seek approval from government for each loan to client and each purpose of the loan.[22] Data from the website of Society for Elimination of Rural Poverty (SERP) shows that almost all MFI loan applications have been rejected.

Government of AP persuaded banks to step up their lending through SHGs as well as farmer groups in the state. As of 31 March 2013, 1.34 million SHGs have bank loans and the outstanding is ₹184 billion as compared to 31 March 2010, when 1.69 million groups had loan outstanding of ₹131 billion. Stree Nidhi Credit Co-operative Federation[23] limited has been established with joint ownership of government and SHG federations for dispensing gap filling credit. The loans to SHGs are interest free subject to satisfactory recovery performance; on recovery the SHG's account is credited with the interest amount already charged from the SHGs.

Three studies had been carried out on the impact of MF clients in the aftermath of Andhra Crisis. Centre for Microfinance (CMF), IFMR revisited the sample of 2009 in 2012 and found that post the crisis period, the MFI client households have fewer numbers of total loans outstanding; however, the overall amount of indebtedness has increased (see Table 1.3).

Table 1.3 Indebtedness levels of households in Andhra Pradesh

	% of indebted households (in %)		Median household debt outstanding	
Loan source	**2009**	**2012**	**2009**	**2012**
Formal				
Banks	29	29	16,000	21,000
MFIs	94	44	8,104	5,000
SHGs	65	62	5,000	8,650
Informal				
Friends/relatives/ neighbours	54	41	27,000	30,000
Moneylenders and landlords	39	49	25,000	25,000
Other informal (chit fund and employer)	13	15	8,900	30,000
Any formal source	98	78	15,337	15,650
Any informal source	83	81	29,500	35,000
Any source	100	93	39,750	48,850

Source: Center for Micro Finance, 2013, 'Assessing the Effect of Andhra Pradesh Microfinance Crisis on the Access to Finance of the MFI Clients', Working Paper, The Centre for Micro Finance, Institute for Financial Management and Research, Chennai.

Overall, household indebtedness levels are increasing. One would have thought that household indebtedness levels would have decreased, with stoppage of lending from MFIs (who were seen to be responsible for over-indebtedness); this does not seem to be correct. In the absence of formal institutions, such as MFIs, people have been forced to borrow from informal sources reflecting in higher median loans from informal sources. Small increase of credit flow from formal institutions has been unable to fill the gap. Comparison of the data on the loan availment by MFI clients suggests that clients have had to substitute MFI loans with informal loans (mostly from the moneylender and landlords) for smoothing consumption and health shocks.

Similar findings have been made by MicroSave[24] in their study in July 2012, which is a sequel to their earlier study of 2011. In the absence of MFIs, moneylenders and pawnbrokers are increasingly becoming poor people's sources of credit. One redeeming feature is that bank lending has also improved (see Table 1.4).

Many enterprising individuals have set up their own DFCs to lend to ex-MFI clients. They predominantly lend in urban/semi-urban areas and villages to self-employed individuals. The interest rates from moneylenders and DFCs range from 72 to 120 per cent. Moneylenders are using the erstwhile MFI–JLG group leaders and SHG leaders as their community-level point persons to identify creditworthy clients to give loans, and to collect repayments. Moneylenders and DFCs are selective in their lending, unlike MFIs which gave loans to everyone based on social collateral. The loan amount from moneylenders and DFCs depends upon the asset base of the client. The study finds that crisis has done irreparable damage to the credit environment.

Table 1.4 Sources of credit for households in AP

Source of credit	August 2011 (in %)	July 2012 (in %)
SHG	98 sessions**	82 sessions
MFI	85 sessions	48 sessions
Banks	34 sessions	67 sessions
Moneylenders	88 sessions	85 sessions
Jewellers, pawnbrokers	49 sessions	76 sessions
Daily Finance Corporations (DFCs)	41 sessions	61 sessions
Roscas and chit funds	41 sessions	27 sessions

Source: MicroSave, 'Access to Credit in Andhra Pradesh Post Microfinance Crisis'.
Note: **expressed as per sessions since participatory appraisal tools were used.

Indira Gandhi Institute of Development Research conducted a study[25] on the effect of microfinance crisis on the household consumption pattern of Andhra households through unique data sets.[26] Consumption expenditure of households in AP decreased by 19.5 per cent as a consequence of the ban on microfinance. The magnitude of the decline varied across various sub-components of consumption. Households in AP spent 16 per cent less on food and 34 per cent less on education. There is some evidence of higher volatility in the expenditure on food, which suggests greater difficulties by households in smoothing consumption as a consequence of the ban. Consumption across all income groups was negatively impacted by the shrinkage of microfinance loans. The impact was, however, bigger for households with liquidity constraints, such as those in rural regions with access to fewer sources of credit.

We can conclude from the studies that the closure of MFI operations and inability of other institutions to fill the gap led to increased presence of other high cost informal lenders; this is not serving the best interests of poor in AP. Informal debt levels have increased cost to clients, created more uncertainty of credit flow, reduced critical consumption. The use of coercive and abusive practices associated with informal lending is a strong possibility.

These are lessons for other states as well. Government intervention can be harmful and have unforeseen effects. Government intervention needs to be facilitative and foster market-based competition. Legislative and administrative actions of government should not rob people of choices or force them into the hands of informal sector with high costs and exploitative practices.

RESPONSIBLE FINANCING IN SHG–BANK LINKAGE PROGRAMME

NABARD has initiated mapping of SHGs functioning in select states with the districts as units. There have been issues regarding the data quality and the number of groups linked which are being sorted out. While in some states multiple membership and excessive borrowing have been an issue, in a few others the SHG programme is not well rooted and the quality of existing groups has been poor leading to poor SHG–bank linkages.

Original design of SHG programmes was based on responsible financing practices. Over the years, external influences have interfered with basic discipline

and meddled with member protection principles. If the group formation and capacity building initiatives are strong, then member comfort and protection levels are high. Otherwise the groups will be weak endangering member savings, prone to leader capture, undisciplined in financial management and recoveries. Overall the members will suffer from a low-quality group that does not serve their interests well.

Banks have lent large sums to SHGs making it one of the largest microfinance programmes. However, banks are not still clear on whether SHG lending is a business proposition. During field visits it is often heard that there is inordinate delay in sanctioning of loans; repeat loans are denied in many cases. There are concerns that the cash credit system recently introduced to address these issues will lead to indiscipline. Studies initiated by GIZ in four states show that while SHG members are happy with several bank processes for savings account operation as well as for loans, they are unhappy that bankers do not provide adequate product information to the members. While individual savings have been facilitated through no frills account, very few members have become individual customers of banks. The treatment in the hands of bank staff and inordinate delays in transacting at branches are some of the aspects of discomfort for groups. There is no functional grievance redressal mechanism, especially for intra-group problems.

NRLM design talks about institutional capacity building and microfinance as major thrust areas. NRLM will need to provide a choice for the poor and low-income households and should promote a healthy competition with the existing institutions so that clients get to benefit from appropriate products and services.

FINANCIAL INCLUSION, THE ROLE OF MFIs AND SHGs

In the existing financial inclusion strategy of the RBI, MFIs and SHGs do not figure anywhere. MFIs have been able to enrol 24 million customers and provide actively transacted credit accounts, and customers will be comfortable to use any saving service offered by the MFI—especially as an agent of a bank. Having a bank link the already transacting customers of MFI for just the headcount in financial inclusion seems a scandalous waste of resources. Opening up banking agency to NBFC–MFIs will give a push to savings inclusion in the hands of banks. The link between MFIs and banks is weak, beyond the bulk loans. Banks have a lot to gain by financing the larger loans required by graduating clients of MFIs and SHGs. Banks do not see the merits of such a model where the smaller loans with high transaction costs are provided by MFIs and the larger loans provided by banks. While SIDBI is doing some initial work in the small enterprise space in collaboration with MFIs, the regulator should also examine the merits of such collaboration between MFIs and banks.

Financial inclusion, to benefit excluded people and vulnerable sections, should be through institutions that are able to provide an ability to transact on these accounts. Their local presence, proximity to the customers, and a business model that truly believes that vulnerable people are good business will be the drivers of financial services business. Banks, even with rural branches, do not consider vulnerable poor as business prospects; do not have a willing staff with appropriate attitudes and are unable to provide meaningful inclusion despite opening accounts. SHGs, MFIs, post office branches, and cooperative societies are nearer to the vulnerable people and are better suited to make financial inclusion for such people a reality. Responsible planning and strategizing for inclusions should take this ground reality into account and work around such institutions rather than focusing on unwilling high street banks.

Box 1.8 Global trends and initiatives—what the global thought leaders[27] say

There is increased collaboration and more concrete movement towards addressing the concerns in SPM.

Appropriate regulation is the key for the future controlled growth of the sector. Regulators in many countries have been working towards better customer protection. Truth-in-lending principles are adopted by some of them. Regulators are emphasizing transparency and provision of complete information to the clients on the interest rates charged and other fees. In a few countries regulators have capped the interest rate.

Globally, considerable efforts have been taken during the year to improve the state of practice of investors. These efforts have been led by Consultative Group to Assist the Poor (CGAP), Principles for Investors in Inclusive Finance (PIIF), and SPTF. Dialogues and discussions have been building consensus on balanced returns, reasonable covenants, and improved due diligence. DFIs are taking longer time in integrating SP. Antonique Koning, CGAP, states 'Investors are at the forefront of pushing SP more than even

the donors. They are accountable to their asset owners/investors about targeting, social returns. Given the wide range of return expectations, the industry is adopting a mature approach of dealing with the difference.' Emilie Goodall, PIIF, mentions that there is overall consensus that one has to be transparent whatever may be the return expectations. Not having a position is no more acceptable.

Universal Standards on Social Performance Management (USSPM) developed by the SPTF has contributed for the development of standards for measuring SP. Antonique Koning and Frances Sinha[28] mention that though the agenda is large, the task force plays a facilitating role and enables stakeholders to work together. The members own the agenda and they are the strong driving force. Hence in the coming years when the indicators for measuring the standards have been finalized one will see transparent reporting. Laura Foose, SPTF, says 'The Industry is putting in tremendous efforts for self regulation and adopting the SP standards voluntarily.'

Several initiatives are focusing on governance and board development. All agree that board buy-in is not easy since there are diverse interests represented in the board.

Over-indebtedness and saturation of markets has been a concern. There is much debate over the definition of 'over-indebtedness' and how it ought to be measured. Some of the investors are showing keen interest in funding research on understanding market saturation and prevention of over-indebtedness. Market assessment, research, and better knowledge of credit demand are important activities that contribute to healthy market development and DFIs can play a role in this.

Determining and measuring fair pricing and fair profits has been another high priority area. How sensitive are clients to pricing is an issue being researched. There is also a need for better understanding of the use of microfinance, the returns to clients' enterprises to inform this policy debate. According to Kate Mckee,[29] CGAP,

> The pricing debate is about trade-offs. Interest charged by MFI means less money in the pockets of clients. However, the difference between 30 and 32 per cent might not seem like a lot to clients (especially in the context of their turnover or business returns), but can actually make a huge difference to the MFI. Striking the right balance for everyone is imperative.

Product development agenda has not progressed much. Very few institutions are investing in market research for understanding client needs and developing appropriate products. While Latin American MFIs are able to provide full range of financial services, in many parts of the world, the clients get only microcredit.

Client protection initiatives have been largely around microcredit provision says Kate Mckee, CGAP. There are customer protection concerns in savings services that MFIs provide. Customer protection issues are also emerging in the micro insurance market. These need to be addressed.

SPM has been focusing on institutional performance. More indicators on client outcomes need to be developed—are we doing enough for the clients? Do the financial services contribute in the clients' lives? The social returns that are reported are still only outreach related. Emilie finds that with the MFIs accessing impact investing funding there will be more scrutiny on the client outcomes and impacts. Laura Foose, SPTF, while agreeing to the need for such indicators cautions that there should be more discussions and consensus on how these will be defined and measured. The systems of an institution should be attuned for measuring this; otherwise this can be 'garbage in garbage out'.

There have been concerns raised about plethora of tools on assessing the SPM. Smart, SPTF, and True lift are coordinating at a strategic level, work with rating agencies to streamline the approach and indicators, but the sector wants more integration. This may take two to three years to sort itself out. It is important to expedite and zero in on what is most useful for the MFIs.

Overall, level of interest in SPM has increased tremendously. Largely the global initiatives have been working with investors and networks to spearhead SP. Technical assistance to MFIs to improve performance is found to be critical.

Many practical tools and good practices have been documented but more hands on support is needed by MFIs. The fact that some investors and donors are providing grant funds for technical assistance show their commitment to SP. Often the technical assistance support is driven by what the funders see as important. MFIs should have the freedom to prioritize and choose what they would like to focus on. Frances Sinha would like a cadre of high-quality local consultants made available to interested MFIs for a longer term engagement.

India is rated three to four (out of five) as far as SPM is concerned. Some of the observations of the thought leaders are: Compared to many other countries, the regulation in India related to the Fair Practice Code and guidelines to protect the customers is much evolved. Isabelle Barres and Frances Sinha find that awareness on customer protection, willingness of institutions to adopt them is very high in the country. Regulation has a strong customer protection orientation. RBI, however, will need to be relaxed in the medium term to have more conducive business environment. India is faring well in setting up of credit bureaus and usage of data for credit referencing for lending. The role of country networks is significant in this aspect. Indian MFIs figure in several best practices/case studies on customer care. However, understanding client needs, developing products, integrating client feedback, and human resource management are aspects where Indian MFIs will have work to more.

Source: Personal interview.

TO CONCLUDE

Several positive changes have sharpened the focus on responsible lending as well as customer protection within the MFIs. Changes have been rapid in institutions, processes, and regulatory direction. But products have remained more or less the same. The funders should find ways of incentivizing good performance and, thereby, absorbing costs of responsible finance practice. Equity investors should learn patience and accept lower returns.

The notion that MFIs can be made to focus on customer protection and responsible practices through different certifications and assessments should be discouraged. MFIs can improve on responsible finance practices and expand their SP ambit, if other stakeholders support them in improving internal systems, training of staff, strengthening of boards, establishing quality monitoring and review systems, and investing in customer friendly product development. This probably is the best way of improving the state of practice in real ways.

As stressed in the last year's report, customer protection and responsible finance is an agenda for all stakeholders; not just MFIs. MFIs are just the cutting edge, but the others behind the tool should provide it the strength and direction.

NOTES AND REFERENCES

1. NRLM has set out with an agenda to cover 70 million below poverty line (BPL) households, across 600 districts, 6,000 blocks, 0.25 million Gram Panchayats, and 0.6 million villages in the country through self-managed SHGs and federated institutions and support them for livelihoods collectives in a period of eight to 10 years.
2. MFIN. 2013. *MFIN micrometer*, data as on 31 March 2013, MFIN, New Delhi.
3. Nine MFIs included as AP MFIs are Asmitha, BSFL, FFSL, L&T Finance, Share, SKS, Spandana, SWAWS, and Trident.
4. CASHPOR has deployed a mobile-based payment and reporting solution for field officers that replaces the paper-based data entry with real-time mobile entry and reconciliation. Elimination of the manual data entry processes improves productivity and efficiency and saves an entire workday per week. CASHPOR plans to pass on the benefit to the clients by interest rate reduction. Bindu Ananth, Innovations in Micro Finance: Field notes from Eastern Uttar Pradesh, IFMR. Available at: http://www.ifmr.co.in/blog/2013/04/20/innovations-in-micro-finance-field-notes-from-eastern-uttar-pradesh/, accessed on 21 April 2013.
5. The 2009 report, 'A Hundred Small Steps', was in favour of small banks.
6. MFIN. 2013. *MFIN micrometer*, data as on 31 March 2013, MFIN, New Delhi.
7. MCRIL is carrying out an external audit for a 12-month period on a large sample basis of five states, 35 branches, 2,000 clients selected on random basis. MCril decides which branches they want to visit; centre they want to visit in a branch is decided on the day of the meeting without pre disclosure to the branch. All staff and clients are interviewed, physically met and documents are scrutinized. The report is used for improving practices.
8. CASHPOR. 2013. Annual Progress Report, CASHPOR, Varanasi.
9. www.MFTransparency.org, accessed in October 2013.
10. Insurance that covers the balance of an outstanding loan in case of the borrower's death.
11. IFMR Finance Foundation. 2012. 'Envisioning the Future of Financial Consumer Protection in India', Financial Systems Design Conference.
    IFMR Trust, Chennai.
12. Anand Sahasranaman and Deepti George. 2013. Cost of Delivering Rural Credit in India, IFMR Finance Foundation, Chennai.
13. MFIN in partnership with International Finance Corporation (IFC) is undertaking a pan-India programme, 'Development and Dissemination of Credit Bureau Awareness Programmes', to improve credit bureau awareness among microfinance clients.

14. RBI, 2013, Guidelines on Fair Practice Code for NBFCs—Grievance Redressal Mechanism—Nodal office, RBI/2012-13/416 DNBS.CC.PD. No.320/03.10.01/2012-13 issued on 18 February 2013.
15. Circular RBI /2012-13/416 DNBS.CC.PD.No. 320/03.10.01/2012–13 dated 18 February 2013.
16. Renso Martínez Ramírez and Micol Pistelli. 2011. 'Microfinance Market Report for Latin America and the Caribbean 2010', MIX Microfinance World, pp. 19–20. Washington, DC: Microfinance Information Exchange (MIX), Inc. Available at: http://www.themix.org/sites/default/files/LAC%20Benchmarking%20Report%202010%20English_2.pdf, accessed on 5 August 2013. A forthcoming MIX publication will establish this correlation for other regions as well.
17. The cost of Smart certification is $3,000–4,000 if it is an add-on to a social/institutional rating. This is due to the cost of additional client verification procedures, which SMART decided were needed to ensure an MFI was meeting adequate client protection (CP) standards.
18. A total of 100 financial awareness interventions—65 within India and 35 outside the country—were covered during Phase I of the initiative. Six major interventions within India were selected for detailed case study from the 100 interventions reviewed.
19. Number of observations by country/region is as follows: 112 for India, 226 for South Asia, 226 for EAP, 220 for ECA, 397 for LAC, 57 for MENA, and 1,438 for all regions.
20. 'SP profile reporting/data/etc.' refers to the qualitative portion of the MIX/Social Performance Task Force (SPTF) SP indicators and consists of information on MFIs' SPM objectives, policies, and procedures. This is in contrast to 'SP results data', which is quantitative annual data on MFI operations: borrower retention and turnover rates, client poverty levels, gender composition of clients, staff, and board, etc. Unlike SP results data, which is updated annually, SP profile data is reported only once to MIX and then updated by MFIs as their institutional situation evolves. Profile data comprises the majority of the SP data available on MIX market. As of this analysis, 991 MFIs have reported SP profile data to MIX. For more information on the MIX/SPTF SP indicators, please visit http://www.themix.org/social-performance/Indicators, accessed on 31 July 2013.
21. This percentage is in reference to Indian MFIs submitting annual financial data for FY-2011.
22. Reddy Subrahmanyam, Principal Secretary, Department of Rural Development, said that the microfinance companies were always allowed to conduct their operations in compliance with the provisions of the Act. 'But they need to inform the government whom they are going to give a loan and for what purpose,' he said. As quoted in the article, 'With MFIs out, SHG-bank Bond Grows Stronger in AP'. Available at: http://www.business-standard.com/article/finance/with-mfis-out-shg-bank-bond-grows-stronger-in-ap-113042400503_1.html, accessed on 27 April 2013.
23. https://www.sthreenidhi.ap.gov.in/SNBank/UI/Home.aspx, accessed in October 2013.
24. MicroSave. 2012. 'Access to Credit in Andhra Pradesh Post Microfinance Crisis'. Available at: http://www.microsave.net/files/pdf/RP159_Access_to_Finance_Andhra_Pradesh.pdf, accessed in October 2013.
25. Renuka Sane and Susan Thomas. 2013. 'The Real Cost of Credit Constraints: Evidence from Micro-Finance', Indira Gandhi Institute of Development Research, Mumbai. Available at: http://www.igidr.ac.in/pdf/publication/WP-2013-013.pdf, accessed in October 2013.
26. The data set used in this paper is 'Consumer Pyramids', which releases average household characteristics of about 200 geographical units, named `homogeneous regions' (HRs), across India. The underlying household survey that is used to obtain this information is a panel with 150,000 households every quarter. There are 800 observations of many sub-components of household consumption in each year. This is used to calculate the difference in the average household consumption expenditure for the regions where the microfinance ban was implemented in the quarters before and after the ban. A counterfactual is constructed by identifying HRs which are similar to the treatment units but which did not suffer the ban. The causal effect of the ban is calculated as the difference-in-difference of the average household consumption between the treated HRs (in AP) and the controls (matched HRs outside AP).
27. Kate Mckee, CGAP; Antonique Koning, CGAP; Isabelle Barress, Smart Campaign; Laura Foose, SPTF; Frances Sinha, EDA Rural Systems; Emilie Goodall, Principles for Investors in Inclusive Finance (PIIF).
28. Sinha is the CEO of EDA Rural Systems, active in social performance (SP) and responsible finance space.
29. Kate spearheads CGAP's work with regulators.

Investors and lenders—demanding responsibility and also delivering?

2
Chapter

'Values should drive the sector – not valuations.'

Banks and other financial institutions have increased their lending to the MFIs during the year, almost reaching the levels of pre-crisis times. The industry's dependence on bank loans for lending to their clients continued to be high.[1] As compared to the financial year 2011–12, during 2012–13, the bulk loan disbursements from banks to MFIs increased by 51 per cent.[2] However, some of the banks that had large exposure to MFIs in AP continued to be cautious.

In the case of SHGs the support from public and private sector banks continued. While there was a declining trend in the number of SHGs supported with credit, the average loan size showed an increasing trend, reflecting deepening of services. In some locations banks have been willing to deal with federations of SHGs while in others banks preferred direct linkage of groups. Institutions such as Stree Nidhi and NABARD Financial Services Limited (NABFINS) have been able to increase their financing of SHGs and show viable models of intermediary organization that can meaningfully support SHGs. SHG–bank linkage aspects are discussed separately in the Chapter 5 on responsible financing in SHG–bank linkage programme.

The top 15 MFIs attracted large scale lending. IDBI bank, SIDBI, Corporation Bank, ICICI Bank, and State Bank of India (SBI) are the major lenders to MFIs followed by other public and private sector banks (see Figure 2.1). AXIS Bank, Ratnakar Bank, and Yes Bank are the other major players in the private sector. Ratnakar Bank commenced their lending to the sector after the crisis in 2010, but expanded rapidly. Nearly one-fourth of the bank's loan portfolio is for microfinance under different channels and methodologies.

Banks especially private sector banks seem to be comfortable lending to corporate MFIs. Going by the failure of some of the NGO–MFIs in a few states to repay bank loans, banks surmise that it is the commitment of the promoter, social mission of the organization, good governance and transparency standards of the MFI that effectively collateralize their loans to MFIs. Some banks especially public sector banks believe that NGOs are more social and less profit oriented and hence are lending to a few of them.

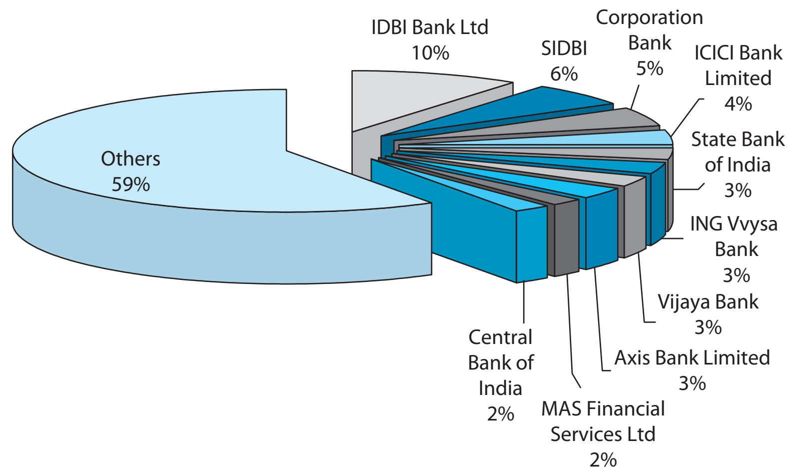


Figure 2.1 Top 10 lenders as on 31 March 2013

Source: MIX market.[3]

Box 2.1 Focus of a private sector bank

Post AP crisis, our bank is keen to lend to high-quality partners, which have good governance standards. We look at what is the management's vision of why they are in this business, operational systems and connectedness to the clients, how they

understand operational risks, and how equipped the team is to handle risks, internal audit systems, and SP aspects. Sustainability is a key factor but our due diligence gives weightage of 15 per cent on SP. We are not keen to partner large pan-India MFIs but focus on Tier 2 MFIs with good governance and management systems. We are selective and want to have only about 20 partners.

Source: Vice President, Wholesale Lending, Private Sector Bank.

Public sector banks, such as SBI, have been supporting larger number of MFIs in various legal forms. Smaller NGO–MFIs have raised loan funds from public sector banks more on the basis of the relationship they have built at the local level. Under Department for International Development (DFID)-funded Poorest State Inclusive Growth (PSIG) project implemented by SIDBI, a few Tier 2 and Tier 3 MFIs have been provided loans to the range of ₹20 to 30 million which has helped them to utilize their existing capacity.

The cost of funds of MFIs is high since banks charge high rates of interest on their loans to MFIs. SBI has recently decided to charge only base rate (presently 9.5 per cent) to the MFIs. SBI hopes to influence other banks to lower their interest rates as well so that MFIs will be in a position to pass on the benefit to their clients.

IT IS A STRUGGLE FOR SMALL MFIs

Smaller MFIs are not able to raise adequate levels of debt or capital and are increasingly marginalized. It has been a struggle for Tier 3 MFIs even in NBFC format to raise loans. MFIs with up to ₹500 million portfolios see that the number of banking partners is decreasing. Smaller MFIs operating in the same state where one or two large MFIs are operational find that lending budgets of the local banks are absorbed by large MFIs and banks also prefer to lend to few large MFIs. West Bengal is an example of this. Overall, the sector breadth seems to have shrunk with some NGO–MFIs scaling down/defaulting to the banking sector.

Box 2.2 Small MFIs need support

Small MFIs often are in underserved areas, have deeper outreach, and also offer niche livelihood-related financial products. They face a vicious cycle of low efficiency, low bank loan support, low volumes per staff, and low profitability. A number of these institutions have survived the tough conditions in the market over the last two years. Having weathered the crisis and proven their resilience, these small MFIs deserve their place in the sector.

Source: Vijayalakshmi Das, MD, Ananya Finance for Inclusive Growth.

Bankers are largely concerned about the lack of professional management in many of the Tier 2 and 3 MFIs. They are also assessing the financial stake of the promoters in the institutions. Personal guarantees of promoters and in a few cases the board members are asked for. In the midst of the debate on responsible finance and social responsibility on the part of MFIs, whether insistence on personal guarantees of promoters and directors is 'responsible behaviour' on the part of banks is a question that requires discussion.

Box 2.3 Liquidity constraint of small MFIs

We have taken measures to comply with the RBI regulations and CoC norms. Banks are yet to recognize these efforts. We are responsible to our staff and clients. Liquidity is a major issue and we are unable to fulfil client needs. We are unable to offer increments to staff and for the last two years salaries of staff have not been revised.

Source: CEO of a Tier 3 MFI in West Bengal.

Some banks have capped their exposure for a specific state and these limits are quickly achieved by lending to one or two large MFIs. Lenders have been shying away from states such as Odisha and West Bengal which have reported repayment issues and uncertainty about political support to private sector initiatives. Only large institutions, such as Bandhan, operating in these states have been able to raise bank loans.

Bankers continue to lend only in the last two quarters of the financial year. This affects the ability of the MFIs to provide need-based credit to their clients. In order to tide over liquidity issues and service the client needs, MFIs especially the medium and small ones borrowed from other higher cost sources such as MAS Financial Services, Reliance Capital, Manaveeya Finance, etc. This affects the financial bottom line of the MFIs as well as their ability to

reduce costs to the borrowers. A few private sector banks, such as Ratnakar Bank, lend throughout the year based on the business plan of the MFI in order to ensure that partners do not have to raise higher cost loans and are in a position to offer timely loans to clients. As a lending practice, the bunching of disbursements by banks to MFIs cannot be termed responsible as it results in bunching of loans by MFIs to their customers.

Banks demand 10 per cent of the loan amount as cash deposit from MFIs where the MFIs are not allowed to charge security deposits from clients. This affects the liquidity of MFIs apart from indirectly raising their financial costs. In addition, banks charge other fees—documentation fees, audit fees, inspection and supervision fees, service tax, etc. These amount to 1 to 1.5 per cent additional cost on borrowings especially for small MFIs. Banks also have a role to ensure that the ultimate clients are serviced at a lower interest rate.

Box 2.4 Observations of CEO in Uttar Pradesh

Raising equity and loans has become a full-time engagement for the CEO of small MFIs. Our clients will not leave us but it is going to be a struggle to fulfil the credit needs of clients and retain trained HR through the lean periods each year. We will need to think of other businesses that fulfil customer needs and to be responsible to the staff we have.

Source: Personal interview.

The AP Corporate Debt Restructuring (CDR)-related risk and NPA provisioning pressure is being felt by the banks this year since the MFIs whose debts were restructured have expressed their inability to make the payments. Banks that restructured ₹7,200 crores of debt to MFIs are facing a possible write-off as several of these institutions are finding it difficult to recover loans in AP.[4] There is a concern that the senior management and board of banks will perceive higher risk and this can lower the lenders' interest in the sector.

The present lending practices raise concerns about the concentration risks that the sector faces—banks chasing some larger MFIs, few MFIs holding large portfolios in specific states, and the implicit faith of the banks that the larger MFIs are too big to fail.

DEMANDING RESPONSIBLE BEHAVIOUR ON THE GROUND

SIDBI has insisted on CoCA[5] before lending and a few lenders have included a loan covenant that MFI should undergo CoCA rating before release of subsequent instalments of loan. But many banks do not insist on this assessment especially from larger MFIs. Banks largely do not consider SP assessment and ratings while considering loan sanctions. They are additional information rather than core information on which decisions are based.

CoCA as a tool is appreciated since customer protection aspects are well integrated and the assessment provides transparent information on ground-level practices. While CoCA helps bankers to ensure ground-level compliance it is a limited sample-based study. The validity period of the tool is indefinite as of now. SIDBI and other lenders have to ensure that the tool is updated periodically to reflect the recent developments and current priorities. While loan appraisal considers CoCA score, minimum acceptable threshold is yet to be fixed.

Similarly, lenders do not differentiate between institutions and do not reward the well-performing MFIs that have deeper outreach and are adopting responsible finance practices. How to incentivize well-performing institutions is also yet to be decided by the lenders. While CoCA considers only implementation of the unified CoC, other factors such as outreach in deeper rural areas, governance standards of the institution, operational and risk management systems, products and processes, etc., will have to be taken into account for incentives. Lenders' forum should deliberate on the framework of the incentives and SIDBI being the DFI can potentially take a lead role in implementing these.

SIDBI is commissioning a study on Responsible Financing Practices in the sector which should throw more light on the adoption of responsible finance practices on the ground and capacity development needed by MFIs. The cost of compliance and the way forward for external assessments should also be covered by the study.

The RBI has directed the lenders to ensure that the MFIs comply with regulations on the ground. Two types of strategies are followed by banks to ensure this—one is to carry out thorough due diligence at each stage of loan cycle which includes field visits to branches and interaction with staff and clients. The other is to scale down the number of active partners and lend only to a few larger MFIs that have better responsible financing systems and monitor these MFIs through field visits.

The banks visit the field and have interactions with the clients of MFIs. The following field practices require improvement in the view of banks.

- Clients invariably demand larger-sized loans. Increasing the loan sizes after due examination of their repayment capacity will help MFIs meet client needs and improve client retention rates. Clients have multiple options among MFIs in semi-urban and urban areas and move to a MFI which offers larger loans. Individual loan products are needed.
- While credit bureaus are helping check multiple lending, there are gaps which need to be sealed. Data updation needs to move to at least weekly basis. Banks are active in direct lending to this segment now; this data also needs to be shared with credit bureaus.
- Internal audit in MFIs should improve their scope of client interaction and conduct checks on practices on the ground. The central teams of the MFIs should have mechanisms for touching base with their clients more often.

LENDERS' FORUM

The lenders' forum has been taking up emerging issues in the sector. Lenders at present are engaged in harmonizing loan covenants. There is a move to carry out regular joint portfolio audit including recovery practices on the ground and to share information. MFIs are overburdened with reporting in different forms to different banks and financial institutions. Since a few MFIs have in the past provided different portfolio reports to different lenders, a need for common reporting to all MFIs is felt. Lenders are competitors and they can compete on loan terms and interest rate but they need to have a common code for lending discipline, especially on non-negotiables relating to customer protection. While there are initial efforts to develop covenants, there is a need to formalize them for adoption by all lenders. Lenders also need to share of information especially CoCA, rating assessments. Lenders can get together and accomplish much more as joint action plans for the sector. These joint and concerted actions of lenders will reduce the monitoring and reporting burden on MFIs, reduce the complexities arising from variability in loan terms, and make the interface between banks and MFIs smoother. The banks should set examples of responsible behaviour that MFIs are expected to practice towards their clients.

INNOVATIONS BY PRIVATE SECTOR BANKS

Private sector banks are developing unique business correspondent models for lending to poor and low-income clients through both MFIs as well as SHG Promoting Institutions to ensure that adequate credit flows to their clients.

Having tried different models of lending, some of the private sector banks are concluding that the best way of financial inclusion is to directly deal with the clients rather than through intermediary organizations. The banks have little control over the BC agents, particularly on their communication and transactions with clients. Outsourcing is beneficial only for such activities which do not require a client interface; but for those which require understanding of client needs, direct dealing is the preferred mode. While the banks would continue to lend to well-functioning MFIs through term loans as well as through securitization, they plan to increase their direct lending portfolio through brick and mortar branches and are expanding their branch network. HDFC Bank, ICICI Bank, and Axis Bank are directly lending to poor and low-income households through SHGs/JLGs. HDFC Bank and Axis Bank are also experimenting with direct lending to JLGs formed and nurtured through their own staff. This staff is placed in a separate business hub attached with a regular branch. Banks largely follow the same norms as set out by the RBI for MFIs. The interest rates are comparable to that of MFIs. At present these efforts are yet to achieve break-even for the banks and hence are considered as pilots.

Overall private sector banks have realized that MFI channel has its limitations and hence have commenced both co-origination model as well as direct lending model. While a few banks carry these initiatives as part of financial inclusion agenda, for others it is a line of business. In the co-origination model, the banks have invested in systems and technologies of the partner MFIs to ensure the clients are acquired as per the RBI norms. Know Your Customers (KYCs norms) are vetted by the banks' back office and loans are also sanctioned and monitored by the banks. MFI branches act as the front end of the banks and they earn a commission for their services. Technology enables tracking of each individual customer. The field surveillance team of the bank ensures that responsible financing practices are followed. While the cost to the end customer at present may not be very different from the MFI-lending model, this does away with the pressures of capital

raising to grow the portfolio and ensures adequate credit for clients. There are possibilities to reduce the interest rate for the clients in future. In a bank-led model, this should happen over a period of time. IndusInd Bank has taken a lead in this model; some other banks such as Yes Bank and Ratnakar Bank also have similar initiatives.

Box 2.5 Sustainable Livelihood Initiative (SLI) by HDFC bank

SLI of the Bank is aimed at financially empowering the lives of people in the bottom of the pyramid and making a difference to their lives. Keeping in view this objective, HDFC Bank, under its SLI, is providing financial services to people at the bottom of the pyramid through rural business hubs attached to its branches covering over 5,000 villages in over 20 states.

As of 31 March 2013, the Bank has more than 250 business hubs which are involved in SLI. Each rural business hub covers about 25 villages in 25-kilometre radius and targets 10,000 poor and low-income households who are creditworthy. The locations for the rural hubs are chosen based on District Coordination Committee (DCC) data on financial inclusion and the aim is to provide financial inclusion for the unbanked.

SLI provides need-based financial services such as loans, savings accounts, micro-recurring deposits (RD), and micro insurance products. The methodology adopted is SHGs and JLGs. There are plans to offer individual loans in the longer run. The Bank provides door step delivery of services.

In the south, where SHG movement is already working well, the Bank provides the financial services through these SHGs and in other parts of the country, the Bank through its field officers forms its own JLGs based on need. Intensive processes are followed in selection of members, training, and credit linkages.

As of 31 March 2013, more than 17 lakh households have been covered with loan disbursements exceeding ₹20,000 million. More than 100,000 SHGs and JLGs have been provided credit linkages with outstanding exceeding ₹7,000 million.

With a minimum monthly investment amount of ₹100, and no upper limit, voluntary micro-recurring deposits are promoted to meet a variety of needs including the life cycle needs such as education of children. As of 31 March 2013, about 100,000 micro-recurring deposits are operational. This is a voluntary product and the members are assured that this is not a collateral towards their loans. The Bank finds that regular savings is a good indicator for the quality of the credit.

Credit counselling for more than 3.7 lakh members has been provided as part of the loan disbursement process. In addition, initiatives such as need-based micro-entrepreneurial skill-building trainings and provision of market linkages to augment the financial services offered are also undertaken. The enterprise skill training is for two days aimed at improving productivity and enhancing income realization. The Bank is trying to improve the effectiveness of these trainings. Market linkages are also in nascent stages.

HDFC Bank considers this initiative as their contribution to sustainable livelihood for the people in the bottom of the pyramid and the model will be fine-tuned with experiential learning across economic cycles and geographies. However, the board and top management are committed to this initiative.

Source: Personal interview.

TRENDS IN INVESTMENTS IN MFIs

Investors in MFIs have been direct investors (DFIs and private equity players) and MIVs[6] DFIs such as FMO, IFC have been the major investors in MFIs during the year followed by private equity investors. Investments by MIVs have been limited since funds of MIVs worldwide are more or less fully committed.

As per Unitus capital, about 12 investors invested in the equity of MFIs. Indian MIVs set up by Lok Capital and Aavishkar have participated in subsequent rounds of equity raised by their investees. A new entrant among the Indian investors is HDFC group—HDFC Limited and HDFC Life Insurance—which has invested in Suryodaya. The fact that the world's largest mortgage financier has shown confidence in the microfinance sector will increase the sector's credibility. HDFC Life is likely to get a ready platform for distribution of their life insurance products for the poor and low-income households.

India Microfinance Equity Fund (IMEF) set up by the Government of India and managed by SIDBI has enabled the smaller MFIs especially in the legal

forms other than NBFCs to access equity/quasi-equity support. SIDBI has supported 37 MFIs so far and a commitment of ₹104 crores has been made. Government of India has allocated an additional ₹200 crores towards providing equity and quasi-equity support to smaller MFIs pursuant to the budget announcement. Sustainable Tier 2 and 3 institutions have been supported with equity/quasi-equity funding especially in the underserved regions and states. IMEF funding has enabled the smaller MFIs to leverage bank loans. Equity has also been made available out of the fund to a few larger MFIs, such as Bandhan, for their expansion to backward regions/districts.

However, equity to smaller MFIs though committed has not yet been disbursed due to issues on conversion terms from subordinate debt to equity and IRR expected. Moreover, the terms of IMEF are often not acceptable to other investors.

Overall, investors have drawn comfort from the customer protection-oriented regulations, industry-wide efforts to improve responsible financing practices, and have made significant equity investments in Indian MFIs during the last year. However, their investments have been aimed at the larger 15 MFIs.

Investors have become choosy and are investing in institutions with strong governance, professional management, and robust systems including technology. The ability of the institution to manage the margin caps through efficient operations and at the same time ensure adequate returns to investors has been a deciding factor. The investors increasingly are mindful of responsible finance and SPM practices. To ensure that their exits can be timed well and suitably, they expect MFIs to respond well to the SPM and responsible finance agenda meeting all the regulatory norms and also the sectoral standards. There is willingness to look at the cost relating to responsible finance as a necessary part of doing business. They will certainly not be content with low ROA or ROE but over time this can improve if the business is allowed to grow to its potential. Business can grow to its potential only if it meets with all the norms and the expectations relating to customer protection, and the rounds of the equity last year show that some of the early investors have been able to exit with reasonable returns.

Valuations and return expectations: The valuation of Indian MFIs has been to the tune of 1.2 to 2.3 times of the book value. IMEF invests at par. Institutions with strong governance, systems, and geographical diversification are attracting a premium to others but valuation of more than two times the book value is an exception.

The investors in Indian MFIs have return expectations of about 15 per cent IRR with the investment horizon of five years and above. The new investors would expect MFIs to deliver on all obligations to the customer and the regulator; despite the incremental costs of such compliance, they believe that they will be able to obtain reasonable returns on their investments.

Social investors find that exit routes are limited and they often have to sell to each other. Michael and Susan Dell Foundation (MSDF) exited equity portfolio in Ujjivan and Janalakshmi since their mission and objectives of promoting urban-based microfinance is largely accomplished. Similarly, Lok Capital exited from one of the companies they had invested. Remaining a small investor without substantial rights is making some of the investors to quit. Even with the difficult period of two years in between, the investments in Ujjivan were able to generate a healthy IRR of 20–24 per cent per annum.[7]

Covenants for responsible financing: Investors have been working with the MFIs to improve the state of responsible financing practices. Internationally, the social investors/other financial institutions include two social covenants—endorsement of Smart Campaign principles and undertaking self-assessment of compliance of CPPs/social audit. MFIs find that these are relatively easier to fulfil since the RBI norms and industry CoC largely incorporate the CPPs.

Investors are looking at governance aspects critically; the investor agreements now specify that independent directors need to be recruited. Deutsche Bank legal agreements require MFIs to establish a governance subcommittee or other body of the board to look at client issues on a regular basis.

MFIs mention that IFC, SIDBI, and MIVs carry out due diligence on the responsible financing practices and social mission achievement of the MFIs. Others largely look at the intent of promoter and financial fundamentals. Social measures undertaken by the MFIs—setting aside a portion of profit for developmental activities, integrating health into microfinance, development of new products—are appreciated but are not prime factors influencing investment decisions.

Box 2.6 Voluntary covenants of CASHPOR to its social investors

CASHPOR's vision is to provide microfinance services to poor women to lift them out of vicious cycle of poverty. CASHPOR needs continuous

funding support to achieve its vision. To protect the interest of the social investors and provide them comfort CASHPOR has defined social covenants. These covenants ensure that CASHPOR does not drift from its vision and goals and conducts all operations in a truthful, efficient, and honest manner.

- New Clients: The percentage of poor clients upon entrance (measured according to the progress out of Poverty Index for India) to be at least 90 per cent.
- No Mission Drift: No material changes in the vision, mission, and objectives of operations with respect to poverty alleviation and focus on serving poor clients.
- Interest Rates Charged to Clients: Interest rates charged on micro loans shall be no more than 12 per cent above the weighted average cost of funds.
- Debt Collection Process to be Properly Run: Hundred per cent of new customers are informed about the process before taking the loan and 100 per cent staff is trained on the process and have passed the test on the matter.
- Minimum Loan Size: Minimum loan size option remains to be ₹2,000 to allow poor first time borrowers to be served properly.
- Target: The goal is to aim for progression out of poverty of predetermined number of borrowers and mature clients based on Progress out of Poverty Index (PPI) survey.
- Annual Customer Satisfaction and Impact Survey: Customer satisfaction survey is carried out annually by a qualified third party on randomly selected customers with the objective of creating a reliable and valid statistical sample to measure impact on customers. Subsequently reported to the board, together with a report of how the issues raised are being addressed.
- Evaluation of Plans: Constant tracking of the outcomes and poverty-reducing effects of our products and services to poor households, and use the above to help formulate future corporate and product strategy.
- Annual internal audit to be conducted.
- Expansions: Ensure that the future expansion of activities is made only in the poorest and underserved districts with no more than two credible competitors.
- Product Design: Ensure that the products and services that are offered to clients are in line with our mission of poverty reduction and in compliance with the regulatory guidelines.
- Client Protection: Clearly defined guidelines for client protection and a separate cell 'Customer Service and Support Cell' have been formed at head office with a dedicated toll-free number for lodging their grievances/making enquiries.
- Transparent Pricing: Pricing and other terms are transparent and clearly communicated to the clients.

Any deviation from these covenants will be reported to social investors and any proposed change will have to get their prior approval.

Source: Cashpor, 2013, Annual Report.

MEASURING AND REPORTING ON SPM BY MFIs

SIDBI along with MIX has taken the initiative of making available comprehensive information about the industry. MIX Microfinance India platform was launched during the year and all MFIs are expected to subscribe data. At present only the financial data is reported. Nearly 190 institutions' data is available in the platform though some of them are dated. MIX plans to further streamline the data. The analytical reports will have to be made freely available since the cost of accessing the reports may deter users.

More efforts are being made by global initiatives, such as the SPTF, MIX, and the Social Investor Forum, to align reporting tools for financial as well as SPM. However, each investor and lender has specific requirements; collection, analysis, and reporting of these data for fulfilling the data needs of several stakeholders is a huge task for the MFIs. Some social investors require data on education of girl children, health parameters, etc., which are beyond the normal tracking by the MFIs and poses additional burden on them. Larger MFIs report that a separate person has been hired for reporting requirements.

SIDBI along with lenders' forum and industry associations can work with MIX to devise a comprehensive reporting framework for MFIs. Lenders and investors can then extract the necessary reports from the MIX platform.

While financial data is validated, the information for SP is largely self-reported and not validated either internally or externally. Management information system of most of the MFIs is not fully equipped to capture SP data. For example, the purpose of loan captured in Management Information System

(MIS) is on the basis of loan application. What the loan is used for is often not checked and validated by the MFIs. Similarly, poverty measurement data is also not validated and updated. Ananya Finance for Inclusive Growth has been working with its partner institutions for improving SPM and find that reporting is a big challenge since this is linked with the MIS, which has always been a 'problem area'. In small and mid-sized organizations, the senior management and board themselves need guidance on these aspects.

SPTF is working, at present, on the indicators for measuring various standards. These standards relate largely to management aspects of the MFI but client outcomes and impact are not part of the framework. MIX, at present, captures a few client outcome indicators such as employment generation. However, the critical and minimal client level outcome indicators need to be discussed and agreed upon by SPTF. MFIs will need to be provided need-based support for integration of such social indicators in their MIS.

EXTERNAL ASSESSMENTS OF RESPONSIBLE FINANCE PRACTICES

Investors and lenders have supported initiatives to assess the responsible finance practices of MFIs through external agencies. Smart Campaign has initiated the assessments and certification on CPPs. SPTF standards were beta tested in an Indian MFI. CoC compliance assessment has been carried out on MFIs. Rating agencies also carry out a brief assessment of social aspects. The MFIs which have undergone some of these assessments report little incremental benefit from one assessment to another.

Box 2.7 Observations of a funder

MFIs undergo too many assessments. Different institutions approach them for piloting, beta testing, and rolling out. Customer protection aspects are integrated in most of the tools. The incremental benefit to MFIs is minimal. MFIs are confused with differing scores on different tools. Overall, scarce resources are being wasted on duplicated efforts. This needs to be streamlined.

Source: Personal interview.

CAPACITY BUILDING FOR SPM

Grant support for microfinance sector has been drying up and is rare. SIDBI and IFC have been exceptions that continue to provide grants for deserving initiatives. Investors commit technical support to MFIs usually based on the gaps found in the due diligence process. IFC enables technical assistance to the investee institution through its advisory arm; the technical assistance includes strengthening the responsible finance aspects.

Ananya Finance for Inclusive Growth has set up a responsible finance vertical with support by IFC, which ensures integration of SP into its various capacity-building programmes, ensuring that the partner organizations comply with the regulations and CoC. Ananya supports 21 partner organizations to integrate Responsible Finance Management Systems (RFMS) in their operational processes. Ananya has organized national-level trainings/workshops and has also supported provision of technical assistance in different areas such as governance, SPM, and risk management.

SIDBI is implementing DFID-funded PSIG project (2012 to 2019) wherein the responsible financing aspects are well integrated in the capacity-building efforts of the medium and small MFIs. The project plans to support MFIs to integrate PPI indicators for measuring poverty of their clients into their MIS. MFIs undergo (a) compulsory loan portfolio audit which looks at client protection aspects such as staff behaviour in lending and recovery practices and (b) SP audit/Smart Campaign assessment. These assessments include client interactions. The project covers full costs of these assessments. The scores of these assessments (loan portfolio audit/SPA/CoCA) will be part of the monitoring and evaluation system. The first year's scores will be the base line and progress made over the years will be monitored and need-based capacity-building support will be made available to the MFIs. The project so far has supported 15 MFIs and grant of ₹45 million sanctioned.

For those MFIs which are not yet subscribing data to the credit bureau, the project provides funding support to build MIS capacity and also the cost to be paid to credit bureau for usage of data. For promoting additional need based financial services such as savings and pension, the MFIs are supported for salary of staff for one year. Soft loans are provided to mostly large MFIs with adequate moratorium period for funding the expansion costs into the unbanked poorer districts in PSIG states. Lot of thinking in the design and strategy by the project team along with the funder on how to use the grants effectively and responsibly is visible.

If SIDBI Foundation for Micro Credit (SFMC) can match the capacity-building efforts with the provision of equity/quasi equity along with loan funds, access to financial services in the four states

can vastly improve. IFC provides promotional grants to large MFIs such as Ujjivan and Equitas to expand operations into less banked areas such as North East.

SUPPORTING PRODUCT DEVELOPMENT

Institutions such as IFC, Dia Vikas, Manaveeya, and SIDBI are encouraging partners to develop need-based products. As less than half of India's population have access to safe drinking water and sanitary systems and over 400 million remain without access to electricity, these funders have been supporting safe drinking water, sanitation, and solar energy loan products. As food security is a continuing concern in the country, a few are supporting development of products for agricultural value chain financing. Looking to the need of housing and house repair for the clients, institutions, such as IFC, have been providing technical assistance for development of housing loan products. Dia Vikas has encouraged partners to pilot and upscale distribution of pension products and health-related loans as part of integrated health initiatives. In PSIG project, SIDBI provides for first year promotional expenses to the partners for piloting pension products.

IMPROVING FINANCIAL CAPACITY OF CLIENTS

Some of the investors/lenders such as Citibank, IFC, MSDF, and DFIs, such as NABARD, have been supporting training institutions, such as Indian School of Microfinance for Women (ISMW), and MFIs for promoting financial education among the clients of MFIs and members of SHGs. Financial education[8] is considered as a key pillar to achieve responsible financing since poor households have limited income out of which they need to meet their daily needs, make loan repayments, plan for the future life cycle needs such as children's education, and secure their families from financial shocks arising from unforeseen events.

IFC and GIZ have commissioned financial awareness scoping study which entailed conducting an overview of information available on 65 financial literacy initiatives within India[9] and 35 outside the country with relevance for India.[10] Six major interventions within India were selected for detailed case study, the results of which will provide insights on design, scalability, and impacts of financial education initiatives. United Nations Development Programme (UNDP) commissioned two studies on design and delivery of financial inclusion and two rounds of discussions on the key learnings. The conclusions that emerged from the studies on the financial literacy initiatives are given in Annex 2.1.[11]

The financial education of the clients is one of the key pillars in responsible finance practice. As the bouquet of products offered by banks and MFIs are increasing—banks start offering insurance products and more MFIs offer pension products—product features and usage awareness apart from overall need of a product in the financial life of the household should gain more attention. Funding for client training may be provided to smaller MFIs who want to deepen these efforts.

GLOBAL INITIATIVES AND IMPLICATIONS FOR INDIA

Globally, more than ever before, microfinance investors and lenders are engaged in discussions and debates about responsible investment and lending. Balancing returns from investments is a key issue in these debates. How to reduce risks of market saturation and over-indebtedness[12] is another aspect receiving attention. Investors both commercial and social have been engaged in several forums and working groups to align their interest to that of MFIs they invest in and to the end clients.

Several key initiatives have been taken during the year to build consensus among investors and lenders about responsible investment policies and practices which are discussed below.

BALANCED RETURNS AND REASONABLE PRICING

There is greater realization among the investors that they can be held accountable to reasonable pricing and balanced returns in the MFIs they invest in. There have been debates around how much is too much, when it comes to prices and profits in the sector. There have been more open discussions about the targeted return of funds; funds aiming at 20 per cent returns and more are being questioned on the underlying reasons for expecting such high returns. There are apprehensions that such returns are not consistent with responsible practice and desirable client-level outcomes.

Box 2.8 Thrust of global investors

Investors are at the forefront in pushing SP agenda. There has to be enough transparency in return

expectations of the investment funds. Cost of fund management has to be reasonable and efficiencies have to be improved. The entire value chain of investment has to be transparent to ensure appropriate pricing at each level.

Source: Emilie Goodall, PIIF.

MIV fund managers are articulating the need to educate their investors on balancing their financial returns expectations with the well-being of the end client. The fund managers have a challenging job in balancing the returns expectations of many of the passive investors. Investors in social funds who are accepting lower financial returns in lieu of social returns are demanding more evidence on social outcomes than mere outreach numbers. Investors into MIVs may have to moderate their return requirements; though in the short run this is likely to reduce the flow of investments into the MIVs but in the longer run this will attract only those investors interested as much in the client-level outcomes as in their return on investment.

An investment return is made through the profit generated by the MFI that is directly linked to the interest rate charged by the investee MFI on its end clients. Sangam MIVs[13] (CEOs of the 10 largest MIVs) had formed a working group and came out with a draft statement[14] and guidance on balanced returns. Reasonable levels of ROE and ROA are seen as indicators for balanced growth. ROE exceeding 25 per cent and/or ROA exceeding 7.5 per cent will warrant a close scrutiny to ensure that client well-being is not being compromised. The discussion is more about transparency in the investment return expected rather than definite targets. The investors are advised to conduct a rigorous analysis of each MFI to ascertain that it is operating efficiently, not burdening clients with excessive costs purely for profit maximization. Deutsche Bank, Triple Jump, and Grassroots have developed screening tools for selection of MFIs with appropriate balanced return strategies (see Box 2.9).

Box 2.9 Screening tools on balanced returns

Deutsche Bank recognizes that profitability, operating costs, and interest rates can vary greatly depending on the MFI's location, size, growth potential, asset quality, and target market. Deutsche Bank's tool is based on three financial ratio screens, which Deutsche Bank uses to identify client and potential client MFIs that it would like to review more closely. The screening levels have been set on a regional basis to attempt to create more precision to the local context. The screening levels listed below are not necessarily indicative of responsible financial performance for specific MFIs.

Regional screening levels of Deutsche Bank[15]

MFI region	Portfolio yield	Operating expense ratio	ROA
Africa	58%	35%	
East Asia & Pacific	47%	35%	
Eastern Europe & Central Asia	45%	26%	7.5%
Latin America & Caribbean	53%	39%	
Middle East & North Africa (MENA)	38%	29%	
South Asia	29%	18%	

Triple Jump has developed interest traffic light tool to measure the reasonable pricing, returns, and affordability for the client. The tool focuses on examining interest rate and profits in context of (a) value added to end clients, (b) MFI costs, and (c) beneficiaries of profits of the MFI. The tool analyses nine factors to evaluate how rates and profitability compare to costs of the MFI and business margins of the end clients. The client margins are calculated for three clients out of the loan files with the MFI selected on the basis of the loan product, loan size, etc. In the due diligence, the value provided to clients, the MFI's rates and costs in comparison to peers, its history of lowering rates, profitability and the use of profits are studied. Factors are weighted differently. Overall score determines red, yellow, or green traffic light.

- Green: Investment without additional conditions
- Yellow: Investment under condition to reduce interest rate
- Red: No investment

To get a green signal the MFI should have

1. APR < 50%
2. APR vs loan size - < 0.9 times
3. APR relative to peers is < 0.8 times
4. ROA < 2%

5. Spread between APR charged by MFI and end borrower's net business margin is > 10%
6. Specific factors in the environment that contribute to higher than usual costs for the MFI
7. Efforts to lower rates
8. Dividend distribution is 0 and profits are reinvested in the MFI

Source: Deutsche Bank and Triple Jump.

Indian MFIs offer better balance: In global comparisons Indian MFIs have the best numbers in terms of low effective cost to clients, low operating costs, and reasonable returns for investors. The availability of commercial bank funding at reasonable rates has been a positive influence. However, in a country context even at the ceiling rates of interest at 28 per cent APR some livelihood activities become unviable. Activities that have a quick turnover of goods and services are able to absorb the higher interest rates whereas activities that produce incomes with a time lag such as cropping, small manufacturing, etc., do not yield returns adequate to deal with higher interest rates. The balancing between client-level outcomes and profitability of MFI is a struggle. The necessity to maintain higher interest rates to ensure institutional sustainability is leading to exclusion of clients with low-profit livelihoods. This is unavoidable in commercial models of microfinance; state intervention is necessary to provide support to people engaged in low-profit livelihoods and the burden of balancing should not be left with MFIs and their investors.

AVOIDING OVER-INDEBTEDNESS

The other aspect of investor's and lender's concern is the risk of market saturation and over-indebtedness. Investors in the AVOID Working Group[16] have developed a Lender Code of Practice, which outlines steps the investors should take in market analysis, due diligence, monitoring, and governance engagement. The Code has now been finalized and integrated in the PIIF.

In addition to guidance that individual investors can use to rein in over-indebtedness, investors are also working together on analysing such risks at the country or market level. Investors are commissioning research studies to develop deeper understanding on over-indebtedness of clients.

Three investors (Blue Orchard, Incofin, and Oikocredit) have commissioned an innovative study on over-indebtedness of clients in Cambodia which is the first of its kind).

Box 2.10 Study on the drivers of over-indebtedness of microfinance borrowers in Cambodia: An in-depth investigation of saturated areas

The study focused on identifying the drivers of over-indebtedness in saturated areas of Cambodia in order to help identify effective ways to reduce the incidence of over-indebtedness. A sample of microfinance clients in the most saturated villages was assessed to determine if they were over-indebted, looking at the repayment capacity of the borrower by comparing the debt instalments to the net income. The study found that 22 per cent of clients in the sample of 1,480 were insolvent or over-indebted.

The key findings of the study are

- The majority of borrowers in the sample (56 per cent) were 'solvent', meaning that their monthly debt instalments were 75 per cent or less of their net monthly income.
- There was a clear relationship between multiple borrowing and over-indebtedness. Having multiple loans increased a borrower's odds of being over-indebted by six times, specifically when the borrower had three or more outstanding loans.
- The percentage of borrowers who were insolvent increased as the number of loan cycle increased. Borrowers that had borrowed more cycles tended to be over-indebted because they also tended to have more outstanding loans.
- A final interesting finding is that if borrowers made sufficient profit from their business alone, before considering other income sources, then they were much less likely to be over-indebted. Having insufficient profit from entrepreneurial activities to cover debt obligations increased the chance of being insolvent by 180 per cent, while having sufficient profit from entrepreneurial activities reduced the likelihood of being insolvent by 59 per cent.

Other drivers of over-indebtedness included low level of financial literacy, level of education, and level of profit from entrepreneurial activities.

The study found that the scope of information collected by MFIs' credit officers during the loan appraisal process has to be improved, MFIs' need to define and systematically implement precise rules on maximum number of loans per client. It also shows that income analysis done

at the household level needs to be conducted cautiously, recognizing that while sources of income not directly generated by the financed business might often be used for debt repayment purposes, clients are in a better, more solvent, position, if their businesses can generate sufficient income to repay debts. MFIs also need to enhance credit appraisals for loan renewals taking into account the volatility of microfinance borrowers' income.

Source: 'Study on the Drivers of Over-Indebtedness of Microfinance Borrowers in Cambodia: An In-depth Investigation of Saturated Areas'. Available at http://www.blueorchard.com/wp-content/uploads/2013/05/OID-Final-Report.pdf, accessed 10 July 2013.

The Cambodian study has considerable relevance for Indian microfinance sector not only for MFIs but also for the regulators, banks, and investors. The developments in Kolar (ignoring the politico-religious aspects) in 2009 leading to mass default on account of excessive debt levels are fresh in sector's memory.[17] The banks'/MFIs' tendency to provide small loans (less than adequate) and clients' propensity to borrow from more than one source leads to excessive debt. A large well-structured loan is likely to be more serviceable than multiple small loans with simultaneous repayment instalments. But the erroneous risk perceptions as to loan size tend to distort loan product design. The recent caps on margins of large MFIs is forcing them to look at larger loan size to reduce operating costs and this might result in better client comfort in relation to loan serviceability. Regulatory limit on household debt should not be seen as the measure of excessive debt; the clients financial circumstance should be considered as there might be several households that might find smaller debts, well below ₹0.05 million to be unaffordable.

Taking a cue from the Cambodian study, donors and investors can support industry-level initiative to develop some tools to objectively determine excessive debt at customer level so that MFIs are able to appraise loan proposals with confidence instead of placing total reliance on credit reference as a substitute. The tool can focus on aspects such as proportion of livelihood investments financed by loan, debt of household as a proportion of total assets, difference between rate of return from livelihood activity, and the cost of loan to the client, number of loans availed, number of cycles of loans availed, etc.

PIIF INITIATIVE OF REPORTING BY INVESTORS

The PIIF, aligned with the United Nations backed Principles for Responsible Investment (PRI), are signed[18] by direct investors or fund managers and indirect investors investing via funds or holding companies. As of August 2013 there were 48 PIIF signatories, mainly private institutional investors (14 asset owners and 34 investment managers), across 11 different countries.

Box 2.11 Principles of responsible investment

PIIF signatories commit to adhering to and promoting the following:

1. Reasonable pricing and balanced returns: Many investors had signed the PIIF. Expanding the range of financial services available to low-income people
2. Integrating client protection into all policies and practices
3. Treating investees fairly, with clear and balanced contracts, and dispute resolution procedures
4. Integrating environment, social performance and governance (ESG) factors into policies and reporting
5. Promoting transparency in all operations
6. Pursuing balanced long-term returns that reflect the interests of clients, retail providers, and end investors
7. Working together to develop common investor standards on inclusive finance

Source: 'Principles for Investors in Inclusive Finance United Nations Environment Programme Finance Initiative'. Available at http://www.unpri.org/areas-of-work/piif/, accessed 15 July 2013.

The PIIF signatories also adopted a self-reporting framework with different indicators for direct and indirect investors.

For the first time a group of investors reported on their implementation of the PIIF while piloting the PIIF Reporting Framework. It enables signatories and others to see the progress being made to translate the PIIF into action, with examples of emerging good practice and areas for improvement.[19]

- Fourteen participants of 15 report ensuring that, among investees, pricing is fully explained in a form understandable to clients.

- All reported taking SP into account at the investment decision-making stage and declining to invest if SP did not meet minimum standards.
- Only a few incentivize SP by considering a price reduction in debt funding and/or a technical assistance grant if SP is high, or by having staff incentives in line with SP measures.
- There is a high level of direct engagement with industry initiatives from the investors but less encouragement for investees to endorse and/or participate in such initiatives—SPTF, CPP, MFT, MIX, Impact Reporting and Investment Standards (IRIS). Generally, participants value knowledge sharing and opportunities for joint working facilitated by these global initiatives, although they participate in these to different degrees.
- Eighty per cent of participants disclose information aligned either to the MIV Disclosure Guidelines or IRIS.
- Nine out of 11 reporting disclose their own policies, criteria, and related conditions of products and services on their websites.

Areas where there is room for improvement include incentivizing social returns, playing an active role in corporate governance, investors' transparency and their encouragement of investees' transparency on pricing, and other terms and conditions to the ultimate client.

Results are encouraging and from now on reporting will be mandatory for all signatories, which should create increased accountability.

INCENTIVIZING SOCIAL PERFORMANCE

While socially well-performing MFIs are often recognized by different stakeholders, quoted as good practices, and get to share their experience in various forums, there is very little financial incentive for better SP. The lenders don't offer a financial incentive to MFIs with better poverty outreach or working with marginalized sections.

Box 2.12 Developing incentives for social performance

Deutsche Bank backs MFIs worldwide with a diverse range of debt-based financial instruments, some of which generate returns below the market rate and others provide closer to market returns.[20] The bank is currently developing a 'social bond' with the rating agency Moody's, wherein the bond price would decrease if the social rating of the investee improves.

Source: Deutsche bank.

SOCIAL PERFORMANCE MENTORING PROGRAMME

Most of the capacity development efforts in SPM so far have focused on training with little emphasis on aspects that are at the core of SPM practice in the institutions. MFIs require technical assistance for improving their SP. They often find the recommendations made on the basis of gap analysis overwhelming. They struggle to prioritize, implement the recommendations that will be core to their work. Moreover, there is a dearth of quality consultants and technical service providers that are not only technically competent but are also empathetic to the institution's core needs.

Oikocredit SPM mentoring programme implemented in collaboration with Terrafina and Cerise and managed by Anton Simanowitz develops the capacity of local consultants through a mentoring process to help partner MFIs implement time bound action plans focused on client needs (see Box 2.13).

Box 2.13 Social performance mentoring by Oikocredit

Oikocredit has developed a unique capacity-building initiative in Eastern Africa and to date five MFIs in East Africa have completed the project, and another 15 in West and East and South-East Asia are currently implementing.

Social investors often have to rely on the existence of skills in the market that they can refer partners to. In the case of SPM these skills are lacking in three perspectives:

- SPM is often perceived by practitioners as overwhelming, and many SPM activities address marginal issues that have little benefit for the clients or MFI performance
- There is a lack of internal capacity within most partners to integrate SPM into their operations
- There is a lack of capacity in many microfinance markets to support SPM; and much of what is available is of low quality

In response to these gaps Oikocredit piloted an SPM mentoring approach in East Africa, which aimed to build the capacity of local support organizations and consultants as well as MFI management to analyse opportunities to improve their SP, and implement practical changes that would make a tangible difference to clients and to MFI performance.

- Facilitating the diagnostic process to identify strengths and opportunities
- Prioritizing and developing detailed action plans
- Supporting implementation—closely monitoring progress and providing guidance and feedback

The diagnostic process highlights the current strengths of the MFI and opportunities in meeting clients' needs in relation to the goals. From this a list of possible actions to improve performance is generated. The challenge is for the MFI to understand both the possible outcomes—what is the value for clients and the potential (positive or negative) impact on MFI operations or performance, and how hard it is a task to undertake. This then leads to a discussion of capacity and fits with current priorities. From this a set of manageable and relevant activities is developed. The process of prioritization starts with an analysis of each proposed activity in terms of the level of effort for the MFI and potential benefits in terms of client value and for the performance of the MFI. The example for action plan and prioritization is given in Annex 2.2.

While USSPM framework is used for the diagnostics, the action planning adopts a practical approach focusing on the institutional priorities which will bring about client outcomes. The programme's biggest challenge has been the competing organizational priorities of participating MFIs especially the value they attach to integrate SP in core strategy. Close support and monitoring the work of the mentors is also key to successful implementation of action plan.

Source: Anton Simanowitz, Oikocredit SPM mentoring programme.

The results of the Oiko's experience show that the MFIs largely made plans to deepen their outreach and developed/modified products to meet client needs.

Similar support to Indian MFIs, who are keen on SPM, can be considered by DFIs and other investors.

CONCLUSIONS

There is increasing realization that the investment chain in its entirety has to be responsible. Investors have a big role to play in determining positive client-level outcomes by being careful about where they place the money and how they place the money. While there is more debate and discussion among social investors, the DFIs and commercial investors are yet to completely be on board for adoption of investment principles in ensuring SP.

Investors are of different genres and carry different objectives. Some investors are poverty-focused while the others aim at improving access to financial services. The return expectations can vary anywhere between 5 to 25 per cent. While benchmarking may be difficult, there should be more transparency about the return expectations.

Banks provide the working capital to the industry and can vastly influence the way MFIs do their business. Their lending support is crucial to the survival of the MFIs. They need to deepen their support to well-performing institutions of all legal forms and even those who are working deeply in a location. Banks can prioritize client-level outcomes in MFIs through a well-designed incentive policy. By discriminating between socially responsible MFIs and others, banks can influence field practices and pricing. The reluctance of banks to lend to small MFIs and those working in remote areas runs counter to principles of responsible finance and the social objectives of financial inclusion. Viability and relevance of institutions, big or small, should be the criteria in lending decisions; not physical access and nearness to urban areas.

While debt funding of MFIs has been almost exclusively from the banking sector in India, significant equity funds have not been flowing in from domestic sources. Most equity invested in microfinance has been from funds sourced from abroad. While in the initial stages domestic equity might fight shy of MFIs on account of perceived high risks in doing 'business with the poor', the track record of recent years should be encouraging for those seeking to invest in the sector. The lack of suitable vehicles for channelizing risk capital to MFIs should be soon rectified. Given the growing equity culture and appetite for capital market instruments, it should be possible to set up domestic microfinance investment funds.

There is a need to dispel the notion that investors and lenders to microfinance sector are there to make their money work. With the vulnerable people as ultimate customers, investors and lenders should make use of their power to influence MFIs to

respond better to customer needs, establish higher levels of customer protection, and ensure positive client-level outcomes. Of all the stakeholders in the sector, MFIs are most likely to heed advice from investors and lenders; this influence potential should be used to good effect.

ANNEX 2.1
Key learnings from the studies on financial literacy commissioned by IFC, GIZ, and UNDP

1. MFIs and banks have customized training modules and methodology according to the socio-economic profile of the target segment, local values and customs, and vernacular language.
2. MFIs have largely provided trainings on the products they offer as well as the need for planning, budgeting, etc., apart from client protection-related aspects such as avoiding over-indebtedness. So the trainings have been related to both the financial services as well as financial skills.
3. Trainings commissioned by banks have been related to banking procedures including opening of accounts, savings and credit products. These have been under Financial Literacy and Credit Counselling (FLCC) initiatives guided by the RBI.
4. Delivery has been aimed at three levels—mass awareness campaigns, group education efforts, and financial counselling at the household level. The effectiveness is higher in household-level counselling but the cost of delivery is also substantially higher. It is seen that average cost of training a member in four to five modules of financial literacy using effective training methodology costs about ₹200 to 350. Individual financial counselling costs up to ₹1,500.
5. From the limited client feedback and impact monitoring information available, it appears that mass awareness is the least effective and individual counselling is likely to get the most immediate behaviour change. However, financial literacy initiatives are still attempting to find the right balance between trainer time, educational curriculum, and the availability of financial services (in order to establish linkages).
6. The results in terms of changes in behaviour are not very well tracked by most of the programmes. Ujjivan tracks the outcomes such as savings accounts opened since the staff is mandated to facilitate opening of savings account with banks. Some MFIs such as Janalakshmi, Ujjivan have introduced financial diaries to be kept by the clients, with varying results. The recall of the key messages of the trainings has only been assessed as effectiveness of training by evaluators. In the training programmes conducted by banks the recall on credit-related aspects is much higher than the savings.

Source: GIZ and IFC, 2012, Financial Awareness Scoping Initiative – Part 2, GIZ Rural Finance Institutions Programme, New Delhi.

UNDP, 2012, Financial Literacy as a Tool for Financial Inclusion and Client Protection, United Nations Development Programme, New Delhi.

ANNEX 2.2
Savings and Credit Co-operative (SACCO) XXX: analysing possible actions for improved effectiveness

SPM areas opportunities suggested as per SPM diagnostic reports	Activities necessary to respond to opportunity	Impact/benefit of the planned activity to the clients and to the organization (high, medium, low)	Steps involved to carry it out (easy, medium, hard)
GOAL 2: REDUCING CLIENT VULNERABILITY			
The institution designs products, services, delivery models, and channels that recognize and support clients through situations of vulnerability.			
1. Clients suffer major agricultural losses from drought, floods, and disease. Investigate opportunities to insure these risks	1. Identify insurance company which can cover agriculture activities	High for clients; medium for SACCO (lower PAR)	Looking for company (easy); product design (hard)

(Continued)

(Continued)

SPM areas opportunities suggested as per SPM diagnostic reports	Activities necessary to respond to opportunity	Impact/benefit of the planned activity to the clients and to the organization (high, medium, low)	Steps involved to carry it out (easy, medium, hard)
2. The SACCOs can consider encouraging more members to have regular voluntary savings to meet emergency needs and cover loan repayment in times of difficulties	2. Sensitize members on the importance of voluntary savings	Members can make use of voluntary savings (high)	Develop materials (medium)
3. The SACCOs can consider financial education especially during annual general meeting (AGM). Ninety per cent of the members interviewed said sometime they make wrong decisions because of lack of knowledge and skills	3. Train members on financial literacy	Better understanding of business undertaking (high)	Sensitize members on the importance of voluntary savings (easy)
4. A significant number of members are not able to pay and are forced to sell their pledged assets to clear the balance. The selling of member's assets voluntary or otherwise is instilling fear of borrowing and joining of the SACCOs by potential new members 5. Sometimes credit committee and loan officer differ on the amount to be given to a member. This can bring a potential problem especially where loan officer recommends lower amount and credit committee recommends higher amount. The SACCO should look into this so that there is a clear way of all parties to work together especially on this important exercise for the SACCO.	4. Investigate why a good number of members fail to repay back the loan given. Develop response, e.g. improve appraisal process and management is issue by SACCOTraining members on dangers of multiple borrowing. This can be done during loan appraisal or during AGM. 5. Develop a loan appraisal and train loan officers and credit committee on the uses	Number of defaulters reduced (High for clients and SACCO) Reduced number of members with multiple loans (high) Loan appraisal conducted effectively (high)	Developing materials and delivering training (hard) Investigate (easy) Improve processes for business appraisal and management in groups (medium) Credit committee and loan officer to educate members before loan disbursement (easy) Carry out training needs assessment (medium) Develop training materials (hard) Conduct training (medium)

Source: Anton Simanowitz, Oikocredit SPM mentoring programme.

From this analysis it is then easy to identify those activities that have a high value and are relatively easy to implement (in some cases MFIs select activities that are listed as medium effort as the value is high).

The aim is to exclude low value activities:

High value for clients or MFI	High value/ high effort	High value/ medium effort	High value/easy	High value/ easy
	Medium value/ high effort	Medium value/ medium effort	Medium value/ medium effort	High value/ easy
	Low value/ high effort	Medium value/ medium effort	Medium value/ medium effort	Medium value/ low effort
Low value	Low value/ high effort	Low value/ high effort	Low value/ medium effort	Low value/ low effort
	High level of effort		Low level of effort	

Source: Anton Simanowitz, Oikocredit SPM mentoring programme.

This allows for the development of an action plan that sets out what can be achieved in a nine-to-12-month period.

XXX SACCOS SPM Work Plan from July 2012 to March 2013

SPM priority area	Proposed activities	Timing	Responsible persons	Expected outcomes
Taking steps to reduce the likelihood that members repay their loans by selling assets and understand why there is a fear of borrowing amongst members	1. Meet the board and staff to review their understanding of the problem 2. Conduct a survey among the members to understand the causes 3. Review and improve loan appraisal process to ensure that members have the capacity to repay loans 4. AGM endorse the changes in the by-laws and credit policy 5. Submit the amended by-laws and improved credit policy to the Assistant Registrar for approval 6. Develop and delivery financial education for members on the danger of not investing business loans in business and the danger of over-borrowing from different organizations 7. Promote the use of voluntary savings for other financial needs 8. Review and reduce the ratio of savings to the loan to bring in line with other similar organizations	July 2012–November, 2012	Board of SACCOs, district cooperative officer (support from consultant mentor)	Reduced number of members paying their loans by selling their assets. - Reduce PAR - Increase the number of borrowers

Source: Anton Simanowitz, Oikocredit SPM mentoring programme.

NOTES AND REFERENCES

1. On an average borrowed funds were 76 per cent of loan outstanding to clients as per MFIN data.
2. As per NABARD provisional data for the year 2012–13 and published data for 2011–12.
3. The data is from 50 largest MFIs. However, data set does not contain the figures of Bandhan and SKS, the two largest MFIs in the country.
4. http://articles.economictimes.indiatimes.com/2013-08-17/news/41420923_1_mfis-trident-microfin-microfinance-institutions, accessed on 20 August 2013.
5. Five agencies are carrying out these exercises and SIDBI reimburses 75 per cent of the cost to the MFI.
6. MIVs consist of fixed income funds with debt instruments, equity funds, and mixed funds.
7. Ujjivan. 2013. Annual Report 2012–13, Ujjivan, Bangalore.
8. Financial education refers to the process of introducing people to the knowledge, skills, and attitudes required for responsible earning, spending, saving, borrowing, and investing.
9. Covers initiatives by 15 MFIs, seven banks, and 10 NGOs some of who are self-help promoting institutions.
10. GIZ and IFC. 2012. Financial Awareness Scoping Initiative—Part 2, GIZ Rural Finance Institutions Programme, New Delhi.
11. United Nations Development Programme (UNDP). 2012. 'Financial Literacy as a Tool for Financial Inclusion and Client Protection'. UNDP, New Delhi.
12. Antonique Koning, Kate McKee. 2013. 'Six to-Dos Now for Responsible Investors', 23 March 2013. Available at http://www.cgap.org/blog/six-dos-now-responsible-investors, accessed on 3 August 2013.
13. Sangam MIVs will feed their perspectives into related discussions led by the PIIF and SPTF who are leading the consensus-building efforts.
14. Statement on operationalizing responsible pricing and balanced returns. See https://www.dropbox.com/s/cqqa65vw3zwgpl2/Sangham%20Draft%20Statement%20on%20Balanced%20Returns_final.pdf, accessed on 3 August 2013.
15. Deutsche Bank. 2013. Deutsche Bank Balanced Return Framework, Draft.

16. The Avoid Over-Indebtedness Working Group, ('AVOID') developed the Investment Managers' Guidelines on Over-Indebtedness, a framework for making investment decisions in a responsible way in order to collectively avoid contributing to potential over-indebtedness in the markets where they work.
17. Microfinance India—State of Sector, 2009, pp. 75–79.
18. By signing, investors signal their intent to uphold the principles in their own investments, and to support other actors in the financing chain to implement the principles.
19. The self-selecting nature of participation in the pilot and the fact that not all participants reported against all indicators means findings cannot be generalized to the entire signatory base. However, the pilot provides new and interesting data related to implementation of responsible investment in inclusive finance.
20. Priya Jayashankar. 2013. 'An Accent on Social Returns from Microfinance: The Story of Deutsche Bank'. Available at http://www.microfinancefocus.com/an-accent-on-social-returns-from-microfinance-the-story-of-deutsche-bank/, accessed on 6 August 2013.

Responsible finance standards and assessments—need for consolidation of tools and methodologies*

Chapter 3

In the aftermath of the crisis of 2010 the sector got an opportunity to examine its relevance and criticality to the customers. MFIs got to reflect and reconsider their objectives and how far they had come in achieving them. The period of stagnation and uncertainty also gave investors and lenders time to understand several of the hitherto unseen and overlooked aspects of MFI performance, revolving around customer centricity of product and process design; often referred to as 'responsible finance'. It also gave the MFI industry associations (Sa-Dhan and MFIN) impetus to draft their respective CoC, which were to guide their member organizations towards client protection whilst achieving objectives of financial stability and long-term sustainability. Eventually both these Codes were merged into a Unified Code of Conduct, released at the Microfinance India Conference in December 2011. The RBI has put in place an operational framework for NBFC-MFIs through its priority sector guidelines and Fair Practices Code steering microfinance towards due care for the clients.

By the end of the financial year 2012–13, most leading Indian MFIs seemed to have turned the corner and banks appeared optimistic about lending to the sector again. Currently, there is cautious optimism with the resilience demonstrated by the sector and its ability to do course correction. The refocusing that started in 2011 has now gained momentum with lenders attaching importance to CoC adherence. In short, the sector has decisively moved towards bringing clients back to the centre and it is expected that future growth will continue to be based on customer relevance.

International initiatives such as SPTF, Smart Campaign, and True Lift have also focused some of their efforts on Indian MFIs. Among the key international initiatives which gained momentum in 2012–13 are the CPP assessment and certification by the Smart Campaign, the beta testing of Universal Standards for Social Performance Management of the SPTF, and pilots of True Lift (earlier called Seal of Excellence). Microfinance Institutional Ratings and Social Ratings also further evolved during 2012–13 to capture the global consensus on essential and best practices in SP. Each of these initiatives has its own unique contribution in promoting responsible finance.

The Indian and global initiatives which have shaped the responsible finance agenda, aspects, and methodology associated with each, developments during the past year, extent of adoption of practices by the sector, and views of lenders and other stakeholders deserve to be examined to draw appropriate lessons for the way forward.

THE UNIFIED CODE OF CONDUCT

The Unified Code of Conduct outlined how MFIs should align their long-term sustainability to the needs of their customers, through a number of guidelines grouped around key parameters: (a) values, (b) integrity and ethical behaviour, (c) transparency, (d) client protection, (e) governance, (f) recruitment of staff, (g) client education, (h) data sharing, and (i) feedback/grievance redressal mechanism. Both Sa-Dhan and MFIN have also made considerable efforts to ensure that their member institutions had not only signed the CoC, but were also implementing the principles contained therein.

EVOLUTION OF CODE OF CONDUCT ASSESSMENTS

As the microfinance sector in India started to recover lost ground from March 2012 onwards (with

* With substantial contributions from Berenice da Gama Rose and Alok Misra, Micro-Credit Ratings International Limited (M-CRIL).

banks making disbursements to a few MFIs), there seemed to be a change in the appraisal of the institutions by banks. Instead of only judging MFIs by their institutional or credit rating and financial parameters, lenders were keen to understand whether their prospective clients were compliant with the RBI regulatory guidelines, and had implemented the CoC. An external third-party assessment was considered necessary. Sa-Dhan in 2011 approached SIDBI for studying the CoC adherence of the partner institutions. SIDBI played a key role in commissioning the CoCA (see Box 3.1).

Box 3.1 SIDBI's initiative

Promoting responsible finance and adherence to a laid down CoC are major objectives of Sustainable and Responsible Microfinance Project funded by World Bank and implemented by SIDBI.

As a market-making exercise, SIDBI started CoC adherence exercise of MFIs with the twin objective of ensuring responsible client-focused lending practices by borrower MFIs, alongside benchmarking the level of adherence to such sound practices. Once the methodology was piloted and the tool was found useful, SIDBI has been advising the MFIs to undergo the assessment from the agency of their choice. While in the pilot phase SIDBI bore the full cost, at present 75 per cent of the cost is borne by SIDBI with the rest contributed by MFIs. Till date SIDBI has funded about 40 CoCAs and is in process of supporting 15 more CoCAs during 2013–14. CoCA being a sectoral initiative, acceptance thereof by lenders and other stakeholders is of vital importance. So far as CoCA aiding the credit decision is concerned, getting a good CoCA score has become a requisite for considering higher funding by SIDBI.

Going forward, there could be possibility of single institutional rating providing composite grade/score inter alia on CoC adherence as well.

Source: Ashok Ranjan Samal, General Manager, SFMC, Lucknow.

These assessments were used by lenders in their appraisal of MFIs and their customer centricity. Among the funders who gave particular importance to the CoCA report were SIDBI, IDBI, Manaveeya, and a few private banks, as reported by MFIs which undertook CoCA in 2012–13.

The institutions providing CoCA have remained the same as the previous year, namely ACCESS–ASSIST, ICRA Management and Consulting Services (IMaCS), M2i, M-CRIL, and SME Rating Agency (SMERA). CoCA served as an independent, professional evaluation of MFIs' adherence to the Code. In addition to CoC, many funders were keen to assess prospective partner MFIs' levels of adherence to regulatory guidelines issued by the RBI from time to time.[1] A few changes were made by some of the agencies in their assessment methodology, drawing from the experience gained in the pilot round of CoCA commissioned by SIDBI and also to integrate the RBI guidelines. The scores have been changed from grading as percentage scores were indicative of performance.

It was observed that almost all agencies have sought to provide their clients with a holistic perspective on an MFI's adherence to both CoC as well as RBI guidelines. Most of the assessment formats still revolve around the broad parameters listed below, as these were part of SIDBI's original list of aspects for the first round of CoCA commissioned in the financial year 2011–12.

- Integrity, governance, and strategy
- Compliance with regulatory guidelines (targeting, pricing, and product terms)
- Market entry and competition
- CPPs
- Client orientation and education
- Client data security
- HR issues and staff conduct
- Integration of social values into operations

Thus while broad coverage has remained the same across agencies, there are also few differences in coverage and reporting. A comparison of the various updated CoCA tools and reporting structures[2] designed by different assessing agencies in India is given in Annex 3.1.

Analysis of CoCA reports[3] indicates that there is quite a lot of synergy between the scoring patterns of the different agencies, with all agencies except IMaCS having a range of six grades along which the MFI's performance is measured. For most of the agencies, score of 50 per cent and below is considered below average or unsatisfactory, while in case of M-CRIL score below 60 per cent qualifies as weak performance.

The analysis of the results of the CoCA performed so far show interesting learnings (data from all CoCA reports has been used for this analysis—15 CoCA conducted in 2011–12 and 33 known assessments conducted in 2012–13.[4] Some of the assessments have been commissioned independently by the assessee MFIs themselves and the reports are not available in the public domain. However, this trend is heartening as it indicates that

these institutions find value in the assessment, as do their lenders and investors).

It is clear from Figure 3.1 that among the institutions approaching assessment agencies for CoCA, it is the NBFC-MFIs which are leading, for two reasons:

- Firstly, these are the institutions which have approached the maximum number of lenders and investors for fundraising requirements post-crisis.
- Secondly, NBFC-MFIs are the subject of RBI direct regulation, which requires strong adherence to Fair Practices Code. CoC has considerable overlap with Fair Practices Code.

From Figure 3.2 it is seen that NBFCs are scoring better, with 12 out of the 31 known NBFC assessees getting scores of over 80 per cent. Bandhan Financial Services Pvt. Ltd scored over 90 per cent in its second assessment, conducted by M2I in 2012–13. In comparison, none of the known assessees under Section 25 companies, trusts, cooperatives or society form have scored over 80 per cent till date. This is an aspect which also came under the scanner during critiquing of the CoCA methodology during the pilot phase.[5] None of the MFIs scored below 60 per cent implying that overall performance is satisfactory.

The reasons for this difference in CoCA scores may be because of the more rigorous regulatory compliance requirements for NBFC-MFIs. Perhaps the difference also arises because it was the NBFCs which drew harsher criticism during the microfinance crisis and were, therefore, quicker to implement the CoC, rather than their non-NBFC counterparts. Further, since the NBFC-MFIs assessed were Tier 1 and 2 institutions with strong systems and many had reached break-even, additional costs of implementing aspects of CoC and regulatory guidelines were absorbed more easily than by smaller institutions following other legal forms.

As can be seen in Figure 3.3, there is not much correlation between institutional size (in terms

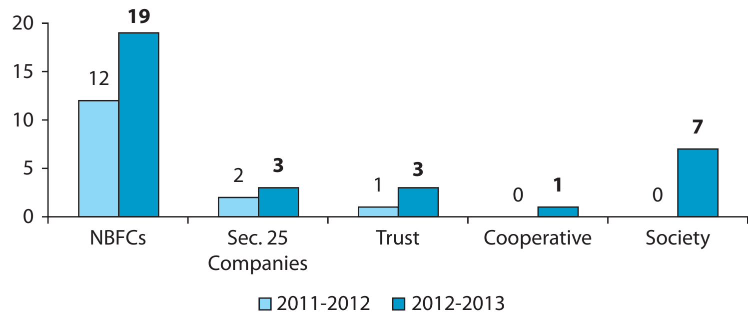


Figure 3.1 Code of conduct assessments by legal form

Source: Analysis by MCril.

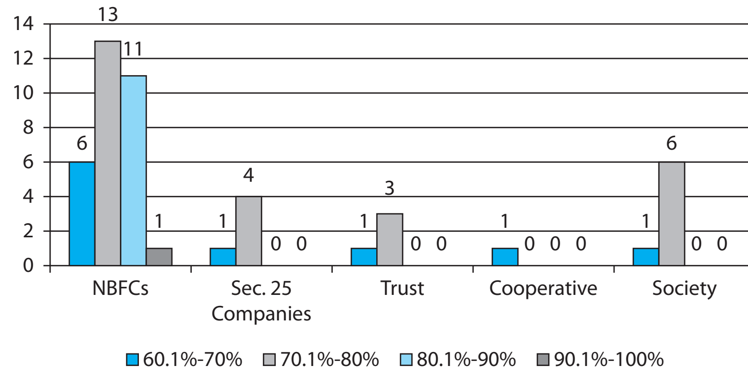


Figure 3.2 Code of conduct assessment scores by legal form

Source: Analysis by MCril.

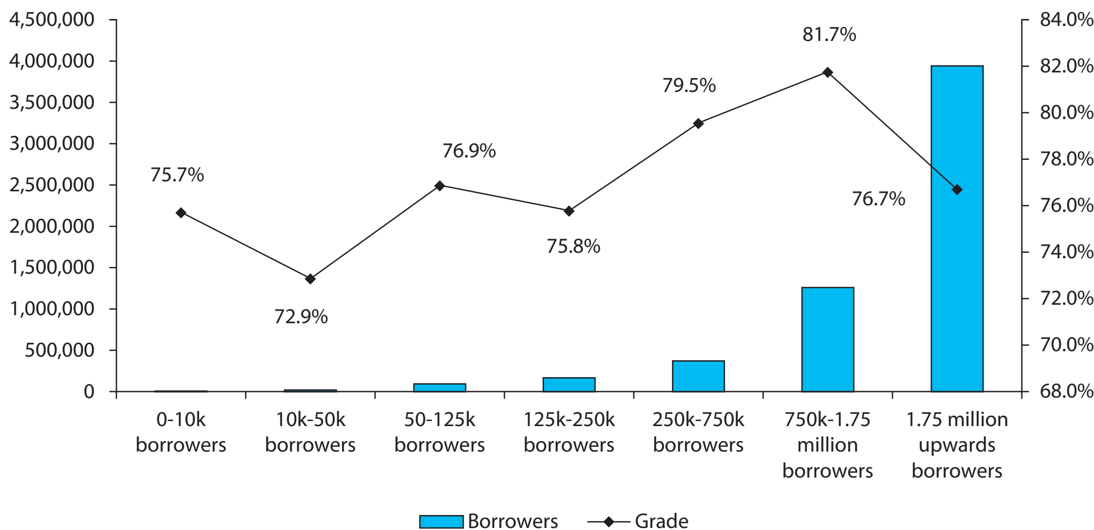


Figure 3.3 Institutional size versus CoCA scores

Source: Analysis by Mcril.

of borrower numbers) and CoCA grades. While it may be expected that larger institutions would have stronger systems in place, no such generalization can be made, as average scores for the different borrower brackets vary, but not widely. Scores were taken from average of all MFIs since inception of CoCA. The largest MFIs in 1.75 million upwards category were SKS, SHARE, and Spandana along with Bandhan (assessed twice). Scores were SKS—72.5 per cent, Spandana—69.0 per cent, Bandhan 2013—90.8 per cent, Bandhan 2012—84.7 per cent, and SHARE—66.5 per cent.

LIMITATIONS OF CoCA METHODOLOGY

- Since the CoCA are conducted by five different agencies using their own methodology, there are differences in the scoring patterns, weightages assigned, and the leniency or severity with which issues are seen. While some agencies are very strict when evaluating aspects such as transparency or board involvement in CoCA adherence, others take a milder view of this while scoring, though these aspects are mentioned in the text of the report. Evaluating institution bias and evaluator bias play a part in the differing scores.
- SIDBI's guidelines on topics to be covered under the CoCA continue to form the structural backbone of all the methodologies adopted, however, differences in weightages assigned to each topic could considerably sway the overall result. Furthermore, while some agencies have scored the adherence to RBI guidelines separately, others have not done so; resulting in high results for those institutions which were highly compliant on guidelines but may have performed lower on CoC implementation.
- Some MFIs reviewed their practices during the time of the CoCA or just before the exercise was commenced, once they had enough information on the parameters for evaluation. In such cases, field-level observance was less, but approval, documentation, and dissemination had been completed. For the agencies evaluating institutions on the Approval-Documentation-Dissemination-Observance (A-D-D-O) framework prescribed by SIDBI this aspect could be captured objectively, while for others justifying scores on such aspects may have proved a challenge.

During the pilot round of CoCA in 2011–12, SIDBI bore the entire costs of the assessments. However in 2012–13, SIDBI offered a subsidy to the extent of 75 per cent of the costs in order to encourage institutions to undertake a CoCA. This has helped institutions which may not have been able to afford the assessment on their own. Overall, it appears that many of the funders are yet to recognize CoC compliance as an important parameter during due diligence. However, the ideal situation would be when MFIs are able and willing to pay for CoCA, without seeking subsidies.

Box 3.2 A few comments on CoCA methodology

'At the field level there may be differences in perceiving things. When judging an institution it is necessary to pay more attention to what is happening on the ground than to documentation and dissemination. CoCA cannot be totally objective, a bit of subjectivity is necessary at times.'

R. Kalyan, Executive Director of CDOT

'Methodology is very comprehensive and provides in-depth analysis to assessees. It would be ideal if all the assessing agencies worked on the similar reporting format and ranking, which would be easy and comparable for practitioners and decision-makers.'

Abhishek Aggarwal, CFO of Swadhaar FinServe Pvt. Ltd

'CoCA could be more helpful by providing a comparative analysis of the assessed organisation with that of the best standards in the industry across all parameters.'

G.C. Modak, Secretary of Society for Model Gram Bikash Kendra

Source: Telephonic interviews.

LEARNINGS FROM THE CODE OF CONDUCT ASSESSMENTS 2012–13

The assessments in the year 2012–13 revealed some similarities and some differences in the strengths and issues encountered in the previous year's assessments.

Positive features

Documentation: Most of the MFIs assessed had paid great attention to the documentation of the CoC ensuring that they had adequately updated their operational manuals and training materials and had displayed the relevant aspects of CoC in their branches. Some MFIs have even created client-friendly posters in the local language, with

keywords and suitable photographs and graphics to aid retention of messages. However, it was also noticed that a few MFIs which had assimilated the CoC at all levels of operational hierarchy and were acting on it in spirit, were penalized on the documentation aspects because of inadequately prominent display at branches.

Board involvement: Almost all the MFIs which scored high in the assessments were submitting CoC compliance report to their board.

Staff training and conduct: Many MFIs had also made all their staff sign the CoC as part of their mandate to adhere to it in the course of their duties. MFIs were observed to be adhering to the recruitment guidelines laid down in the Code. No cases were observed of poaching of field staff or hiring without No Objection Certificate (NOC) and clearance from the previous MFI employer.

Internalization of code: MFIs which have scored high in CoCA are those which have internalized all aspects of the Code by integrating its tenets into their operational policies and practices and also included monitoring and supervision of adherence to the Code by their operational supervisors and internal audit teams.

Over-indebtedness: Adherence to the Code's requirements for preventing over-indebtedness has been relatively high because many MFIs have improved their processes for estimating client's repayment capacity and have trained staff adequately on how to gauge and assess the same. Furthermore, initial data problems with data and report quality from the credit bureaus have been largely overcome and almost all MFIs are submitting their data on a regular basis to at least one if not both the bureaus.

Client orientation and education: Most MFIs are printing all loan documentation in the vernacular language and ensuring that clients are given an extensive verbal explanation of the documentation when they come for disbursement to the branch. MFIs had also conducted detailed trainings with clients, especially in soft skills, overdue recovery process, etc.

Repayment culture: It was noticed that the MFIs which had received exceptionally high scores were those which promoted a good repayment culture through appropriate lending practices, rather than enforcing repayment under any circumstances. These MFIs had, in fact, moved away from enforcing the group's joint liability compulsorily and had developed alternative methods of ensuring prompt payment (incentivizing groups to maintain a perfect repayment record by offering higher loan sizes, add-on products, etc., to such groups).

Grievance redressal: MFIs have also taken care to introduce grievance redressal mechanisms which are interactive and effective. Almost all MFIs had installed dedicated grievance redressal numbers and some have a toll-free number so that clients do not hesitate to call to report a complaint or seek clarification. Most of the MFIs had also informed their clients of the contact information for lodging complaints and grievances by putting up the numbers at the branches and also printing these on client passbooks/loan cards.

Those MFIs performing best on this aspect were also training their clients adequately on where to find the grievance number on their loan documentation and were encouraging them to use the number for seeking clarifications and reporting complaints. However, it was noticed at the field level that clients still felt comfortable first registering complaints (especially against field staff) with the branch manager or other branch staff rather than calling the number. This resulted in documentation of grievances getting overlooked, although they were being addressed at the branch level. In contrast to this, toll-free numbers were used extensively especially for seeking clarifications, inquiring about disbursement date, etc., and clients felt more comfortable using this mechanism as they knew it was free, and felt that they would get accurate answers from a centralized source at head office. Sufficient demonstration effect may be required before grievance numbers are used optimally across all MFIs.

Box 3.3 Ujjivan's initiative to ensure service quality

Ujjivan's service quality department was observed to be performing especially well on the above aspects, with region-wise monitoring of complaint frequency, seriousness, and turnaround time. Operational areas with unrealistically low usage of the toll-free number were also investigated to ensure adequate client awareness regarding the grievance redressal mechanism. Customer surveys supplement the grievance redressal mechanism well, as customers are free to give both positive and negative feedback. It is also more proactive and can spot emerging risks rather than waiting for feedback to come exclusively from the grievance channel.

Source: M-CRIL visit to Ujjivan.

Best practices in grievance redressal observed during CoCA included:

- Installation of toll-free numbers
- Multiple language response capabilities wherever relevant
- Regular consolidation of complaints, segregation into categories based on seriousness, monitoring of time taken for redressal
- Regular reporting on nature and frequency of grievances to the board

Practices that need improvement

Staff training and awareness: Some concerns and issues also came to light during the CoCA. While many MFIs had put in place special training modules on the CoC and RBI guidelines, on expected staff behaviour, and other soft skills, there were some institutions in which low level of staff awareness were observed. Usually these were restricted to a few branches in the institution. However, MFIs need to find effective ways of including these aspects in staff appraisal and incentivization—measurement of adherence is difficult and also requires impartial observation by immediate supervisors in the operational hierarchy.

Client awareness on insurance: Although client awareness training and transparency levels were high in most institutions which underwent CoCA in 2012–13, there was still scope for improvement in some MFIs, especially in educating clients on the break-up of processing fee and insurance premium, insurance coverage and benefits, and prepayment terms and conditions.

Overdue recovery process: A few MFIs did not have a board-approved policy of recovery of overdue loans emphasizing the need to maintain empathy with clients during the recovery process. The overdue recovery process mainly described the procedure to be followed by different staff in the operational hierarchy and indicated at what stage in the overdue recovery process they should involve themselves in the process. It is surprising that in some MFIs, the field staff were unaware of a rescheduling policy (for genuine cases), even if such a policy was in existence. This is because management often feels that staff may not follow up overdues rigorously enough if they are aware that there is a possibility of rescheduling.

Loan appraisal for repayment capacity: Some MFIs have not included a thorough cash-flow analysis in the loan appraisal process as they feel that the clients will in any case manipulate the figures to meet the RBI regulation requirements for household income. Continuing from this, a common issue noticed in the field during CoCA is that clients have also become aware of the RBI guidelines on household income cut-offs and number of MFIs loans. Staff were finding it increasingly difficult to get honest responses from clients especially on income levels, as clients would understate their income and expenditure levels to meet the require criteria. Furthermore, this would spoil the quality of cash-flow analysis being done to establish repayment capacity.

Product offerings: Some MFIs are offering products which are not exactly in keeping with the spirit of the Code, while in letter they are compliant with the Code and guidelines. Features such as collecting all interest upfront rather than being amortized over the period of the loan, or collecting advance instalments from clients thereby reducing the moratorium period available to them may not constitute a grievous offence. However, such practices deviate from the spirit of the guidelines. It was also noticed that not many MFIs were consulting clients on their requirements regarding product design and processes (mostly because institutions feel constrained to follow the RBI guidelines and, therefore, have limited scope for flexibility).

Checking over-indebteness: In some MFIs, it was noticed at field level that staff do not record on the loan form the number of MFIs from which borrowers have existing loans, although they are instructed to do so because they know that customers exceeding the two loan limit on number of MFI loans will be eliminated during credit bureau rejection. While this is true, it leads to dissatisfaction and delays when a group is rejected because one member does not meet the criterion. These delays also translate into unnecessary operational costs for the MFI. A few small MFIs were noticed to be in violation of the RBI guidelines for not running any credit bureau check for their clients.

Loan repayment options: Communication with clients on availability of options—weekly, fortnightly, and monthly—for repayment options has been weak.

Pricing norms: Small violations—In a few cases, MFIs were found to be violating the RBI guidelines on pricing by charging fees for credit bureau checks or for loan cards, passbooks, etc.

Loan utilization checks: Some MFIs were observed to be avoiding conducting loan utilization checks for 100 per cent of their clients, and in some cases the checks would be conducted but not recorded. This renders end-use of loans

difficult to establish with a reasonable degree of certainty.

To conclude, it is evident from the learnings described above that MFIs have greatly improved their performance on the CoC between 2011–12 and 2012–13, and it is likely that CoCA will provide MFIs with an impartial, independent report card on their performance, helping them to improve even further.

Box 3.4 Usefulness of CoCA to MFI

'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.'

Source: Chandra Shekhar Ghosh, CEO of Bandhan Financial Services Pvt. Ltd (BFSPL).

RESPONSIBLE BUSINESS INDEX

Along with CoCA, another exercise which was undertaken in 2012–13 was the Responsible Business Index (RBIndex), conceptualized and implemented by MFIN across its member-MFIs. The framework of the Index was based on the RBI guidelines and MFIN evaluated each of its member institutions according to the index, awarding a score out of 100 for each MFI based on its level of adherence to the guidelines, and benchmarking the performance of the MFI on each parameter, against the industry averages. It is intended that such a study would help MFIs in:

- Gap analysis, helping MFIs identify both strengths and weaknesses
- Benchmarking performance against sector peers and leading practice from across the RBIndex
- Tracking progress, reinforcing good practice, and driving continuous improvement

RBIndex comprehensively covers the RBI Fair Practices Code and Industry CoC under five broad areas of (a) Disclosures to clients, (b) client engagement, (c) institutional processes, (d) transparency, and (e) violation history. These five broad areas are further divided in 69 sub-parameters to form the maximum total score of 100, and MFIs are scored on each of the sub-parameters (Annex 3.2 has details of parameters and weightages).

During 2012–13, the exercise was performed for 41 out of 43 MFIN members. It was a self-assessment exercise and the MFIs scored themselves on the guidelines given by MFIN for scoring. Members mostly scored high because the indicators captured were mostly from the RBI Fair Practices Code and RBI NBFC-MFI guidelines, on which MFIs were largely compliant. MFIN performed an industry analysis to arrive at median and average scores, with which each MFI score was compared so that MFIN member-MFIs could benchmark themselves against the industry. Some members were able to improve their practices based on comparing their performance with industry benchmarks. Few MFIs also published their RBIndex scores/report on their websites.

MFIN plans to undertake the next round of data collection in October 2013 and the updated tool will include amendments made to the Fair Practices Code. Credit bureau related indicators will also be upgraded to reflect the frequency of data sharing.

INTERNATIONAL INITIATIVES FOR EVALUATING CUSTOMER FOCUS

Global initiatives in the field of SP and CP have surged forward in the aftermath of microfinance crises in some countries, not least of all India. Smart Campaign facilitated third party CPP assessments in 17 MFIs and certifiers licenced by it (M-CRIL) conducted certification assessment in three MFIs. Social ratings and assessments have also been carried out though on a minimal scale. It is useful to analyse the coverage and value proposition of each, developments during the past year and market.

Smart campaign—client protection assessments and certification

The Smart Campaign's CPPs were developed in 2008 and have been gaining momentum. The Smart Campaign initially began with six CPPs when it was launched in 2009, with a focus on credit products. In the following years, it worked to expand the CPPs to open the CPPs beyond credit

to accommodate all the major types of financial products. The seven CPPs introduced in 2011 cover not only credit products, but also other financial products often offered by MFIs, such as savings, insurance, or payments.[6]

Globally, the Smart Campaign has 3,704 endorsers, of which around 4.5 per cent are from India (July 2013). Having been developed by microfinance industry leaders from around the world, the CPPs guide financial institutions in the design of their products and processes with the objective 'do no harm to the client'. Several elements of these principles are part of the Unified Code of Conduct as well as the RBI guidelines for NBFC-MFIs and RBI's Fair Practices Code for NBFCs. In fact, by virtue of adhering to the RBI guidelines and Fair Practices Code, most MFIs would be meeting Smart Campaign Client Protection standards. A useful comparison between the CPPs and RBI guidelines has been made by EDA Rural Systems in its guide for MFIs.[7]

Since May 2010, the Smart Campaign (in partnership with IFC and SIDBI) has made significant efforts to help microfinance stakeholders commit their full support to CP through development and dissemination of tools on best practices. Several steps were taken since 2009 to make the CPPs an integral part of the Indian microfinance industry. The Campaign's target audience has included key sector participants, ranging from MFIs, industry associations, investors, rating agencies to technical service providers. CP training courses with key industry stakeholders including MFIN, Sa-Dhan, ACCESS–ASSIST, banks, and social investors (Ananya Finance and Maanaveeya) have been conducted. Seventy five MFIs have been trained across the country till July 2013 to make them aware of the CPPs and equip MFI staff with skills to evaluate their own institutional performance against the CPPs and the CoC.

Since 2012, further steps were taken to link CP or Smart Assessments with other efforts in the Indian microfinance industry. Seeing more than 80 per cent overlap between the CPPs and Unified CoC, the Campaign works towards aligning both its Smart Assessments and CPPs training with CoC. From 2011, the Smart Assessment report has included CoCA component. The Smart Campaign is not accredited by SIDBI to undertake CoCA (as the Campaign is supporting other service providers through technical assistance rather than looking to offer the service themselves). Synergies between CoCA and CPP evaluations are high since all CPPs are covered in the CoC assessments.

Smart campaign's third-party smart assessment and certification

The Client Protection Assessment examines implementation of the CPPs thoroughly and is conducted by certified Smart Assessors. Smart Campaign has trained, built capacity, and accredited Smart Assessors from technical service providers such as EDA, ACCESS–ASSIST, M2i, Sa-Dhan, IFMR, Oikocredit, MicroSave, and Plan India. It is an intensive mechanism for mitigating client-related risk, as it takes an MFI through a process of internal review to identify strengths, weaknesses, and ultimately opportunities to enhance business practices around CP.

In India, the accredited assessors have conducted 17 assessments mainly of NBFC-MFIs. The assessments were funded by IFC with a commitment fee of ₹50,000 from each assessment. Undergoing Smart Assessment has helped MFIs to prepare themselves better for CPP certification and CoCA by acting on the assessment recommendations. The scores from the CPP benchmark data set can be seen as a first indication of industry-wide performance on CP.

A score of three corresponds to adequate performance and indicates that the MFI is meeting the client protection standards. To take adequate care, MFIs need management commitment, planning, and good execution. The average scoring pattern indicates that MFIs have demonstrated more than adequate practices on responsible pricing, appropriate collections practices, and ethical staff behaviour. While on the principle of transparency and over-indebtedness, most MFIs showed adequate practices since they were able to meet the principle indicators. Performance on aspects such as privacy of data and complaint resolution has been less than adequate.[8]

CPP certification

As a follow up to the CPP Assessments (Smart Assessments), a certification process was designed and

Table 3.1 Results of smart assessments (average scores for 17 MFIs)[9]

Preventing over-indebtedness	Transparency	Responsible pricing	Appropriate collections practices	Ethical staff behaviour	Complaint resolution	Privacy of data
3.0/5	3.0/5	3.4/5	3.2/5	3.1/5	2.8/5	2.4/5

Source: Analysis by IFC.

launched in January 2013. While a Smart Assessment gives an assessed a diagnostic report and the opportunity to examine which of its current practices strongly support the principles and which need improvement, institutions undergoing certification are those already confident of meeting the client protection standards.

The four global Microfinance Rating Agencies (M-CRIL, MicroRate, Microfinanza Rating, and Planet Rating) worked for over two years with industry stakeholders and the Smart Campaign to develop the standards and methodology against which institutions would be evaluated. The process involves intensive interaction in the branches and field areas, Focus Group Discussions (FGDs) are conducted with a representative sample of field staff and clients across the MFI's areas of operation. During the field review, the Certification team examines how the financial institution performs against the Certification standards at three broad levels:

1. Market and regulatory context
2. Institutional policies, procedures, and systems
3. Organizational culture and how policies are reflected in staff behaviour

Certification involves evaluating a financial institution's policies, procedures, training, marketing, and operations against a set of 'adequate standards' derived from the six CPPs. The Certification team shares its opinion on Certification with the MFI and with the Smart Campaign on the result—either a 'Pass' or 'Fail'. A passing institution's status is made public, but the Certifier and the Smart Campaign do not share names of MFIs that have failed. Institutions that do not meet the standards are given a four-month window within which to make recommended changes in order to pass. This helps MFIs that have failed to address the needed improvements in a relatively short time frame. MFIs that still fail to be certified are allowed to re-apply for a subsequent Certification mission. The Certification is valid for a period of two years.

In India, M-CRIL offers the Certification and has already completed three certifications in December 2012—CASHPOR Micro Credit, Ujjivan Financial Services Pvt. Ltd, and Grameen Financial Services Pvt. Ltd. These three MFIs were among the first five across the world to be certified. Reportedly, Deutsche Bank took note of CASHPOR's certification status, before making an investment.

Observations on state of practices on CPPs

Some of the observations from Smart Assessments, Certifications, and CoC Assessments are given below

Box 3.5 How investors use the external assessments

'Indeed we feel that Code of conduct assessments/CPP evaluations form an important part of our decision-making process while considering any MFI for funding. The reports add value to our assessment as the financial rating/MFI grading does not highlight the social aspect of the organization. While assessing any institution for funding we internally measure the Social Performance of the MFI with the help of internal tools and then tie it up with the assessments/rating report. Better performers as such do not get more funding but definitely they have better chance/visibility to get funding from us.'

Source: Aditya Bhandari, ICOFIN.

Box 3.6 Usefulness of the external assessments on CPPs

'As CASHPOR was already in compliance with all the client protection standards, there was not much of a challenge in meeting the certification criteria. There are investors that attach importance to CPP while making investment decisions. We expect that Client Protection Principles Certification will provide comfort to our other lenders and investors too.'

Mukul Jaiswal, MD of CASHPOR Micro Credit

'GK was always doing things with client first approach. An external agency of international repute (M-CRIL) certifying us stating we are following international standards on client protection has enhanced our credibility amongst our stakeholders.'

Suresh Krishna, MD of Grameen Financial Services Pvt. Ltd

'Client protection must be at the heart of microfinance operations. Code of Conduct Assessments or IFC-supported Client Protection Certification reports act as effective indicators of the institution's client orientation and capacity to anticipate client business needs. They are excellent signposts for identifying gaps in existing operations and guide MFIs towards building necessary systems and processes.'

Girish B. Nair, Operations Officer, IFC Access to Finance Advisory, South Asia

Source: Telephonic interviews by Mcril.

to provide a broader perspective on the prevailing situation in most Indian MFIs with respect to the CPPs (see Table 3.2).

As can be seen from the above observations, there has been considerable improvement in MFI performance on the CPPs, but there is some ground

Table 3.2 Observation on adherence to the seven CPPs (from CPP assessments, certifications, and CoCA)

Principle	Observations
CPP 1: Appropriate Product Design *Providers will take adequate care to design products and delivery channels in such a way that they do not cause clients harm. Products and delivery channels will be designed with client characteristics taken into account.*	• MFIs have stated that they are unable to offer their clients the products and features that are most demanded. The compulsion to extend the loan term for loans of ₹15,000 and more to two years was a major challenge for MFIs. MFIs do not appear to have innovated on products possible within the RBI guidelines—cash-credit type loans, longer duration loans, and bullet repayment loans. • Severe pressure on margins has compelled MFIs to offer more standardized products that are simpler to administer. • The limitation of the 15 per cent cap on non-microfinance loans in portfolio and 70 per cent portfolio to income-generating loans has also restricted product design.
CPP 2: Prevention of Over-indebtedness *Providers will take adequate care in all phases of their credit process to determine that clients have the capacity to repay without becoming over-indebted. Providers will verify client's capacity to repay using assessment of income, expenses, existing debt in the light of the local market context, and providing appropriate incentives to staff. Providers will foster efforts to improve market level credit risk management (such as credit information sharing). The indicators also include other institutional factors that support prudent lending, including loan officer training and the extent to which staff incentives reward thorough client screening.*	• Almost all MFIs are submitting their data to either HighMark or Equifax, some are submitting to both. The credit bureaus have stepped up the rigour of matching. However, problems of time lags in data submission, references, and selective referencing leave sizable gaps to be addressed. Also, as SHG borrowers are not covered, credit bureau effectiveness is still not optimized. • Those MFIs which are submitting data have also put in a compulsory credit bureau check as part of their loan appraisal process. Those which are not doing so are in violation of the RBI guidelines and would most probably comply at the earliest. • Nine of the 17 Smart Campaign CPP assessed MFIs were able to meet the standards for over-indebtedness principle. Majority of the MFIs were concerned about issues of over-indebtedness and were tracking PAR on a monthly basis. • Most MFIs demonstrated some element of difficulty in complying with the indicator on repayment capacity analysis. This is mostly because in Grameen-type group lending there are no practices to conduct detailed repayment analysis as lending is primarily dependent on group guarantee. • The RBI's threshold of ₹0.06 million annual household income for rural microfinance clients and ₹0.12 million for urban clients has not necessarily resulted in MFIs reaching out to lower-income segments. However, clients have become aware of the threshold and declare their incomes accordingly. This renders any attempt at assessing true repayment capacity a futile exercise as clients manipulate income and expenditure to fall within the cut-off. • Another CP indicator is that 'group members are provided with the credit bureau credit checks done on other members'—however, this was felt to be unnecessary for borrowers in India as (a) Members in the vicinity would know about the borrowings of their neighbours, to a better extent that a credit bureau report indicates, (b) low literacy levels may cause wrong understanding of the report and result in needless complications, (c) group dynamics would unnecessarily be spoilt by sharing a written report. MFIs complied on this indicator by agreeing to verbally share the contents of the report with the group (in case of rejection of any member). It was pointed out to the Smart Campaign that sharing this report would run counter the requirements of the 'Privacy of Client Data' principle and guidelines were reworded to give more clarity.[10]
CPP 3: Transparency *Providers will communicate clear, sufficient, and timely information in a manner and language clients can understand so that clients can make informed decisions. The need for transparent information on pricing, terms, and conditions of products is highlighted.*	• Since transparency levels have increased tremendously with MFIs having to adhere to the CoC and RBI guidelines, all three MFIs in the pilot certifications passed all the transparency indicators without any changes to their existing systems. • MFIs have taken pains to revise their loan cards to include pricing in terms of declining rate and APR; most MFIs which underwent either certification or CoCA were quoting fees and insurance charges separately and some were even quoting the total cost in rupee terms. In terms of pricing disclosures, most MFIs were found to be quoting the APR on diminishing basis in vernacular language in client's passbooks and loan agreements as required by the regulator.

(Continued)

(Continued)

Principle	Observations
	• Out of the 17 MFIs assessed by the Smart Campaign, 10 were found to have met the principle in practice. • Efforts to educate clients on all costs and terms and conditions have increased tremendously since the 2010 microfinance crisis. Most MFIs have put in place a multiple-training system so that clients are trained repeatedly on these aspects—first during pre-loan training, reiteration during group testing, follow-up before disbursement at branch (group), and individual explanations while signing the disbursement receipts. • These efforts were seen to be having a positive impact on client retention. Seventy per cent of Smart Campaign assessed MFIs demonstrated that their staff were trained effectively to communicate with their clients. • Some innovative techniques such as flipcharts with pictures, bright and attractive displays at branches, loan card pouches with a list of 'dos and don'ts' were some of the other effective methods of ensuring retention.
CPP 4: Responsible Pricing *Pricing, terms, and conditions will be set in a way that is affordable to clients while allowing for sustainability. (Assessors benchmark an MFI's prices against its peers, using MIX and MFT data, where pricing data for peers is unavailable, portfolio yield and other proxies for price are used instead)*	• Pricing regulations by the RBI had ensured that all MFIs brought down their interest rates to 26 per cent per annum. Despite the ceiling being removed in the subsequent regulatory amendments (which prescribed a margin cap), none of the MFIs found it practical to raise their interest rates again, and simply had to work within the existing price structure. MFIs were found to be having an APR (interest including fees) in the range of 23 to 27 per cent, in compliance with the RBI regulation. Smaller MFIs, with higher operating costs, were absorbing the losses without raising prices and impairing their sustainability. • A few of the 'large NBFC-MFIs'[11] found it difficult to meet regulatory guidelines on the margin cap—initially 12 per cent for small MFIs and 10 per cent for large MFIs, but RBI had deferred compliance with the margin cap to April 2014 to provide more time. • The majority of the MFIs were still in a recovery phase and consolidation mode. However, despite the falling profitability ratios, post crisis there was a strong commitment amongst MFIs to reinvest part of their profits for the benefit of their clients.
CPP 5: Fair and Respectful Treatment of Clients *Financial service providers and their agents will treat their clients fairly and respectfully. They will not discriminate. Providers will ensure adequate safeguards to detect and correct corruption as well as aggressive or abusive treatment by their staff and agents, particularly during the loan sales and debt collection processes.*	• Smart Campaign assessed MFIs have scored well on both parts of this principle; the RBI guidelines and the CoC requirements also require this of the MFIs. • Almost all institutions have developed a delinquency management policy. • Among field staff, dos and don'ts around the CoC rank highest in terms of recall—most MFIs have sensitized their staff about the need for good behaviour with clients at all times. This aspect has been emphasized in staff trainings and supervisory/audit observations to ensure that enough seriousness is accorded. • Several MFIs have made it compulsory for staff to sign the CoC or pass a test during their induction. • Leading MFIs have also included performance on this principle in the incentive structure. Two-thirds of the Smart Campaign assessed MFIs had clear policies on informing staff in advance on the penalties for non-compliance with collection policies and violations. Some MFIs impose harsh disciplinary action for violations of this principle. Since most MFIs have started moving away from the zero default philosophy, the staff is not unduly pressurized. Fifty per cent of the assessed MFIs had robust internal audit and fraud control mechanisms to monitor staff behaviour with clients. • MFIs which did not have non-discrimination policies in place[12] were required to incorporate such a policy in operating manuals, prior to being certified. • MFIN and Sa-Dhan continue to conduct independent investigations in case violations are reported. • In line with the RBI directive, the Smart Campaign also advises that MFIs should not demand that clients provide collateral which could deprive them of basic survival capacity.[13] The assessment findings indicate that majority of the group loans were provided on the basis of group guarantee mechanism and even in case of individual and gold loans sufficient notices were provided to clients before taking a legal recourse.

(Continued)

(Continued)

Principle	Observations
CPP 6: Privacy of Client Data *The privacy of individual client data will be respected in accordance with the laws and regulations of individual jurisdictions. Such data will only be used for the purposes specified at the time the information is collected or as permitted by law, unless otherwise agreed with the client. The core of this principle is that client data belongs to the client, not the MFI, and that misuse of data has the potential to harm clients. Other aspects of safeguarding client data apply to IT security, as well as maintaining paper data securely. Lenders should recognize that sharing client data should be done with client acknowledgment and based on clear disclosure. Clients should not be asked to waive their privacy rights unless genuinely necessary.*	• Privacy of client data is a recent concern not only for MFIs but also formal financial institutions. The Smart Campaign assessed weak compliance from MFIs to this principle. Out of the total 17 MFIs assessed only five had adequate practices to protect client data and sensitize them about their rights. • However, most MFIs have revamped their IT systems to ensure that data access is hierarchy-based and that data is secure from unauthorized copying and distribution. • Those MFIs using third-party services have strict contractual clauses preventing sharing of client-related information. • While sharing client information with credit bureaus, Smart Campaign assessed MFIs were procuring client consent in the loan contracts as part of regulatory compliance. However, clients were not always aware of how their information would be used, nor were they aware of the MFIs responsibility to protect clients' data and sharing of their personal information to credit bureau. Only six assessed MFIs had adequate practices in this regard. Through extensive client education in the recent past, most clients are now aware that their loan application information will be shared with a credit bureau. • Eight out of 17 Smart Campaign-assessed MFIs had clear written client data privacy policies in place. MFIs undergoing certification were required to ramp-up their client privacy policies, especially with regard to taking written consent from clients to use their photos and life experiences in case studies and marketing materials. • MFIs found that privacy clauses especially in certification requirements were stiff and largely out of context for India as they were typical for more litigious societies where privacy is valued more. The clause on inclusion of a topic in staff training regarding 'how to explain importance of data privacy to clients' was considered superficial and unnecessary; however, two out of three MFIs undergoing certification had to comply with this and include such a module in their staff training material.
CPP 7: Mechanism for Complaint Resolution *Providers will have in place timely and responsive mechanisms for complaints and problem resolution for their clients and will use these mechanisms both to resolve individual problems and to improve their products and services.*	• Most MFIs have robust grievance redressal mechanisms in place, especially since this has been emphasized in the RBI guidelines, Fair Practices Code, and Unified Code of Conduct. • Smart Campaign-assessed MFIs, however, had not performed well on this aspect. Only eight MFIs had adequate practices to handle complaints in a timely manner. Twelve MFIs had a written grievance redressal policy and framework that requires customer's complaints to be seriously investigated and resolved in a timely manner, as well dedicated staff for grievance redressal. • Leading MFIs have ensured that complaints are addressed in the shortest time possible, and reports are regularly made to top management and even to the board. It is noteworthy that the three MFIs which were certified by the Smart Campaign were submitting detailed reports on nature, seriousness, and turnaround time for addressing grievances to their respective boards. • Most of the large MFIs have a toll-free number, handled by staff with requisite language capabilities to cover complaints from all operational regions of the MFI. • However, most MFIs have observed that majority of complaints are addressed at field level and go undocumented as a result. They have, therefore, begun establishing human channels for eliciting client feedback at the branch level. • Dissemination of toll-free numbers during Compulsory Group Trainings (CGTs) and disbursements have resulted in an increased use of such numbers for inquiries and clarifications, as well as complaints. • However, the current complaint resolution system rarely works as an active client feedback loop on the basis of which changes are made on products or policies.

Source: M-CRIL analysis from CPP assessments, CPP certifications, and CoC assessments.

to be covered yet. CoCA and CPP assessments scores vary.[14] Analysis of 13 CPAs and 16 CoCA by the Responsible Finance Forum shows that CPP assessments have lower scores (2.5/5 for privacy of client data and for 2.8/5 for mechanisms for complaints resolution). Under CoCA the average scores for all CPPs is well above 80 per cent. Two aspects where the difference is very evident between CoCA and CPP are grievance redressal mechanism and privacy of client data. The scores are different because the indicators are different and different weights are assigned.

What needs to be done is work on aligning the scoring and the methodologies (not just between the CoCA and the Smart Assessment, but also amongst the CoCA methodologies), which are using the same framework but different specific indicators and scales. IFC will be working with the Smart Campaign to align with the CoCA methodologies.

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. It is clear that the sector will benefit from integration of different assessment tools and rating instruments.

Though the need for alignment and integration between different customer protection assessment tools is well recognized among the different stakeholders, the process of achieving convergence is not easy. Having developed the ideas and tools, the proponents of each of these methodologies seem reticent to achieve convergence expeditiously. In the interest of vulnerable customers, competing and conflicting tools and methods have to be integrated soon so that costs at MFI levels are lowered and confusion in the sector avoided.

USSPM

The SPTF pioneered design of SP assessment tools and encouraged institutions to incorporate SPM in their activities. In June 2012, SPTF released its USSPM for MFIs,[15] which are a set of universally accepted Standards in SPM which have been framed for MFIs to help them integrate and prioritize SP along with their financial and operational objectives. These standards were developed by a global team of microfinance experts and cover the essential requirements for any MFI which seeks to achieve the double bottom line. The USSPMs are divided into six metrics, listed as follows:

1. Define and monitor social goals
2. Ensure board, management, and employee commitment to SP
3. Treat clients responsibly
4. Design products, services, delivery models, and channels that meet client needs and preferences
5. Treat employees responsibly
6. Balance financial and SP

The Standards establish clear guidelines on SPM integration in strategy, operations, and reporting, and have been incorporated by specialized microfinance rating agencies in their Social Rating frameworks. They have also been included in the MIX market SP reporting template for MFIs. As can be seen from the USSPM metrics, there is substantial integration with the CPPs, especially in metrics three and four—'treat clients responsibly' and 'design products, services, delivery models, and channels that meet client needs and preferences'. Since USSPM covers the entire gamut of SP, it, therefore, has a wider coverage including board involvement in defining and monitoring social goals, management and employee commitment to the same, and treatment of employees which does not come within the scope of CPP evaluations or CoCA.

The USSPM beta test evolved as a way of measuring an institution's adherence to the Universal Standards. Essential Practices have been defined for each of the metrics, and if an institution meets these Essential Practices[16] then it can be considered to be fulfilling the Universal Standards of SPM. Over the past year, the Microfinance CEO Working Group[17] worked with 21 of its partner and affiliated MFIs across the world to 'beta test' the Universal Standards, by analysing each MFI's practices relative to the specified Essential Practices. The purpose of the exercise was to understand the status of an MFI's current SPM, and also elicit any issues with the Universal Standards as they now stand. Beta tests were conducted with a variety of MFIs, covering a wide range of institution sizes and geographic locations. Methodologies included (a) self-assessment by MFI staff members facilitated by an SPM champion within the institution, (b) facilitated sessions led by a representative of the Microfinance CEO Working Group organization with extensive experience in SPM, (c) quasi-audit performed by an outside consultant.

Each 'essential practice' comprises several indicators, each of which is analysed on the basis of:

1. The institution's *Understanding* of the indicator
2. How *Relevant* the indicator is for that institution
3. The current *Status* of implementation, along with detailed
4. **Observations** on that indicator

Under each section some Additional Practices are also defined—these indicate that the institution has gone a step ahead in implementing its SP mandate.

The findings of the Working Group are as follows:[18]

1. Results indicate that, on an average, MFIs believe that they are already compliant with 78 per cent of the 99 Essential Practices, indicating a high degree of confidence in their current practices.
2. MFIs reported highest compliance on Section 4 (*Design Products, Services, Delivery Models, and Channels that Meet Clients' Needs and Preferences*) and Section 5 (*Treat Employees Responsibly*).
3. Challenges vary by institution and country context, but on an average MFIs struggled most with Section 1 (*Define and Monitor Social Goals*), and had the most concerns with Section 6 (*Balance Financial and Social Performance*).
4. USSPM beta test results were as shown in Table 3.3.

Table 3.3 Compliance on each USSPM metric (average across 21 MFIs worldwide)

Metric	Average compliance (in %)
1. Define and monitor social goals	63.8
2. Ensure board, management, and employee commitment to SP	74.3
3. Treat clients responsibly	79.4
4. Design products, services, delivery models, and channels that meet client needs	83.7
5. Treat employees responsibly	83.3
6. Balance financial and SP	77.6

Source: http://centerforfinancialinclusionblog.files.wordpress.com/2013/05/insights-from-e2809cbeta-testinge2809d-the-universal-standards-for-social-performance-management.pdf

Results suggest that the USSPM are, on the whole, practical and achievable for MFIs and that institutions found them relevant. While the working group has been developing 'indicators' to better define the 99 Essential Practices, some MFIs feel that this will complicate matters further and make the USSPM impractical and inaccessible to those institutions which are not already highly focussed on SPM. While all sections are highly relevant, it has been difficult for MFIs to grasp and concentrate on all at once. Although the tool mandates high involvement from the CEO and board, it is unlikely that they would have the time or the details at hand to oversee performance on all 99 Essential Practices. Also, there is a fear that having a large number of Practices may result in less importance to the critical ones. However, it was heartening that participating MFIs felt that the exercise was useful and a good learning experience, especially for their employees, who were better equipped to understand what constitutes good SPM and who can now implement good practices.

EDA Rural Systems has performed the USSPM beta test on ESAF Microfinance and Investments Pvt. Ltd (EMFIL) in Kerala, funded by Opportunity International. EDA Rural Systems has integrated USSPM into its Social Performance Assessments (for Dia Vikas's MFI partners), while M-CRIL has integrated the Universal Standards into its Social Rating methodology.

TRUELIFT (FORMERLY CALLED SEAL OF EXCELLENCE)

Truelift Assessment, which is the new branding of the 'Pro-Poor Seal of Excellence', was formulated with the idea to recognize and build understanding around practices to implement three pro-poor principles:

1. Purposeful outreach to poor clients[19]
2. Appropriate services for poor clients
3. Tracking progress for poor clients

The Truelift Assessment gives equal weightage to the three principles above, each of which is broken down into four indicators. The sum of scores assigned on these indicators places an MFI on one of the four levels—Aspirant, Emerging, Achiever, or Leader. The summary report also covers an organizational profile including whether financial statements are audited or not, sustainability, performance on USSPM, and breakdown of performance on each of the principles. Truelift unlike CPP or CoC (which are more standard-oriented and distinct exercises), builds on the existing framework of USSPM and CPP to distil assessment of pro-poor practices. As such, any institution undergoing a social rating or any institution which is aligned to USSPM and CPP can easily get a Truelift Assessment. As performance

is inextricably linked to the 'measure' of poverty, details of the poverty line definition form an integral part of the Truelift report.

Till date only two MFIs have undergone a Truelift Assessment in India. CASHPOR earned the 'Achiever' level as it has performed exceptionally on the first, and considerably well on the second and third principles.

MICROFINANCE INSTITUTIONAL RATING

During the post-crisis reform in the Indian and international microfinance industries, it was thought imperative that institutional rating frameworks should integrate key social issues and address public policy concerns on institutional practices in lending to the poor. Realizing this, M-CRIL and other global rating agencies worked on a new rating format to refine the existing financial/credit rating product by integrating key areas of SP. These efforts were supported by the Ford Foundation and Rating Initiative and the new rating product called 'Responsible Finance Rating' came into being around 2011. It was subsequently renamed Microfinance Institutional Rating (MIR), based on industry feedback during the pilot. MIR expands the holistic assessment framework used by specialized rating agencies as opposed to pure financial evaluations used by mainstream rating agencies. In addition to the financial and operational risk aspects covered in a pure financial or credit rating, MIR incorporates the CPPs, Alignment of Practices with stated social goals, and Responsible Financial Performance, thus providing a holistic opinion on the long-term sustainability and creditworthiness of MFIs.

The MIR was designed to integrate all factors which have a bearing on institutional and financial sustainability of MFIs. While MIRs have gained popularity among investors and MFIs internationally, in India the focus has still been on pure financial ratings termed 'bank loan' ratings and instrument ratings (for issue of Non-Convertible Debentures and Commercial Papers). The reason for this is mainly because the RBI New Capital Adequacy Framework (NCAF) guidelines[20] indicate that any exposure beyond a regulatory retail limit of ₹5 crores needs to be backed by a rating from any mainstream rating agencies, for risk weightage.

SOCIAL RATINGS

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. While Social Rating itself had evolved into a robust and comprehensive tool measuring MFIs' commitment to stated mission and social objectives, the AP crisis and other international developments in the microfinance sector made way for development of (too) many evaluation tools, viewing SP from different lenses—from CP to poverty outreach.

Social Rating has advanced in leaps and bounds in the international microfinance sector, with several

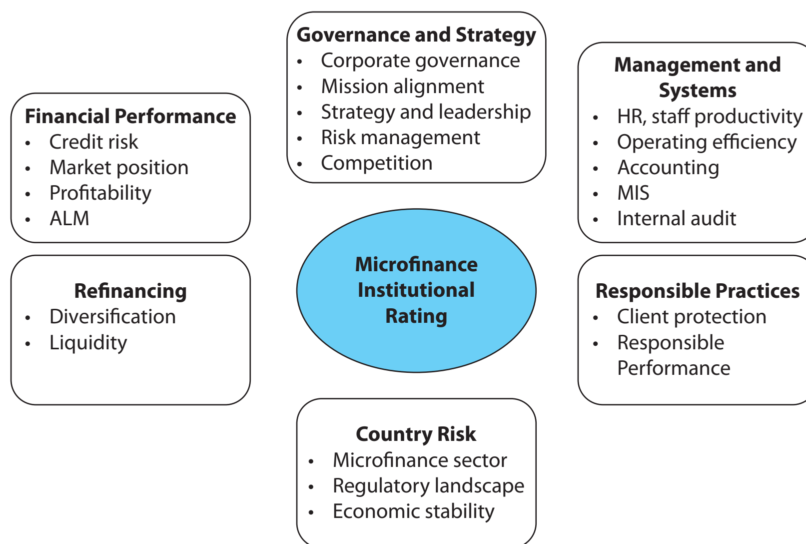


Figure 3.4 Microfinance institutional rating framework

Source: M-CRIL.

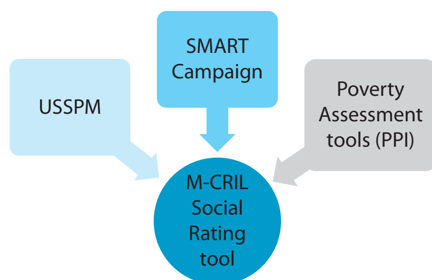


Figure 3.5 Social rating framework

Source: M-CRIL.

investors and lenders giving importance to double bottom line performance and commitment to social goals while making their funding decisions. Of the total rating (MFIs rating and social rating) carried out by leading international raters, Social Ratings constitute about 15 per cent.[21] However, in India, the demand for Social Ratings has remained low—during the year three Social Ratings were performed by M-CRIL and one Social Performance Assessment by Moody's. The low demand may be due to a plethora of assessments already being carried out.

Perhaps more value can be achieved in combining a social rating with CPP certification, TrueLift or USSPM beta test as there are many common areas in these assessments, as can be seen from Annex 3.1. The Social Rating methodology has been revamped in order to align it with the USSPM and to increase its relevance along the lines of market demand.

WAY FORWARD

There appears to be a lot happening in the SP assessment space, as can be seen from the variety and intensity of the tools available, from simple CoCA to comprehensive MIRs. While tools and products are varied, we can do a broad classification into two types of tools: (a) Overarching frameworks such as USSPM and MIR/Social Rating and (b) specific focused tools such as CPP evaluations and CoCA. Each has its unique advantage like CPP delving deep into CP and Truelift analysing the pro-poor orientation of an MFI. An ideal situation would have been an increased focus by lenders and investors on higher order frameworks/tool-like ratings which evolve and capture essential elements from the broad spectrum of responsible financing; while those interested in taking a deeper look into specific performance areas could have commissioned the more specific evaluations. The plethora of assessments and certifications create avoidable confusion in the market. While each assessment can facilitate improvements in the target MFI, the incremental value of every subsequent overlapping tool is not perceived to be high. MFIs are concerned that they will get lost in a sea of compliance-related changes, especially since each of the tools has close to a hundred indicators.[22]

The testimonials from MFIs on the usefulness are partly an affirmative response to the donor/funder that caused the assessment to be carried out. In private conversations, many MFI functionaries expressed grave concerns about the high costs of dealing with demands for information and organizing visits during and after these assessments. They were also critical of the limited incremental contributions made to improving the customer protection level or SP by these tools. The current market in India is driven by lenders (mainly bankers), and mainstream financial ratings and CoCA dominate the market. Other tools such as Social Rating and CPP have a limited appeal restricted to a few MFIs which want to go beyond essential requirements to improve practice or have adequate funding available from donors. Cost is another factor which suppresses demand, and the suggested way forward can be MIR covering CoC as the core and other tools as add-ons with lower incremental costs and for those who want a deeper look in specific areas.

The various tools, if designed such that they can work well in tandem with ratings, and when combined with a rating visit will add a relatively small amount to the cost. Since only one on-site visit is needed, combining ratings and other evaluations would be far less burdensome for MFIs. Tool overlap could be rationalized if the institutions which have designed various SP evaluation tools work on the synergies between their approach, methodology, and parameters. It is important to remember that real intent and commitment towards SP should not be lost in the maze of compliances, certifications, and evaluations.

In the final analysis, these assessments and tools should make the MFIs own the agenda of responsible finance and generate internal motivation for SP. The current trend in the sector is for the developers and champions of these assessment frameworks to keep them proprietary, determine how to test and what to communicate, and finally attribute improvements that take place in the ground to themselves and their tools. The sector and the professionals should guard against expert assessments substituting for MFI performance.

ANNEX 3.1
Key features and strengths of the various CoCA tools

Agency	Parameters		Strengths in report structure
ACCESS Assist	Code of Conduct	4	✓ Tool covers all parameters in detail ✓ Assessment covers adherence to the RBI guidelines ✓ Reports give details of fieldwork performed
	Market Entry	4	
	Appraisal Process	4	
	Client Comprehension	4	
	Products and Services	4	
	Pricing	4	
	Feedback Mechanisms	4	
	Staff Conduct	4	
	Governance	4	
	Human Resource	4	
	COMPOSITE SCORE	**4**	
iMaCS	Loan Pricing and Transparency	10	✓ Covers all parameters in detail ✓ Field coverage reported. Mix of regular and problematic groups ✓ Each parameter broken down into detailed indicators, qualitatively described in text and then summarized in terms of 'Documentation, Dissemination, and Compliance' ✓ Assessment covers adherence to the RBI guidelines ✓ Covers client awareness under Transparency section
	Client Origination and Targeting	10	
	Integrating Social Values	10	
	Staff Behaviour	10	
	Loan Appraisal Process	10	
	Client Data Privacy	10	
	Relationship Management and Grievance Redressal	10	
	Compliance to RBI	10	
	COMPOSITE SCORE	**80**	
m2i	Client Origination and Targeting	24	✓ Covers all parameters in detail, along A-D-D-O pathway—score is given to each parameter based on A-D-D-O performance, captures quantitative and qualitative aspects ✓ Field coverage reported. Mix of regular and problematic groups ✓ Caselets add depth to the report ✓ Covers the RBI guidelines, scored separately ✓ Important gaps highlighted for quick assimilation
	Loan Pricing	15	
	Loan Appraisal	16	
	Client Data Security	8	
	Staff Conduct	35	
	Client Relationship and Feedback	26	
	Integrating Social Values into Operations	14	
	RBI Directives	12	
	COMPOSITE SCORE	**150**	
M-CRIL	***Integrity, Governance, and HR Strategy***	***30***	✓ Each parameter broken down into several weighted indicators for quantitative rigour ✓ A-D-D-O framework (graded as 'Good, Moderate, and Weak') allows for qualitative assessment of performance to complement quantitative scoring, ✓ Integrates the RBI guidelines, Fair Practices Code and CPPs seamlessly ✓ The RBI guidelines captured in detail ✓ Strong reporting on field coverage, mix of regular and problematic groups reported by loan cycle ✓ Covers client education and awareness
	Integrating Social Values and Compliance	10	
	Governance	10	
	Human Resources Strategy	10	
	Compliance with Regulations Pertaining to Clients	***60***	
	Client Origination and Targeting	9	
	Loan Appraisal Process	9	
	Loan Product Features and Pricing	10	

(Continued)

(Continued)

Agency	Parameters		Strengths in report structure
	Transparency	10	
	Responsible Lending	9	
	Grievance Mechanism	9	
	Privacy of Client Information	4	
	Client Education	***10***	
	Client Education	3	
	Client Awareness	7	
	COMPOSITE SCORE	**100**	
SMERA	Client Origination and Targeting	22	✓ Covers all parameters in detail, along the A-D-D-O pathway, score is given to each parameter based on A-D-D-O performance, capturing qualitative aspects as well ✓ Covers the RBI guidelines, score integrated with CoCA score ✓ Caselets add depth to report
	Loan Pricing and Transparency	16	
	Loan Appraisal	18	
	Privacy of Client Information	8	
	Staff Behaviour and Client Grievance Handling	35	
	Integrating Social Values into Operations	10	
	Relationship Management and Feedback Mechanism	28	
	Compliance Status of MFI vis-à-vis the Recent RBI Guidelines	32	
	COMPOSITE SCORE	**169**	

Source: M-CRIL analysis.

ANNEX 3.2
Parameters and weightages assigned for the RBI index

Main parameters	Subsections	Weightage
Disclosures to Clients	In Branch	9
	In Loan Card	12
Sub-total		21
Client Engagement	Loan Processes	13
	Loan Agreement	8
	Customer Education/Rights	12
Sub-total		33
Institutional Processes	HR	13
	Complaint Redressal	4
	Compliance and Audit	5
	Board	7
	Other Policies	3
Sub-total		32
Transparency		10
Violation History		4
TOTAL		**100**

Source: MFIN.

ANNEX 3.3
CoCA

Agency	Name	Year	Score	Max. score	Standard % score	Legal form
		2011–12				
ACCESS–ASSIST	Saija Finance Private Limited	2011–12	3.08	4.00	77.0	NBFC
IMACS	SKS Microfinance Limited	2011–12	58.00	80.00	72.5	NBFC
IMACS	Future Financial Services Limited	2011–12	53.00	80.00	66.3	NBFC
m2i	Equitas	2011–12	109.60	124.00	88.4	NBFC
m2i	Ujjivan	2011–12	109.00	124.00	87.9	NBFC
m2i	ASA International India Microfinance Private Limited	2011–12	108.00	124.00	87.1	NBFC
m2i	Bandhan Financial Services Private Limited	2011–12	105.00	124.00	84.7	NBFC
m2i	Bhartiya Samruddhi Finance Limited	2011–12	105.00	124.00	84.7	NBFC
m2i	Arohan Financial Services Private Limited	2011–12	100.00	124.00	80.6	NBFC
m2i	CASHPOR Micro Credit	2011–12	93.50	124.00	75.4	Section 25 Co.
m2i	SKDRDP	2011–12	90.00	124.00	72.6	Trust
M-CRIL	MMFL	2011–12	66.5%	124.00	66.5	NBFC
M-CRIL	SHARE	2011–12	67.3%	124.00	67.3	NBFC
SMERA	Asmitha Microfin Limited	2011–12	127.00	169.00	75.1	NBFC
SMERA	Sanghamithra Rural Financial Services	2011–12	117.00	169.00	69.2	Section 25 Co.
		2012–13				
ACCESS–ASSIST	Swayamshree Micro Credit Services	2012–13	3.11	4.00	77.8	Section 25 Co.
ACCESS–ASSIST	Margdarshak Financial Services Limited	2012–13	3.10	4.00	77.5	NBFC
ACCESS–ASSIST	Sambandh FinServe Private Limited	2012–13	3.10	4.00	77.5	NBFC
ACCESS–ASSIST	Mahashakti Foundation	2012–13	3.09	4.00	77.3	Trust
ACCESS–ASSIST	Society for Model Gram Bikash Kendra	2012–13	3.08	4.00	77.0	Society
ACCESS–ASSIST	Annapurna Microfinance Private Limited	2012–13	3.06	4.00	76.5	NBFC
ACCESS–ASSIST	Belghoria Jankalyan Samity	2012–13	3.05	4.00	76.3	Society
ACCESS–ASSIST	Dhosa Chandaneswar Bratyajana Samity	2012–13	3.04	4.00	76.0	Society
ACCESS–ASSIST	Seba Rahara	2012–13	3.03	4.00	75.8	Society
ACCESS–ASSIST	Bhartiya Micro Credit	2012–13	3.03	4.00	75.8	Section 25 Co.
ACCESS–ASSIST	Uttarayan Financial Services Private Limited	2012–13	3.01	4.00	75.3	NBFC
ACCESS–ASSIST	Sahara Utsarg Welfare Society	2012–13	2.88	4.00	72.0	Society
ACCESS–ASSIST	Spandana Sphoorty Financial Limited	2012–13	2.76	4.00	69.0	NBFC
IMACS	Prayas Jan Vikas Bhandol	2012–13	54.00	80.00	67.5	Trust
IMACS	Utkarsh Microfinance Private Limited	2012–13	62.00	80.00	77.5	NBFC
IMACS	Hope Micro Credit Finance (India) Private Limited	2012–13	59.00	80.00	73.8	NBFC
m2i	Bandhan Financial Services Private Limited (BFSPL)	2012–13	125.30	138.00	90.8	NBFC
m2i	SVCL	2012–13	116.00	138.00	84.1	NBFC
m2i	Satin Creditcare Network Limited (Satin)	2012–13	115.00	138.00	83.3	NBFC
m2i	YVU, Manipur	2012–13	99.00	138.00	71.7	Trust
m2i	CDOT	2012–13	92.90	138.00	67.3	Society
m2i	BWDA Finance Limited (BFL)	2012–13	97.00	138.00	70.3	NBFC

(Continued)

(Continued)

Agency	Name	Year	Score	Max. score	Standard % score	Legal form
m2i	Sarala Women's Welfare Society	2012–13	101.00	138.00	73.2	Section 25 Co.
m2i	Chanura Microfin Manipur (CMM)	2012–13	104.80	138.00	75.9	Society
m2i	Sahayog Microfinance Limited (Sahayog)	2012–13	94.60	138.00	68.6	NBFC
m2i	Shikhar Microfinance Private Limited (Shikhar)	2012–13	91.60	138.00	66.4	NBFC
m2i	Mimoza Enterprises Finance Private Limited	2012–13	96.70	138.00	70.1	NBFC
M-CRIL	Swadhaar FinServe Private Limited	2012–13	85.8%	100.00	85.8	NBFC
M-CRIL	Janalakshmi Financial Services Private Limited	2012–13	85.6%	100.00	85.6	NBFC
M-CRIL	Suryoday Microfinance Private Limited (SMPL)	2012–13	80.9%	100.00	80.9	NBFC
M-CRIL	Sonata Finance Private Limited (SFPL)	2012–13	80.0%	100.00	80.0	NBFC
M-CRIL	Arth Microfinance Private Limited (Arth)	2012–13	71.9%	100.00	71.9	NBFC
SMERA	Annapurna Mahila Multi State Credit Cooperative Society Limited	2012–13	115	169.00	68.0	Cooperative

Source: Collated from SIDBI website and data obtained from Access and IMaCS

ANNEX 3.4
Smart client protection assessments

Name	Year	Legal form
Ujjivan Financial Services Private Limited	2011	NBFC
Swadhaar FinServe Private Limited	2011	NBFC
Janalakshmi Financial Services Private Limited	2011	NBFC
Arohan Financial Services Private Limited	2011	NBFC
Uttarayan Financial Services Private Limited	2011	NBFC
Sonata Finance Private Limited	2012	NBFC
SKS Microfinance Limited	2012	NBFC
Fusion Microfinance Private Limited	2012	NBFC
Kshetriya Grameen Financial Services (KGFS)	2012	
Grameen Financial Services Private Limited	2012	NBFC
Equitas Microfinance Private Limited	2012	NBFC
CASHPOR Micro Credit	2012	Section 25 Company
Bandhan Financial Services Private Limited	2012	NBFC
Sewa Bank	2013	Bank
Suryoday Microfinance Private Limited	2013	NBFC
Utkarsh Microfinance Private Limited	2013	NBFC
Saija Finance Private Limited	2013	NBFC
ESAF Microfinance and Investments Private Limited	2013	NBFC

Source: SMART campaign.

ANNEX 3.5
Comparison of various tools in the SPM universe

	CoCA	CPP assessment	CPP certification	USSPM beta test	TrueLift	Social rating	Microfinance institute rating
Definition	Assessment of the extent of an MFI's adherence to the Unified Code of Conduct	Assesses the level of a financial institution's internalization and implementation of CPPs	Certifies financial institutions which meet specified 'Adequate Standards' of implementation of the seven CPPs	Assesses the status of an MFI's SPM practice against specified Essential Practices on six prescribed Metrics	Awards a TrueLift Seal or Pro-Poor Seal of Excellence to MFIs which show strength in each of the three Pro-Poor Principles	Measures the SP of an MFI against the SP pathway	Provides an opinion on long-term institutional sustainability and creditworthiness through a comprehensive assessment of risks, performance, market position, and responsible practices
Purpose	To assess adherence to industry CoC (plus the RBI guidelines and Fair Practices Code)	To provide a separate, focused, specific reading on the quality of CP practices	To provide a separate, focused, specific reading on the quality of CP practices	To assess the current status of an MFI's SPM along all levels of the institution and across all stakeholders	To recognize and build understanding around implementation of the three pro-poor principles	To understand strengths and gaps which affect performance on the double-bottom line	To improve operations and to understand strengths and gaps which will influence long-term sustainability. Also, to attract investment
Conceptualized by	MFIN and Sa-Dhan	Smart Campaign	Smart Campaign	SPTF	Seal of Excellence	Global Microfinance Rating Agencies	Global Microfinance Rating Agencies
Relevance	Nationwide	International	International	International	International	International	International
				Topics Covered			
a) Country Context	Detailed	Briefly	Briefly	Briefly	Briefly	Detailed	Detailed
b) Financial Situation	Briefly, for a few indicators	No	No	No	No	No	Detailed
c) Microfinance Operations	Briefly, evaluative in context of CoC adherence	Briefly, evaluative in context of CP	Briefly, evaluative in context of CP	Briefly, evaluative in context of appropriateness for SP	Briefly, evaluative in context of Poverty-based outreach	Detailed, evaluative in context of CP, implementation of mission	Detailed, evaluative in context of operational efficiency, market strategy, etc.
d) Governance and Strategic Positioning	Detailed	No	No	Detailed	No	Detailed	Detailed
e) Portfolio Quality	No	Briefly, for a few indicators	Briefly, for a few indicators	No	No	Briefly, for a few indicators	Yes
f) Organization & Management	No	No	No	No	No	No	Detailed
g) Social Profile	Briefly	No	No	Detailed	Briefly	Detailed	No

(Continued)

(Continued)

	CoCA	CPP assessment	CPP certification	USSPM beta test	TrueLift	Social rating	Microfinance institute rating
h) Social Commitment	Briefly	No	No	Detailed	Briefly	Detailed	Detailed, but less than in a Social Rating
i) Social Results	No	No	No	No	Detailed (but only for poverty outreach)	Detailed	No
j) Reputational & Social Risk	Detailed	No	No	Detailed	No	No	Detailed
k) Client Protection Principles	Detailed (but less than in CPP evaluations)	Detailed	Detailed	Detailed (but less than in CPP evaluations)	No	Detailed	Detailed
l) RBI guidelines	Detailed (depends on agency)	No	No	No	No	Detailed	Detailed
m) RBI Fair Practices Code	Detailed	No	No	No	No	Briefly	Briefly
n) Unified Code of Conduct	Detailed	No	No	No	No	Briefly	Briefly
Agencies which conduct this evaluation	ACCESS–ASSIST, IMaCS, M2i, M-CRIL, SMERA	Smart Campaign assisted by other agencies	M-CRIL	M-CRIL	M-CRIL	M-CRIL	M-CRIL

Source: Analysis by M-CRIL.

NOTES AND REFERENCES

1. RBI Guidelines for NBFC-MFIs, 2 December 2011. Available at http://rbi.org.in/scripts/NotificationUser.aspx?Id=6857&Mode=0, accessed in October 2013; RBI Guidelines for NBFC-MFIs, 3 August 2012: http://rbi.org.in/scripts/NotificationUser.aspx?Id=7493&Mode=0, accessed in October 2013; NBFC-MFIs: Directions—Modifications in Pricing of Credit—Margin cap, 31 May 2013: http://rbidocs.rbi.org.in/rdocs/notification/PDFs/CIRMACA31052013.pdf, accessed in October 2013.
2. All reports of 2011–12 are available on SIDBI's website: http://www.sidbi.com/micro/codeofconduct.html. Reports of 2012–13 and 2013–14 are only available on the MFI websites of those institutions which have chosen to upload their reports and on SIDBI's website at http://sidbi.in/?q=coca-reports for those MFIs which have received a subsidy from SIDBI.
3. M2i and SMERA did not share any data or reports. Hence the number of CoCA in 2012–13 may be significantly higher. The sources of the reports used for analysis here are SIDBI's website and the MFIs themselves—either through direct request or from their websites.
4. As numbers for each year (2011–12 and 2012–13) alone were too few to be analysed in percentage terms, all CoCA from inception have been included in the analysis provided.
5. Ramesh Arunachalam's article 'Have Sophisticated Thermometers ever Reduced the Temperature?' in Moneylife, December 2011. Available at http://www.moneylife.in/article/have-sophisticated-thermometers-ever-reduced-the-temperature/22144.html, accessed in October 2013.
6. The seven CPPs are: Principle 1: Appropriate product design and delivery, Principle 2: Prevention of over-indebtedness, Principle 3: Transparency, Principle 4: Responsible pricing, Principle 5: Fair and respectful treatment of clients, Principle 6: Privacy of client data, and Principle 7: Mechanisms for complaint resolution.
7. Client Protection Directives and Guidelines for MFIs in India, available for download at: www.edarural.com, accessed in October 2013.
8. For more details please refer to the SoP Report, 2013, published by CFI.

9. The Smart Campaign began Client Protection Assessments in India using the original six principles of CP as the basis for the assessment tool. The six principles are as follows: Principle 1: Avoidance of over-indebtedness, Principle 2a: Transparent pricing, Principle 2b: Responsible pricing, Principle 3: Appropriate collections practices, Principle 4: Ethical staff behaviour, Principle 5: Mechanism for redressal of grievances, and Principle 6: Privacy of client data.
10. The Smart Campaign has revised its guidelines to state that

    > With regard to potential invasion of privacy issues: Members' credit history information may be conveyed orally by the group leader or loan officer; it is not necessary that group members receive documentation on the credit bureau checks. Group members do not necessarily need to receive/take home detailed credit history data on fellow members; a high level check of whether they pass or fail a credit bureau check is sufficient.

11. Defined as those with assets over ₹1,000 million.
12. The policy details that the MFI will not practice any sort of discrimination in group formation, customer selection, or outreach to any community.
13. Smart Campaign guidelines for this indicator state: 'Assets that would deprive borrowers of their basic survival refers to goods that are necessary for day to day living. Examples include clothing, house wares required to feed a household; telephone; bed; radiators.'
14. Responsible Finance Forum Newsletter, Supporting Responsible Microfinance in India. Scores of 13 CPAs (Smart Assessments) and 16 CoCA have been analysed and presented in the newsletter.
15. http://www.sptf.info/images/usspm%20manual_english.pdf, accessed in October 2013.
16. Ninety-nine Essential Practices have been defined across the six metrics.
17. http://www.centerforfinancialinclusion.org/collaborators-a-sponsors/microfinance-ceo-working-group, accessed in October 2013.
18. 'Insights from "Beta Testing" the Universal Standards for Social Performance Management', May 2013, Microfinance CEO Working Group Working Paper. Available at http://centerforfinancialinclusionblog.files.wordpress.com/2013/05/insights-from-e2809cbeta-testinge2809d-the-universal-standards-for-social-performance-management.pdf, accessed in October 2013.
19. Truelift defines 'poor' as the 'bottom 40 per cent of households' in rural and urban regions of a country, as a subgroup within the 60–70 per cent of households excluded from formal financial services who are also a recognized market for microfinance. See http://sealofexcellence.wordpress.com/
20. Master Circular—Prudential Guidelines on Capital Adequacy and Market Discipline—Implementation of the New Capital Adequacy Framework, July 2008. Available at http://rbi.org.in/scripts/BS_ViewMasCirculardetails.aspx?Id=4353&Mode=0, accessed in October 2013.
21. Personal communication with Lucia Spaggiari, Social Rating Director, Micro Finanza Rating.
22. CPP certification has 98 Adequate Standards and USSPM beta test has 99 Essential Practices.

Measuring and reporting social performance*

4
Chapter

The SP measurement and reporting is still an evolving field, unlike financial performance measurement and reporting which is much evolved and standardized. MIX has created a platform for MFIs to report on the SP and produces analytical reports on trends in SPM. Several Indian MFIs report on SPM to MIX platform and the profile of these MFIs is given in Annex 4.1.

SPTF is now engaged in developing the indicators for measuring the Universal Standards for SP. MIX will integrate the critical indicators into SPM reporting. This will enable both internal monitoring of SP in MFIs apart from external reporting for benchmarking in platforms such as MIX.

While universal indicators help benchmark the performance, for Indian MFIs, the metrics need to be tweaked to measure SP and responsible financing practices to the Indian context. For example, in measuring outreach apart from women and rural outreach indicators, indicators such as outreach in backward districts and outreach of marginalized and disadvantaged sections of population will be necessary to understand the depth of outreach. As many measures are undertaken by the Indian industry for promoting responsible finance practices, indicators such as usage of credit bureau data, grievance redressal mechanisms in place, will be the first-level indicators for measuring responsible finance practices.

There is also a tendency to measure social and financial performance separately but the industry should evolve a more balanced social metrics. For example, balanced returns and appropriate pricing can be measured by return on assets and portfolio yield indicators apart from APR which are pure financial indicators but have to be measured with a social lens.

OUTREACH

One of the key metrics tracked as part of SPM monitoring is 'Outreach'; three critical aspects—breadth, depth, and scope[1]—are usually examined within outreach, with some incremental granularity each year, as more data becomes available on these aspects. Overall the microfinance sector showed signs of positive growth in terms of outreach to clients and loans disbursement with improved funding by banks and other financial institutions to MFIs. In terms of absolute numbers, the outreach of MFIs (breadth) increased marginally over last year from 26.8 million (2012) to 27.5 million (2013), as per information available from Sa-Dhan data (see Figure 4.1). Of these 41 (NBFC) member MFIs of MFIN accounted for 24.4 million clients (up from 22.77 million in 2012) accounting for increase of 7 per cent overall.[2] Non-AP MFIs grew their client base at a steady pace of 22 per cent as compared to last year.

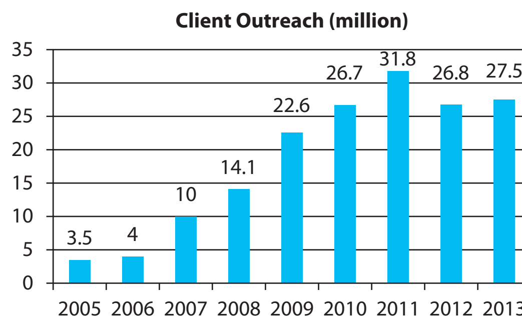


Figure 4.1 Number of clients served by MFIs

Source: Bharat Microfinance Report, 2012, Sa-Dhan; Presentation made by Sa-Dhan at the FICCI Workshop on Sustainable Financial Inclusion, 5 August 2013, Mumbai.

* With contributions from article *Social Performance Reporting from India: Overview and Select Findings* by Michael W. Krell, Analysis and Data Management Lead, Social Performance, MIX, prepared for the purpose of this report; Equifax Credit Information Services Pvt. Ltd; and Radhika Agashe, ACCESS ASSIST.

Target Market

ACCESS–ASSIST carried out a sample study on the outreach and other metrics of SP to which 36 MFIs responded. MFIs continue to focus on women with 99 per cent of total clients being women, while only 20 per cent of Indian MFIs reported gender equality and women empowerment as an important goal (as per MIX profile data). Rural clients constitute 52 per cent of the total client outreach in the MFIs studied.

In terms of targeting to specific client segments, in the sample of 36 MFIs, 33 reported targeting women as a clear strategy, while others reported targeting of clients in rural and urban locations (see Table 4.1). MFIs have multiple target markets. Specific segment targeting, such as youth, minorities or any other category of community with specific features, continues to be limited to a few MFIs. These trends are similar to the last year. There are MFI-specific innovations on targeting found in a few MFIs but these have been captured in earlier reports.

Table 4.1 **Target market**

Target Market	No. of MFIs
Women	33
Adolescents & Youth	2
Indigenous people and ethnic minorities	4
Clients living in rural areas	21
Clients living in urban/semi-urban areas	20
Others	2
Sample size = 36	

Source: Small sample study conducted by ASSIST.

GEOGRAPHICAL OUTREACH

In terms of outreach of MFIs across different states of the country, for MFIN member MFIs (that account for approximately 89 per cent of the total MFI clients), top five states West Bengal (15 per cent), Tamil Nadu (14 per cent), Karnataka (9 per cent), Maharashtra (8 per cent), and Uttar Pradesh (6 per cent) account for 52 per cent of the clients. AP though (17 per cent), largely has inactive clients.[3] This shows that the sector still has some way to go before MFI outreach is extended appropriately to poorer and underserved states. MFIN Micrometer, however, also reports that Punjab, Kerala, Uttar Pradesh, Bihar, and Haryana, are fastest growing states in terms of gross loan portfolio, followed by Jharkhand, Odisha, Gujarat, Madhya Pradesh, and Maharashtra. This list includes many poor and backward states and, therefore, looks more promising in terms of future growth and expansion prospects of microfinance.

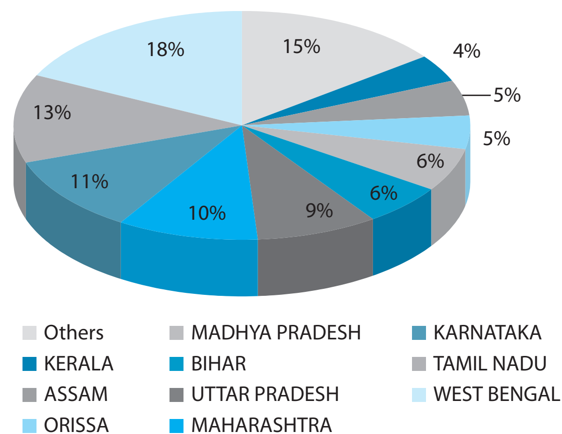


Figure 4.2 Top 10—loan amount outstanding, March 2013

Source: Data from Equifax.

Figure 4.2 shows share of top 10 states in terms of number of Gross Loans Outstanding based on the data from Equifax for March 2013.[4] Top five states (West Bengal, Tamil Nadu, Karnataka, Maharashtra, and Uttar Pradesh) account for 61 per cent of the portfolio.

Outreach in backward areas and districts

An analysis of a next level disaggregation of geographical outreach of MFIs in 154[5] backward and LWE-affected districts of the country has been made. These districts are identified by the Government of India and, hence, are used as proxy for regions that have highest concentration of poverty in the county and lack access to financial services in general.

This analysis is based on data provided by Equifax, one of two most active credit bureaus in microfinance. Annex 4.4 provides state-level comparison of outreach of reporting MFIs across 32 states covering 596 districts. Of the 154 backward districts, MFIs are operational in 124 districts thus covering 80 per cent of them. This proportion is close to overall coverage of districts in the country at 84 per cent (501 of 596). MFIs do not discriminate against backward districts in pursuit of business.

Some poor and underserved states such as Bihar, Jharkhand, and Chhattisgarh have MFIs operating in all the backward districts. In Madhya Pradesh, MFIs operate in 20 out of 23 backward districts. The focus of MFIs has now clearly shifted to states such as Bihar, Madhya Pradesh, Rajasthan, and Uttar Pradesh

with 15 or more MFIs operating in these states, including in the backward districts (except Rajasthan which has only five MFIs in backward districts). The southern states of Tamil Nadu, Karnataka, and Kerala show high penetration of MFIs in backward districts as well, commensurate with their overall high penetration across these states.

Around 57 of 124 districts have five or more MFIs operating in 2013. Number of active clients per district is highest in West Bengal across the states, including for backward districts. Number of active clients per district for the state and for the backward districts is comparable for Madhya Pradesh, Bihar, and Jharkhand, but much lower in backward districts for Uttar Pradesh, Chhattisgarh, Uttarakhand, and Rajasthan. The lower number of clients in some districts is not a matter of concern as the business models of MFIs focus on increasing outreach to break-even levels and, therefore, reaching higher penetration in these districts is usually a question of time.

The North-Eastern states—Mizoram, Nagaland, Arunachal Pradesh, and Manipur—as well as difficult states Jammu and Kashmir and Himachal Pradesh have less number of districts penetrated by MFIs. Basic infrastructure such as physical access and relatively weak banking network seem to hinder penetration of MFIs apart from the margin caps imposed on MFIs since operating in these areas will entail higher operating costs.

Annexes 4.5 and 4.6 provide state-level data for MFI loans for all districts and backward districts respectively. Of the 18.6 million total number of MFI loans disbursed in 2013 around 20 per cent (3.74 million loan accounts) were in backward districts. The amount of loans disbursed in backward districts at ₹48.65 billion formed 20 per cent of total disbursements across the country. In terms of loan volumes, MFIs have treated the backward districts on par with others and provided loans roughly in the same proportion as in other districts. Overall, delinquency in the backward districts stand at 0.71 per cent (PAR 30 and above) while for the entire industry it is at 1.14 per cent.[6] In terms of loan sizes, 72 per cent of loans are in the range of ₹10,000 to 25,000 followed by 25 per cent with size less than ₹10,000 (this proportion is almost similar for backward districts 69 per cent and 28 per cent respectively). Average size of loans disbursed in 2013 is around ₹13,000 for all districts as well as for backward districts.

Overall, the data indicates that MFIs are increasing their outreach to underserved states. The top five states in terms of number and amount of loans disbursed to backward districts show that none of these are in the southern region (see Table 4.2).

Table 4.2 Top five states in loan disbursement (both by number and amount of loans) to backward districts

S. No.	Top five states
1.	Bihar
2.	West Bengal
3.	Madhya Pradesh
4.	Maharashtra
5.	Odisha

Source: Equifax.

Provision of microcredit in backward districts in non-traditional states is clearly a positive trend in SP.

In some states, however, the outreach to backward and poorer pockets still needs attention. It is encouraging that at a time when MFIs are grappling with basic issues of fund flows, they are still venturing and strategically expanding into new states and districts considered to be backward. The regulatory cap on number of loans per client is a possible driver of this shift in business focus into areas with no or low MFI penetration.

Poverty outreach

The second most important goal of MFIs (following 'access to financial services') is 'poverty reduction' as per MIX's SP profile data. Outreach to poor, therefore, rightfully continues to be the most significant indicator of depth of outreach. The poverty data that MFIs report to MIX is exceedingly heterogeneous—a persistent problem in every region in the world—and this makes analysis difficult. Indian MFIs' relatively low average loan balance per borrower/GNI per capita—a rough-and-ready measure of the depth of client outreach—suggests that the poverty profiles of Indian microcredit clients are approximately similar to their regional peers (loan balance per borrower discussed in section on Products and Services).

MFIs use a variety of tools for poverty measurement and so the results are not comparable. Details of various poverty measurement tools used globally to target the poor and/or measure and track outreach to the poor have been mentioned in the previous editions of the SPM report. In the ASSIST survey, 26 MFIs of the 36 that responded to the survey claimed to be tracking poverty level of clients, of which 21 mentioned 'household income' as the tool (see Table 4.3). The RBI guidelines require MFIs to target clients based on household income (₹60,000 per annum for rural areas and ₹120,000 per annum

Table 4.3 Tools and frequency of client poverty data collection

Tool	No. of MFIs N = 36
Progress out of Poverty Index™ (PPI™)	11
Household Income	21
Means Test	0
Housing Index	5
Other Tool/Index	5
Data Collection for all Clients at Entry	25
Data Collection for Sample	1

Source: Small sample study conducted by ASSIST, August 2012.

for urban areas) as a criteria for qualifying assets, and is a 'compliance tool' and not intended as a client poverty tracking tool.

Grameen Foundation India, which has been propagating PPI as a tool for poverty measurement, mentions that their current focus is not to 'push or convince' MFIs to use the PPI, but to continue to support the dialogue on why it is important to measure and track poverty and strive for positive impact on clients' lives that can also be measured in terms of their movement out of poverty.[7] PPI is by far the most adopted tool among Indian MFIs with an estimated 25 MFIs[8] using it at various levels of integration. The usage varies from (a) at one end of the spectrum, for using the PPI for conducting a sample study of clients to broadly understand client poverty profile of the organization, (b) to integrating the PPI into operations for tracking client poverty levels at entry and at every loan cycle, and (c) at the other end for using the PPI as tool for targeting/selecting clients as well as for tracking poverty level at each cycle.

Table 4.4 examines only poverty measurements reported to MIX using the Grameen Foundation's PPI™, a tool developed explicitly with national and international benchmarking in mind.[9] These figures demonstrate a median depth of outreach in line with national averages (and significantly above in the case of the three MFIs reporting PPI data relative to India's national poverty line). Given the low level of observations relative to the number of MFIs reporting SP profile data, however, it would be unwise to generalize beyond these specific institutions.

Table 4.4 PPI measurements reported to MIX by Indian MFIs for three poverty lines (FY 2009–11)

Poverty line	n=	Per cent of clients BPL (median in %)	National average (in %)[10]
National poverty line	3	42.5	29.8
US$1.25/day 2005 PPP	2	30.0	32.7
US$2.00/day 2005 PPP	6	73.5	68.8

Source: MIX market.

Two Indian MFIs have successfully reported clients' movement out of poverty to MIX. Both of these MFIs report impressive figures: in the first case, 23 per cent moving out from underneath the US$1.25/day line since 2008 and, in the second, 46 per cent of clients moving out from underneath the US$4/day line since 2010.

A significant initiative of the Grameen Foundation this year was the Poverty Outreach Report (POR) for Karnataka state. The report is based on the results of poverty measurement of 5,800 microfinance clients across nine MFIs in the state of Karnataka conducted from October to November 2012, using the PPI. The nine MFIs that participated in the study have a combined share of 64 per cent of the microfinance market in Karnataka and include institutions following the JLG and SHG group model. The study looked at four poverty-related aspects of scale, concentration, penetration, and poverty incidence (see Box 4.1).[11]

Box 4.1 Poverty aspects examined by the Grameen Foundation study in Karnataka

- **Concentration** refers to the percentage of an organization's clients who are living below the poverty line.
- **Scale** refers to the total number of poor clients served by the organization.
- **Penetration** contextualizes scale by comparing it to the number of poor households in the area.
- **Regional poverty** rates which allow for comparison of MFI portfolio vis-à-vis the regional poverty incidence.

Source: Grameen Foundation.

Key findings of the study are:[12]

- In terms of the overall scale and penetration, the MFI presence was much larger in the south of Karnataka than the north; which is in line with the greater average economic development and prosperity of south.
- Similarly, among the different regions of Bengaluru, Mysore, Belgaum, and Gulbarga, it was

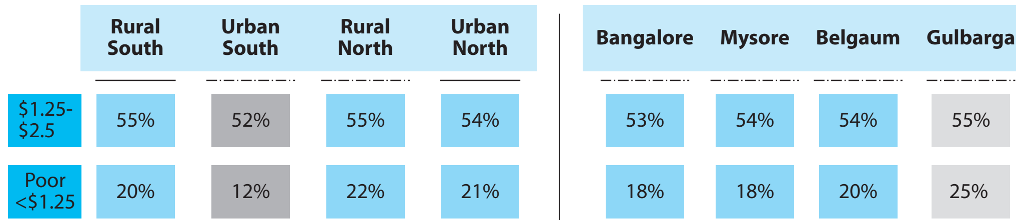


Figure 4.3 Comparison of MFI portfolio concentration

Source: Grameen Foundation.

the economically least developed Gulbarga that lagged significantly behind the other three with only 10 per cent of the total MFI presence in Karnataka while Gulbarga has 18 per cent of the total population of Karnataka.

- The similarity of MFI poverty concentration across different geographic contexts (see Figure 4.3) shows that the MFIs certainly have room to align their portfolios better to the underlying population characteristics.
- No difference between large MFIs and small MFIs was observed with regard to the share of the poor and very poor in the microfinance portfolios. Similarly, no statistical difference between poverty outreach of MFIs following the SHG model and those following the JLG model.

The study throws up interesting insights into the present poverty outreach of the MFIs. The RBI norms of income criteria for acquisition of clients especially in rural areas will require re-examination.

PRODUCTS AND SERVICES

Greater product diversity—in particular the extension of microfinance services beyond a single microcredit product and, more broadly, beyond microcredit in general—will indicate that financial institutions are meeting a greater range of client needs. Availability of a wide variety of financial products and services tailored to client needs is beneficial to clients. This pertains to the scope as one of the aspects of outreach defined by Schreiner.[13]

Eighty-eight per cent of Indian MFIs reporting to MIX offered more than one credit product. The loan size was smaller than the South Asian average. However, the cause for concern is that the reported credit products still have features identical to the core products with weekly instalments and a short duration, with the name being the differentiator. Reporting on the product variety should take into account the purpose, size, loan term, and repayment schedule. Only if significant differences on these aspects are available, the credit products can be treated as differentiated and reported accordingly.

Table 4.5 Financial product and services offered

Indicator	India (n = 74)	South Asia (n = 192)
Per cent of MFIs offering only a single credit product[14]	12	6
Average loan balance per borrower/GNI per capita (PPP; FY-2011)[15]	4.18%	4.44%
Per cent of MFIs offering voluntary savings products of any sort	11	45
Average voluntary deposit balance per depositor/GNI per capita (PPP; FY-2011)[16]	46.91%	10.34%
Per cent of MFIs offering voluntary insurance	41	32
Per cent of MFIs offering savings facilitation services	15	18
Per cent of MFIs offering other financial services of any sort	23	39

Source: Indian and South Asian MFIs reporting SP profile data, MIX market.

Data analysis from the ASSIST survey reveals (see Figure 4.4) that 89 per cent loans are for livelihoods, followed by 4 per cent each for health and housing and other consumption, and investments needs occupy only 3 per cent of the portfolio. This seems to be more a reflection of inadequate product diversity from the supply side than weak demand for credit of different types.

ASSIST survey shows that the number of MFIs offering need-specific loans such as water and sanitation and education are increasing compared to last year. The Enterprise/IGA loans that constitute 80 per cent of portfolio are not differentiated to accommodate the differing nature of the diverse range of enterprises carried out by poor. Some of the other

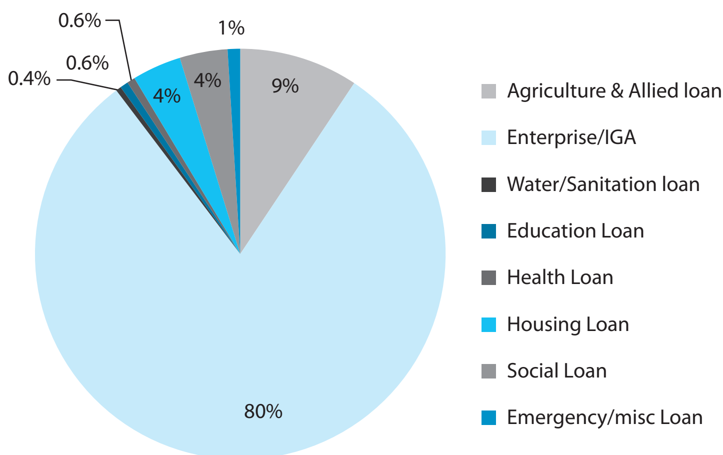


Figure 4.4 Portfolio distribution of loan outstanding (n = 35, FY-2013)

Source: Small sample study conducted by ASSIST.

Table 4.6 Loan products portfolio of the sample MFIs (FY-2013)

Loan products	No. of MFIs offering	No. of clients (million)	Loan outstanding (₹ million)	Average loan size (₹)
Agriculture & Allied Loan	6	1.2	11,390	9,647
Enterprise/IGA	35	9.8	97,790	9,999
Water/Sanitation Loan	9	0.1	510	6,333
Education Loan*	7	0.1	780	3267
Health Loan	4	0.1	780	7,096
Housing Loan	5	0.2	4,700	27,597
Social Loan**	7	0.4	4,590	11,956
Emergency/misc Loan***	14	0.9	1,200	1,286
	n=35	**12.7**	**121,740**	**9,588**

Source: Small sample study conducted by ASSIST.
Note: * The average loan size is ₹13,270 after including the average loan size of SKDRDP (₹44,720) which is an outlier.
** Includes jewel purchase, marriage, family, festival, cook stove loans.
*** Includes restructured/rescheduled, welfare, gold loan, and combo loans.

loan products have a negligible share. It seems that MFIs recognizing the fungibility of money provide loans to clients for the general purpose of enterprise, leaving it to the client to manage it in accordance with the enterprise requirements. This is not an optimal solution to problems of the client and a greater effort is required to understand the credit demand and customize the product offering. The reporting on products and services should be refined to capture the responsiveness of products to client needs.

Savings and insurance

The regulator has not permitted MFIs (except member-owned institutions) to offer savings products and, hence, far fewer microfinance clients have access to formal savings through MFIs in India than elsewhere in South Asia. Compounding the lack of savings options for Indian microfinance clients is the relative paucity of MFIs offering savings facilitation services.[17]

It is heartening to see that Indian MFIs provide voluntary insurance to their clients more frequently than South Asian MFIs generally (see Table 4.5). In terms of options, over 70 per cent of these voluntary insurance offerings go beyond credit life insurance,[18] 27 per cent include health insurance, and 20 per cent include agricultural insurance.

BALANCED RETURNS

The recent global debate has been around balanced returns. In the Indian context MFIs need to improve their efficiency to adhere to the RBI margin caps and, at the same time, ensure adequate returns for the investors. The operating cost ratio, ROE, ROA ratio of 24 MFIs who have reported these ratios to MIX market for last three years 2011–13 have been analysed to see the trend (see Figures 4.5, 4.6, and 4.7). MIX data for past four years on costs and yields have also been analysed (see Table 4.7).

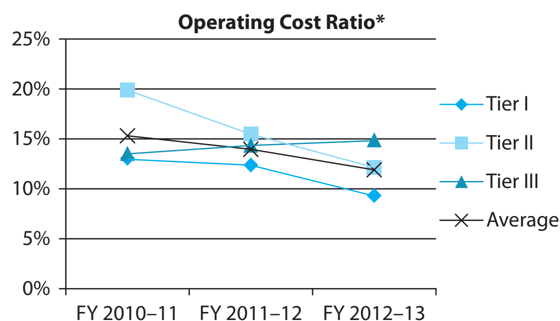


Figure 4.5 Operating cost ratio (n – Tier 1 = 9; Tier 2 = 7; Tier 3 = 8)

Source: Small sample study conducted by ASSIST.
Note: *includes managed portfolio.

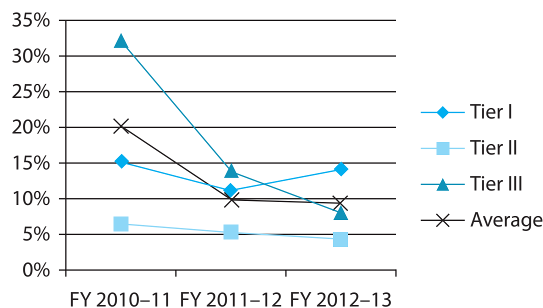


Figure 4.6 Return of equity (n – Tier 1 = 8; Tier 2 = 6; Tier 3 = 6)

Source: Small sample study conducted by ASSIST.

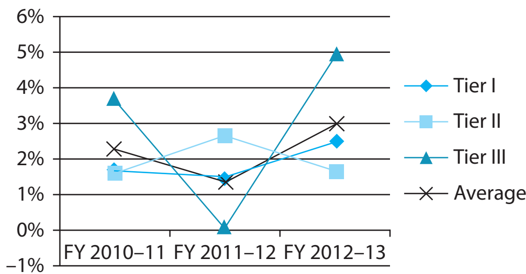


Figure 4.7 Return on assets (n – Tier 1 = 9; Tier 2 = 7; Tier 3 = 8)

Source: Small sample study conducted by ASSIST.

Table 4.7 Operating costs and yields of Indian MFIs

Year	No. of MFIs reporting	Operating cost/assets (in %)	Yield on loans (in %)
March 2010	123	7.65	25.01
March 2011	120	8.56	25.06
March 2012	113	8.84	18.24
March 2013	44	8.91	18.61

Source: www.Mixmarket.org, accessed in October 2013.

The financial data from the MFIs who have reported to MIX shows that Tier 1 MFIs have been able to cut operating costs. While Tier 2 MFIs were struggling in terms of ROE, Tier 1 MFIs seem to be recovering lost ground. While ROA shows improvement, it needs to improve further for MFIs in Tier 1 and 2 so that they are able to sustain themselves in the long run and provide uninterrupted services to their clients. A redeeming feature over last four years has been the decline in operating costs across the sector and the decline in yield on loan portfolio. The implication is that the benefits of reduced operating costs are getting passed on to customers (with a helping hand from regulatory interest and margin caps). The reduced cost to customer will be a source of comfort to clients who at times in the past have paid high interest rates and other charges to MFIs.

MEASURING OUTCOMES TO ENSURE ACHIEVEMENT OF DEVELOPMENTAL GOALS

As in many countries, tracking outcomes related to social goals remains a problem for the Indian MFIs reporting to MIX. The logic behind tracking outcomes related to specific social objectives is simple: if an institution does not monitor tangible outcomes related to its goals, it cannot know whether these goals are being fulfilled and, hence, cannot modify its operational strategies in the light of results. For reference, Table 4.8 lists each development goal and its associated outcome indicator.[19] MIX does not collect a true outcome indicator related to gender equality and women's empowerment, as these are complex and relatively subjective phenomena. Instead, MIX uses outreach of non-financial women's empowerment services as a proxy.[20] It excludes the goal of financial inclusion—the most popular—because MIX and the SPTF have not yet created any outcome indicators for this goal and there is no satisfactory proxy among MIX's current suite of SP indicators.

Table 4.8 Development goals and their associated outcome indicators (or proxies)

Development goal	Outcome indicators
Poverty reduction	Number of clients below a specific poverty line including sample size and poverty tool used
Employment generation	Number of jobs created including sample size
Growth of existing businesses	Number of micro enterprises financed including sample size
Gender equality and women's empowerment	Number of individuals participating in non-financial women's empowerment services (proxy)

Source: MIX market.

Compared to the South Asian average, Indian MFIs have a slightly higher rate of outcome reporting on the goals of business growth and poverty reduction, but lower rates for gender equality and employment generation. Interestingly, while Indian MFIs cite poverty reduction as a goal less frequently than South Asian MFIs as a whole, they seem more capable of reporting poverty outcomes. Seventy per cent of these same Indian MFIs report measuring client poverty (as opposed to reporting poverty measurements). This discrepancy—between the number of poverty-oriented MFIs in India that claim to measure client poverty and those that actually report poverty outcomes—leads one to surmise that the former may not be measuring client poverty in a systematic or robust way, or that they are collecting income and/or expenditure data purely for the purposes of evaluating repayment capacity.

In order to contextualize Indian MFI reporting on outcomes, a comparison of the level of goal

Table 4.9 Indian outcome reporting in global perspective (FY-2011)[22]

Per cent of MFIs citing goal that also report outcomes	India (n = 65)	South Asia (n = 179)	EAP (n = 77)	ECA (n = 165)	LAC (n = 242)	MENA (n = 24)	SSA (n = 172)	World (n = 859)
Growth of existing businesses	16%	14%	13%	13%	7%	17%	8%	11%
Poverty reduction	9%	7%	12%	12%	12%	9%	2%	9%
Gender equality and women's empowerment	20%	26%	26%	11%	15%	36%	12%	18%
Employment generation	10%	13%	7%	12%	7%	19%	6%	10%

Source: MIX market.

versus outcome reporting among MFIs in India to all regions[21] as well as to the developing world as a whole has been made (see Table 4.9). This comparison reveals that India is almost exactly in line with global rates of reporting and Indian MFIs do a better job reporting some types of outcomes than many regions. In particular, India is a leader in reporting enterprises financed data, a goal that Indian MFIs cite even more frequently than poverty reduction.

The sample survey conducted by ASSIST sought information on client outcomes tracked by MFIs during the year, along with results and details of methodology and sample size, etc. However, less than 10 per cent MFIs provided any concrete responses on this aspect which did not allow for any generic analysis. Some responses received were based on sample studies undertaken by MFIs either internally or through external agencies. The approaches differ substantially in all three summary cases: (a) comparison to control sample, (b) comparison of MFIs new clients (first cycle) to mature clients (sixth cycle), and (c) simple survey of cross section of clients based on recall of pre-MFI status.

The study carried out by Indian Institute of Management, Ahmedabad, of Bandhan clients found increased annual income, increase in household and enterprise assets, and also increased consumption resulted from the credit and other interventions of the MFI. The study carried out by IDF Financial Services brought out that an overwhelming majority of its sample clients improved their incomes; all the clients[23] had turned into regular savers and asset holdings by group members had increased. These client level outcomes and impacts were attributed to the membership in SHGs and loans from IDF. Another in-house study carried out by ESAF Microfinance found that between the first cycle and second cycle loans the percentage of clients earning more than ₹200 per day increased by 9 per cent. It also found that in every successive cycle of loan the proportion of clients saving in formal institutions continually increased (from 26 per cent clients in first cycle to 37 per cent in sixth cycle). Summaries of these three studies conducted during financial year 2012–13 are provided in Annex 4.3.

Balanced metrics

Over time the sector has been able to undertake initiatives for ensuring and enhancing Responsible Microfinance and Social Performance, including adoption of the CoC and CPPs, client targeting and tracking, reporting data to credit bureaus, reporting on some SP key indicators to the MIX and MFI networks, etc. SP reporting is still not a standard practice among MFIs, unlike the financial performance reporting. Annex 4.2, Summary Social Metrics—2013, presents a proposed wireframe for presentation of MFI performance metrics-based information collected from 36 MFIs. While some of these metrics are performance indicators, some others are based on practices followed/adopted by MFIs for improving responsible finance. The metrics compare different categories of MFIs apart from giving the aggregated data for the entire sample. What comes out on the basis of this limited sample study is that Tier 3 MFIs have a more risky portfolio, Tier 1 MFIs offer more of two year loans that provide more comfort to customers on account of long repayment periods, there is a fair proportion of insurance coverage among customers (30 per cent are covered), and a beginning has been made in pensions. MFIs are also seen adopting multiple channels of receiving and listening to customer complaints and suggestions and using a variety of customer feedback mechanisms. A negative finding is that only 63 per cent of Tier 3 MFIs submitted data to any credit bureau. The proposed wireframe is work in progress. It requires discussion with other stakeholders before it becomes comprehensive and accepted as a standard for reporting balanced performance metrics across the sector.

To conclude, the picture that emerges on SP measurement and reporting is a mixed one. On the positive side more institutions report on SP aspects of their business. Capture of information from the client level, review and use of data internally, reporting to external stakeholders, and making data available in public domain through the MIX and other such entities are more in evidence. Different MFIs prioritize different aspects of their operations for reporting. Beyond MIS and monitoring, MFIs also invest in studies and surveys to find for themselves the effectiveness of their operations on client-level outcomes. While the reporting is not always aligned to the goals and related outcomes as per MFI's mission, in many cases client-level outcomes reported include aspects that are not part of (but beyond) their institutional goals. The outreach to remoter states and backward districts is a distinct favourable development in India. Also, the focus on poor and poverty-related outcomes in measurement, tracking, and reporting is a positive. Monitoring of MFI costs and yields and costs to the customer (though regulation-driven) seem to result in benefits of lower costs to the customer. The product range and variety needs to improve. Reporting on this aspect should improve to include whether the products respond to customer demand. Given the increasing interest and willingness on the part of MFIs, greater information is likely to be available in public domain to examine SP-related aspects of institutional relevance to customers.

ANNEX 4.1
Profile of Indian MFIs reporting SP profile data to MIX

Seventy-four MFIs from India currently have SP profiles on MIX market.[24] These MFIs served about 21.3 million active borrowers and had an outstanding portfolio of around US$3.3 billion at fiscal year end 2011 (FY-2011).[25] In terms of overall MIX reporting, MFIs with SP profiles represented about 81 per cent of Indian borrowers and 76 per cent of Indian outstanding loans on MIX market in fiscal year 2011. MIX's Indian SP profile sample is thus representative of the Indian MFIs on MIX generally. Table 4.1A1 breaks these 74 MFIs down into MIX's outreach and age peer groups,[26] while Figure 4.1A1 divides them into MIX's legal status peer groups.[27]

Table 4.1A1 **Outreach and age of Indian MFIs reporting SP profile data to MIX**

	Large	Medium	Small	Unknown	Total
Mature	23	2	10	3	**38**
Young	11	2	5	3	**21**
New	6	1	2	1	**10**
Unknown	1			4	**5**
Total	**41**	**5**	**17**	**11**	**74**

Source: MIX market.

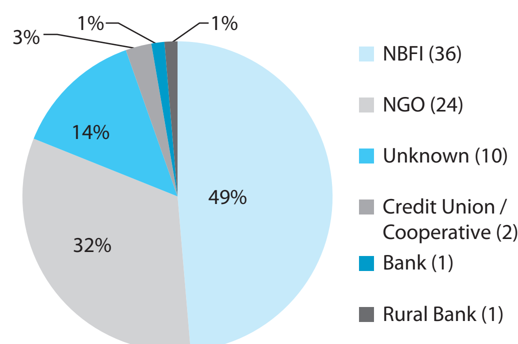


Figure 4.1A1 Indian SP profile reporters by current legal status

Source: MIX market.

As is evident from Figure 4.1A1, over 80 per cent of the Indian MFIs reporting SP profile data to MIX are non-bank financial institutions (NBFIs, usually called NBFCs in India) or NGOs. As neither of these charter types is currently permitted to accept and mobilize deposits in India, it should come as no surprise that the 74 MFIs in question only represent about 656,000 voluntary depositors and US$1.1 million in voluntary deposits in FY-2011.

ANNEX 4.2
Summary of social metrics—2013

Indicator	Units	Aggregate	Tier 1	Tier 2	Tier 3
1. No. of MFIs in sample		36	8	12	16
2. No. of MFIs acting as BCs		5			
3. Outreach					
3.1. No. of branches		4,185	3,220	576	389
3.2. No. of active clients (million)	Nos	12.41	10.87	1.03	0.51
3.3. No. of active women clients	%	99.5%	99.9%	96.0%	97.4%
3.4. No. of new clients acquired in 2012–13	%	33.5%	32.0%	50.0%	28.0%
3.5. Geographical outreach*					
a. Urban/Semi Urban	%	48%			
b. Rural	%	52%			
c. Of total customers % in states with higher poverty levels (than national average)					
* Based on sample size of 34 who reported data					
4. Portfolio at Risk—30 days		0.77%	0.38%	0.75%	1.04%
5. Percentage of loan accounts with period > 2 years		23%	28.02%	7.22%	32.23%
6. Active clients per loan officer		465	597	480	384
7. Active clients per staff		298	374	279	272
8. Operating Cost Ratio (OCR)		13%	13%	12%	13%
9. ROA		3%	2%	2%	5%
10. ROE		14%	19%	3%	18%
11. Other financial services offered—Client outreach					
11.1 Savings	%	1%			
11.2 Insurance	%	30%	29.00%	42.00%	19.00%
11.3 Pension	%	2%	2.00%	0.80%	0%
12. Client grievances					
12.1 Complaints received (No. of clients)	%	0.40%	0.40%	0.60%	0.10%
12.2 Complaints resolved (No. of clients)		0.20%	0.10%	0.20%	0.05%
12.3 Methods					
a. Free helpline	No	12			
b. Payable Helpline	No	11			
c. Staff phone numbers	No	24			

(Continued)

(Continued)

Indicator	Units	Aggregate	Tier 1	Tier 2	Tier 3
d. Suggestions box at branch	No	20			
e. Client service staff	No	14			
f. Others	No	7			
13. No. of MFIs tracking client exit rate	Nos	28			
14. Client feedback mechanisms					
a. Client feedback/satisfaction surveys	%	56%			
b. Focus Group Discussions	%	31%			
c. Regional meetings of client representatives	%	36%			
d. Staff interaction	%	50%			
e. Client Exit Interview	%	28%			
15. Credit bureau reporting by MFIs					
15.1 No. of MFIs reporting (n = 36)	Nos	28	88%	92%	63%
15.2 No. of rejects	%	9%	6%	11%	13%
16. Proportion of profits allocated for client welfare**					
a. <25%	Nos	11	5	3	3
b. 25% to 50%	Nos		0	0	0
c. >50%	Nos	1	1	0	0
** based on 12 responses out of 36					
17. CoCA					
17.1 No. of MFIs assessed	Nos	21	5	9	7
17.2 % of MFIs scoring above 75% in COCA					
18. CEO Remuneration: Loan officer (n = 21)					
a. Up to 20 times	Nos	12	2	4	6
b. Between 20 and 40 times	Nos	4	2	2	0
c. Between 40 and 60 times	Nos	5	2	2	1
19. % of independent Directors in the Board (should be at least one third)	%				
20. % of MFIs that have loan rescheduling/write of policy for customers with genuine difficulties					
21. % of MFIs reporting to SPM MIS in MIX					

Source: Survey of 36 MFIs conducted by ASSIST.

ANNEX 4.3
Key highlights of impact/outcome studies conducted by MFIs in 2012–13

Table 4.3A1 Bandhan financial services

Bandhan is the largest MFI in the country currently. A team from Indian Institute of Management, Ahmedabad, conducted a study on 'Assessing impacts of Bandhan's Microcredit and related development intervention', using a modified pipeline approach. A multistage probability proportional stratified random sample from five carefully selected, but representative clusters in the state of West Bengal was drawn. The sample of size 1,050 households comprised Bandhan clients and different categories of control households.

	Client outcomes	Results
A	Changes in income	13.81 per cent increase in annual income for Bandhan clients compared to control
B	Changes in assets (consumer durables)	₹1,402 increase for Bandhan clients compared to control
C	Changes in assets (non-farm business asset)	₹15,588 increase in Bandhan clients compared to control
D	Changes in food consumption/expenditure on food	₹1,780 increase in Bandhan clients compared to control

Source: Bandhan Financial Services.

Table 4.3A2 IDF financial services

IDF Financial Services is a Karnataka-based Tier 2 MFI. It has about 89,000 borrowers and it follows the SHG model. IDF conducted studies during the year 2012–13 on 'Impact Survey and Social Performance' to assess the suitability of the business model adopted by the company in serving its community and its outreach to the poor people in a way that is suited to their needs. The main objectives of the studies were to:

- assess profile of clients—demographic details, livelihood/lifestyle status, social-economic status and financial status
- analyse the loan utilization pattern and impact of company's services on income levels of the sample SHG members

The sampling method adopted was a MULTISTAGE STRATIFIED RANDOM SAMPLING. Samples of 100 SHG members who had been clients of IDF since 2006 were taken in Karnataka state across three districts further dividing the blocks into urban and rural areas.

IDF Financial Services is a NBFC with microfinance operations since 2005. IDF has 89,430 active clients across 12 branches and employs the SHG model for lending.

Client occupational profile as identified in the study: 26 per cent of respondents are engaged in micro industry, 25 per cent of respondents in micro services, 6 per cent of respondents in agricultural wages, 5 per cent of respondents in business, 3 per cent of respondents in agricultural allied, and 14 per cent of respondents are not working but supporting their families.

	Client outcomes	Results
A	Changes in income	Over 70 per cent of the respondents expressed that their income level has increased after availing loans from IDF Financial Services
B	Changes in poverty levels	After joining SHG, 54 per cent of respondents' income level has increased between ₹1,000 to 1,500. After joining SHG, 84 per cent of the respondents' family income increased between ₹10, 000 to 15,000.
C	Changes in assets	• 82 per cent of the respondents have house ownership • 51 per cent of the respondents have residential plots or land ownership • 23 per cent of the respondents owned livestock • 66 per cent of the respondents are using bicycle
D	Changes in savings	• 84 per cent of the respondents are saving money between ₹10 to 20 on weekly basis and 16 per cent of the respondents are saving more than ₹20 • Saving of the respondents has been increased gradually

Source: IDF Financial services.

Table 4.3A3 ESAF microfinance

ESAF is a Kerala-based MFI, active in other states too. An in-house study was conducted by EMFIL among 590 clients (333 in the first cycle loans and 257 in the sixth cycle loan) with samples drawn from the three zones (Central India, Tamil Nadu, and Kerala). The clients at two different loans cycles were compared on the premise that the client profile at the time of entry is comparable for all the clients since measurement tool is used for targeting and client selection. The occupational profile of the sample clients was as below:

Occupation	1st loan (in %)	2nd loan (in %)
Daily wages	20	20
Housewife	66	56
Self-employment	14	25

	Client outcomes	Results
A	Changes in household income	(see income table below) Income levels of the client households have shown a relative increase at levels above ₹200 per day and are seen in the above table.
B	Changes in education	Marginal increase in the status of the children's schooling of the mature clients as compared to the first cycle. These changes were more visible in the states of Maharashtra and Madhya Pradesh.
C	Changes in savings	Savings in formal institutions such as the banks and post office (26 per cent first cycle clients versus 37 per cent sixth cycle clients) seem to be more among the sixth cycle clients as compared to the first cycle ones who were found to be either not saving at all (14 per cent) or saving with relatives.

A. Changes in household income:

Per day income	1st loan (in %)	2nd loan (in %)
Less than ₹100	6	2
₹100 to ₹200	19	12
₹300 to ₹400	21	25
More than ₹400	31	36
	100	100

Source: ESAF Microfinance Limited.

ANNEX 4.4
State-level comparison of outreach of MFIs—all districts versus backward districts

S No.	State	Total no. of districts	No. of districts with MFI operations	% of districts with MFIs	No. of MFIs currently operating n=	No. of active clients per district	No. of backward districts	No. of backward districts with current MFI ops	% of backward districts with current MFI ops	No. of MFIs currently operating - n=	No. of active clients per district
1	ANDHRA PRADESH	23	23	100	15	4,688	1	1	100	6	8,123
2	ARUNACHAL PRADESH	14	1	7	1	330	2	0	0	–	–
3	ASSAM	23	21	91	7	22,806	4	2	50	2	3,662
4	BIHAR	37	37	100	16	25,421	27	27	100	16	26,762
5	CHANDIGARH	1	1	100	1	735	–	–	–	–	–
6	CHATTISGARH	16	15	94	8	19,129	4	4	100	7	9,986
7	DADRA & NAGAR HAVELI	1	1	100	1	1,174	1	1	100	1	1,174
8	DELHI	9	8	89	11	12,952	–	–	–	–	–
9	GOA	2	2	100	4	4,916	–	–	–	–	–
10	GUJARAT	25	23	92	21	19,560	2	1	50	3	10,409
11	HARYANA	19	18	95	10	8,037	3	2	67	3	3,708
12	HIMACHAL PRADESH	12	5	42	1	6	3	2	67	1	13
13	JAMMU & KASHMIR	14	1	7	2	47	3	–	0	–	–
14	JHARKHAND	22	20	91	10	12,822	11	11	100	10	11,586
15	KARNATAKA	27	28	104	23	56,340	3	3	100	14	58,000
16	KERALA	14	13	93	6	43,333	2	1	50	4	84,065
17	MADHYA PRADESH	48	45	94	21	21,138	23	20	87	18	19,460
18	MAHARASHTRA	35	32	91	24	45,990	12	11	92	15	25,610
19	MANIPUR	9	3	33	1	1,953	1	–	0	–	–
20	MEGHALAYA	7	3	43	4	6,449	2	–	0	–	–
21	MIZORAM	8	–	0	–	–	2	–	0	–	–
22	NAGALAND	8	–	0	–	–	2	–	0	–	–
23	ODISHA	30	29	97	16	27,818	8	8	100	9	25,185
24	PONDICHERRY	4	2	50	6	20,968	–	–	–	–	–
25	PUNJAB	17	14	82	5	4,758	–	–	–	–	–
26	RAJASTHAN	32	30	94	15	16,498	4	3	75	5	2,739
27	SIKKIM	4	2	50	3	2,003	4	2	50	3	2,003
28	TAMIL NADU	29	31	107	29	70,644	2	1	50	7	55,484
29	TRIPURA	4	4	100	3	47,654	2	2	100	3	62,029
30	UTTAR PRADESH	70	61	87	22	22,446	20	16	80	17	9,558
31	UTTARAKHAND	13	9	69	13	14,861	1	1	100	1	3,294
32	WEST BENGAL	19	19	100	17	135,176	5	5	100	11	141,569
	TOTAL	**596**	**501**	**84**			**154**	**124**	**81**		

Source: Equifax.
Note: Clients indicate unique borrowers across MFIs based on credit bureau rollup of borrowers.

ANNEX 4.5
State-wise status of MFI loans—2013

S. No.	State	Total no. of districts	No. of active clients availing loan in FY-2013	Total active loans	No. of Loans disbursed in FY-2013	Loan outstanding in ₹ Millions	Loan amount disbursed in FY-2013 in ₹ Million	Average loan size (disbursed)
1	ANDHRA PRADESH	23	5,103	122,601	5,253	701.61	98.56	18,763
2	ARUNACHAL PRADESH	14	329	442	725	3.98	8.71	12,018
3	ASSAM	23	428,542	746,413	741,117	8,144.02	10,726.50	14,473
4	BIHAR	37	900,760	1,292,893	1,283,786	11,139.70	16,438.14	12,804
5	CHANDIGARH	1	731	819	885	5.72	9.58	10,820
6	CHATTISGARH	16	240,297	308,913	271,007	2,981.09	3,622.59	13,367
7	DADRA & NAGAR HAVELI	1	1,125	1,189	1,187	13.97	18.80	15,838
8	DELHI	9	85,757	113,901	95,264	1,303.14	1,581.88	16,605
9	GOA	2	8,000	10,556	8,695	172.48	211.36	24,309
10	GUJARAT	25	402,165	536,995	482,905	5,172.71	7,063.35	14,627
11	HARYANA	19	138,836	157,478	157,338	1,687.46	2,371.58	15,073
12	HIMACHAL PRADESH	12	–	31	–	0.02	–	–
13	JAMMU & KASHMIR	14	41	47	41	0.61	0.62	15,000
14	JHARKHAND	22	245,194	317,425	318,242	2,550.15	3,851.58	12,103
15	KARNATAKA	27	1,421,287	2,228,794	2,606,573	20,311.83	28,211.97	10,823
16	KERALA	14	532,626	711,478	702,875	6,253.37	9,631.69	13,703
17	MADHYA PRADESH	48	879,322	1,171,213	1,099,085	9,906.85	14,252.96	12,968
18	MAHARASHTRA	35	1,296,272	1,822,382	1,689,162	17,647.65	23,342.45	13,819
19	MANIPUR	9	4,481	8,015	6,571	85.30	128.49	19,554
20	MEGHALAYA	7	14,852	20,136	17,180	250.58	286.09	16,652
21	MIZORAM	8	–	–	–	–	–	–
22	NAGALAND	8	–	–	–	–	–	–
23	ODISHA	30	728,599	1,145,976	1,051,771	8,162.06	12,033.27	11,441
24	PONDICHERRY	4	34,015	45,727	36,516	358.28	458.66	12,561
25	PUNJAB	17	65,995	76,583	77,792	748.08	1,015.64	13,056
26	RAJASTHAN	32	435,064	623,584	561,534	5,997.27	8,243.59	14,680
27	SIKKIM	4	3,394	4,114	3,741	44.51	56.31	15,053
28	TAMIL NADU	29	1,794,007	2,608,535	2,094,824	22,927.16	28,700.37	13,701
29	TRIPURA	4	171,492	221,959	207,688	2,411.32	3,119.29	15,019
30	UTTAR PRADESH	70	1,277,743	1,683,477	1,664,851	16,024.03	22,527.68	13,531
31	UTTARAKHAND	13	121,131	157,885	146,200	1,569.87	2,139.92	14,637
32	WEST BENGAL	19	2,351,684	3,422,408	3,220,476	31,680.27	43,203.59	13,415
	TOTAL	**596**	13,588,844	19,561,969	18,553,284	178,255.08	243,355.23	13,117

Source: Equifax.
Note: Clients indicate unique borrowers across MFIs based on credit bureau rollup of borrowers.

ANNEX 4.6
State-wise status of MFI loans in backward districts—2013

S. No.	State	No. of backward districts	Total active loans	Loan outstanding in ₹ Million	Loan amount disbursed in FY-2013 in ₹ Million	No. of loans disbursed in FY-2013	Average loan size (disbursed)
1	ANDHRA PRADESH	1	8,286	91.11	–	–	–
2	ARUNACHAL PRADESH	2	–	–	–	–	–
3	ASSAM	4	7,568	79.12	105.67	7,461	14,163
4	BIHAR	27	970,245	8,359.51	12,247.04	957,846	12,786
5	CHANDIGARH	–	–	–	–	–	–
6	CHATTISGARH	4	41,604	390.56	483.73	37,301	12,968
7	DADRA & NAGAR HAVELI	1	1,189	13.97	18.80	1,187	15,838
8	DELHI	–	–	–	–	–	–
9	GOA	–	–	–	–	–	–
10	GUJARAT	2	10,770	103.62	186.81	11,146	16,760
11	HARYANA	3	8,293	87.54	121.82	8,341	14,605
12	HIMACHAL PRADESH	3	25	0.02	–	–	–
13	JAMMU & KASHMIR	3	–	–	–	–	–
14	JHARKHAND	11	156,424	1,253.81	1,907.07	156,676	12,172
15	KARNATAKA	3	230,372	1,847.19	2,775.97	253,844	10,936
16	KERALA	2	100,032	967.12	1,503.30	100,824	14,910
17	MADHYA PRADESH	23	460,233	3,820.78	5,574.09	440,615	12,651
18	MAHARASHTRA	12	343,809	3,153.08	4,393.60	334,174	13,148
19	MANIPUR	1	–	–	–	–	–
20	MEGHALAYA	2	–	–	–	–	–
21	MIZORAM	2	–	–	–	–	–
22	NAGALAND	2	–	–	–	–	–
23	ODISHA	8	275,791	1,785.76	2,809.76	268,287	10,473
24	PONDICHERRY	–	–	–	–	–	–
25	PUNJAB	–	–	–	–	–	–
26	RAJASTHAN	4	9,258	69.71	89.37	6,902	12,949
27	SIKKIM	4	4,114	44.51	56.31	3,741	15,053
28	TAMIL NADU	2	59,988	490.93	579.91	45,526	12,738
29	TRIPURA	2	143,486	1,534.73	1,994.49	133,766	14,910
30	UTTAR PRADESH	20	175,320	1,535.24	2,288.18	178,923	12,789
31	UTTARAKHAND	1	3,420	92.85	110.23	3,086	35,720
32	WEST BENGAL	5	852,511	8,700.61	11,399.89	795,227	14,335
	TOTAL	**154**	3,862,738	34,421.77	48,646.04	3,744,873	12,990

Source: Equifax.

NOTES AND REFERENCES

1. Mark Schreiner. 2002. 'Aspects of Outreach: A Framework for the Discussion of the Social Benefits of Microfinance', *Journal of Institutional Development*, 14 (5), USA.
2. MFIN Micrometer, Issue No. 5.
3. Ibid.
4. Equifax Credit Information Services Pvt. Ltd, one of the leading MFI Bureau in India, provided data for March 2013 for the Microfinance India Social Performance Report.
5. This includes list of 100 backward districts identified by Planning Commission and list of LWE affected districts of the Department of Financial Services for promotion of women SHG programme.
6. These include fresh enterprise loans given in AP by a few MFIs but do not include the portfolio at default from 2010 crisis.
7. Interview with Chandni Ohri, CEO, Grameen Foundation India.
8. No concrete data on this available; based on interviews with Grameen Foundation India and MicroSave.
9. For more information on the PPI, see http://www.progressoutofpoverty.org/, accessed on 5 August 2013.
10. World Bank calculations for India (2010). Latest available at http://data.worldbank.org/topic/poverty, accessed on 4 August 2013.
11. These measures were first developed by Grameen Foundation as part of a study carried out in the Philippines in 2010–11.
12. Grameen Foundation and EDA. 2013. 'A Poverty Lens on Financial Inclusion', New Delhi.
13. Mark Schreiner, 'Aspects of Outreach: A Framework for the Discussion of the Social Benefits of Microfinance', *Journal of Institutional Development*, 14 (5), USA.
14. These are MFIs that offer no *voluntary* financial services other than a single credit product.
15. Average loan balance per borrower = value of gross loan portfolio/number of active borrowers. This figure is then divided by GNI per capita (PPP) on the basis of the World Bank's 2011 GNI per capita figures. Available at http://data.worldbank.org/indicator/NY.GNP.PCAP.PP.CD, accessed on 3 August 2012.
16. Average voluntary deposit balance per depositor = value of voluntary savings accounts/number of voluntary depositors. This figure is then divided by GNI per capita (PPP).
17. These are services where, instead of collecting deposits from clients directly, an MFI acts as mediator between savers and deposit-taking institutions.
18. Insurance that covers the balance of an outstanding loan in case of the borrower's death.
19. Goals are considered profile data and outcomes results data.
20. This is because, when an MFI reports this outreach figure to MIX, it demonstrates (a) that an MFI has some level of alignment between operations and the goal of women's empowerment beyond simply targeting women for loans (the empowerment effects of which are ambiguous) and (b) that an MFI takes these non-financial services seriously enough to keep track of how many women have participated in them (and also that it has the capacity to do so). Thus, while not a measure of outcomes per se, women's empowerment services outreach does provide insight into the degree of alignment between institutional operations and this specific goal—the same alignment of which the other categories of outcome tracking are also a facet.
21. MIX divides the developing world into six regions: East Asia and the Pacific (EAP), Europe and Central Asia (ECA), Latin America and the Caribbean (LAC), Middle East and North Africa (MENA), South Asia, and Sub-Saharan Africa (SSA).
22. Only MFIs reporting target market and/or development goal information are taken into consideration. Table 4.9 gives the percentage of outcome reporting as a proportion of *only* those MFIs citing a particular goal. Hence, in an ideal world, all percentages in the table would be 100. Calculating outcome reporting in this way controls for variations in the prevalence of different social goals across regions.
23. The MFI follows SHG methodology which provides for group level savings.
24. 'SP profile reporting/data/etc.' refers to the qualitative portion of the MIX/SPTF SP indicators and consists of information on MFIs' SPM objectives, policies, and procedures. This is in contrast to 'SP results data' which is quantitative annual data on MFI operations: borrower retention and turnover rates, client poverty levels, gender composition of clients, staff, board, etc. Unlike SP results data, which is updated annually, SP profile data is reported only once to MIX and then updated by MFIs as their institutional situation evolves. Profile data comprises the majority of the SP data available on MIX market. As of this analysis, 991 MFIs have reported SP profile data to MIX. For more information on the MIX/SPTF SP indicators, please visit http://www.themix.org/social-performance/Indicators, accessed on 31 July 2013.
25. As of mid-July 2013, this is the latest *complete* annual data set available on MIX market, covering the Indian fiscal period of 1 April 2011–31 March 2012.
26. Outreach peer groups are Small (number of borrowers < 10,000), Medium (10,000 ≤ number of borrowers ≤ 30,000), and Large (number of borrowers > 30,000). Age peer groups are New (one-to-four-year olds), Young (five-to-eight-year olds), and Mature (more than eight years old).
27. Information on MIX's benchmarking peer groups is available at http://www.themix.org/sites/default/files/Methodology%20for%20Benchmarks%20and%20Trendlines.pdf, accessed on 2 August 2013.

Responsible financing practices in SHG–bank linkage programme

5

Chapter

In the last year's Microfinance India Summit, questions were raised that responsible finance practices are required of SHG–bank linkage programme and the same should be analysed. The need for comparing the practices in financing SHGs with that of MFIs was highlighted. Several Self-Help Group Promoting Institutions (SHPIs) spoke about bankers' apathy and their not so responsible financing practices that should be addressed.

While banks are important actors in the SHG–bank linkage programme, in order for them to finance, the groups should be of adequately good quality. Groups' member acquisition and retention process, financial management and risk management practices, quality of leadership, and transparency of information sharing determine their quality and encourage bankers to lend to them. Groups rarely form on their own; SHPIs, government and non-government agencies, and in some cases banks are forming and nurturing the groups. SHPIs need to have the intent, adequate capability, good systems, and adequate funding to promote good quality groups. Most of the SHPIs are not self-financing institutions. They seek funding from donors, government, and NABARD who finance the promotion activities, set the outcomes expected of the SHPIs and SHGs and, thus, determine the quality of the groups. Thus the responsible financing framework has to be applied on the entire chain of SHG–bank linkage programme from the funders of the group formation to the promoters of SHGs, banks, and MFIs which lend to SHGs and SHGs themselves.

Microfinance clients are poor households whether they are serviced by banks or MFIs and whether through SHGs or JLGs. Responsible financing practices and customer/member protection principles should be applicable to all these members/clients. The RBI has recently set the norms for CP for microfinance clients. These include: (a)criteria for client acquisition—income, indebtedness levels, and membership in other institutions, (b) price, quantum, and term of loans, (c) purpose of loans—70 per cent loans used for income-generation activities, (d) assessment of repayment capacity of borrower, (e) transparent information sharing on products and pricing including loan cards, display in branches, and (f) appropriate recovery practices.

Same yardsticks of measurement should be applicable irrespective of the channel through which these households avail the financial services. There is a general belief that since SHGs are member owned, they will ensure appropriate decision-making benefitting the poor in the group, there will be need-based lending, and products and services will be member-centric and will not harm the interests of any member. Similarly, since banks are regulated entities and are directly lending to SHGs, there is a belief that they will be responsible financiers. However, this may not be necessarily true.

This chapter draws from the recent studies on SHG–bank linkage programme apart from interviews with executives and senior officials of banks, MFIs, SHPIs, State Rural Livelihood Missions, Women Development Corporations, capacity-building institutions, industry leaders, etc. ASSIST commissioned a study on responsible financing practices in SHG–bank linkage programme which covers practices within SHGs. This study conducted by Centre for Microfinance covered 600 SHGs in three states of Madhya Pradesh, Bihar, and Karnataka. The analysis of study results was ongoing at the time of writing the chapter. Some early results are analysed and reported here. APMAS[1] carried out a study on quality and sustainability of SHGs in eight

states. GIZ[2] NABARD Study on Satisfaction Level of SHGs on Financial Services and Demand for New Products and Services has also been referred to.

RESPONSIBLE FINANCE AND CUSTOMER PROTECTION

The SHG members are no different from the MFI clients, coming from same backgrounds and pursuing similar livelihood options for which they need financial services access. When the MFI clients are protected through a regulatory framework and other stakeholders are also promoting responsible finance for MFI clients, there is no reason why SHG members should not be provided the same protection.

In the following section the field practices within SHGs and the transaction behaviours of stakeholders with the SHGs are examined in the light of the principles of CP, RBI regulation, and responsible finance principles.

MISSION OF SHGS IS NOT THEIR OWN

The SHGs' mission is that of the SHPI at the time of formation. They do not have an independent mission of their own. Subsequently, a financing bank can refocus the SHG towards a different goal and mission. The financial intermediation function gets added as the bonding material that keeps the members together even as other objectives are pursued. Very few SHPIs facilitate the mission and purpose of the SHGs over a period of time. SHGs do not often know whether they are instruments of dealing with poverty or social evils or conservation of natural resources or financial inclusion.

OUTREACH AND INCLUSION

SHG members self select each other and form a group. Through participatory techniques poor were identified and motivated to join the groups. Thus the groups were based on affinity, mutual trust. Members wanted to support each other to achieve mutually agreed goals and some of these goals were for improved financial services. This involved efforts from SHPIs to propagate the good practices of group functioning, what is expected of group members, and instil confidence in poorer members to join the groups. This required facilitation skills which NGO SHPIs largely possessed. With rapid increase in outreach and pursuit of higher targets, the participatory processes seem to have gone down on priority.

Large number of groups were formed under government-sponsored programmes which have predetermined qualifications as to who can be members. Members are identified based on below poverty line (BPL) list of the government and caste criteria. The programmes of the government seek to engage groups with incentives in the form of seed capital, subsidized loans, and provision of capacity-building support. At times the government functionaries, in order to meet the targets, break up existing groups and form new ones on the promise of subsidies and support. In the case of government-supported SHGs, quality of groups is adversely affected. Subsidy as a motive for being in the group erodes financial discipline. Trust level among group members becomes low and leads to very little savings and yearly withdrawal of savings with mutual consent. The availability of subsidy led to emergence of poor-quality groups, with shortcuts being adopted for mobilization.

Targeting of poor: Several studies have found that the proportion of poor and near poor in the groups are only about 60 per cent.[3] Despite the self-selection processes poorest are not always the target. With minimum savings requirements that are higher than what the poorest can afford and the denial of access to saved money with the group, the very poor may not want to be part of SHGs.

Recently, NRLM has been launched in 12 states and focuses on building SHGs and their federations. NRLM has recently received cabinet clearance for adopting participatory identification of poor (PIP) methodology instead of the BPL list for identification and inclusion of poor in groups. This will go a long way in better targeting of the NRLM. State implementation units will have to take into account not only the poverty status of members but also the membership in other SHGs/JLGs and membership in MFIs while forming new SHGs.

Drop out groups: One more phenomenon seen is large scale 'dropping out' of SHGs from the database of some states and over next two to three years the number of SHGs climb up to the original numbers. This has been noticed in the southern states. Governments are funding new group formation and spending additional funds for the capacity development of SHGs. It appears that same members might be enrolled into groups multiple number of times over a period. The resources spent on social mobilization multiple times on same persons are wasted when older groups are allowed to disintegrate. Each new government programme that forms new groups has to consider this potential wastage. A social audit to check whether there is meaningful increase in outreach under the programme, who dropped out and why, who enrolled for the first time into SHGs, etc., would be useful for policymaking.

Influence of agents: Some bankers report influence of 'local leaders' who have a control of households in the villages. SHG and JLG formation need their clearance and cooperation. While MFIs have a CoC in place for not engaging the agents for client servicing, even SHPIs and banks have to be cautious in using intermediaries; they should directly deal with members.

Multiple membership: With multiplicity of NGOs and different government programmes following the SHG route for delivery of government benefits, multiple membership in SHGs is reported in some of the states. This is more pronounced in southern states. Since SHG data is not reported to any centralized system, credit bureaus, woman's membership in other SHGs and in MFIs is not traced while joining a group and also when bank lends to them. Since an SHG can borrow from any bank in the vicinity, peri-urban areas with more bank branches have the higher probability for multiple memberships.

In some blocks NRLM, Women's Self-Help Group (WSG) of NABARD, other ongoing programmes overlap and compete for the same type of members. Since SRLMs insist on weekly meetings and do not have a framework for working with existing monthly meeting SHGs, women have also found a way of being in two groups with two different sets of books of accounts.

Box 5.1 Allocation of programme areas—good practice by Government of Rajasthan

A good practice of Government of Rajasthan is to have an umbrella organization for livelihood promotion under which different livelihood programmes of the government (externally aided and state-funded) function and the umbrella organization ensures that implementation areas do not overlap. A centralized MIS is also being launched to capture member-wise data which will ensure that multiplicity can be avoided.

Source: Personal interview.

Saturation approach: Under the saturation approach of government programmes compulsory enrolment of all eligible members is adopted, with little say for people about choice of other members in their group. Not all women would like to join SHGs; there may also be some who are too poor to benefit from microfinance services. Some women have defaulted in SHGs where they were earlier members and do not have a good credit history and, thus, can cause a credit risk. In some of the recently formed groups, a few members are joining the groups so that their bank loans can be written off in future.[4] Forming groups of willing and eligible members based on mutual trust will go a long way in promoting member comfort.

PRODUCTS AND SERVICES—FIT AND RELEVANCE

At SHGs level

SHGs being member-owned institutions have the potential to offer need-based and appropriate financial services for the members. The pricing and other aspects are decided by the members and, hence, have member comfort. Capacity building included training on importance of savings and principles of credit appraisal and good practices in credit usage. Thus financial literacy aspects were included in the capacity building.

Savings

Most groups offer compulsory savings of a fixed amount that is acceptable to all members. This amount is revised periodically by common consent within the group. Where SHPIs have sound bookkeeping and computer-based monitoring system (like that in MYRADA, DHAN), additional savings products are offered at group level. Members have optional savings for specific purpose—education of children, festival, health, etc. Most of the groups do not offer compulsory savings in differing amounts to accommodate poorer members' needs. Inability to save regularly or even the minimum amount that the group decides is one of the major reasons for poorer members to drop out or exclusion. In many groups the bookkeeping is irregular. In some groups there is a tendency to default in internal loans by powerful members. With the limited options that they have, members would like to increase their savings in SHGs but being aware of the risk to their savings especially with less transparent practices, they refrain from doing so.

Many studies have tracked the regularity and amount of savings in SHGs but not other aspects such as satisfaction of SHG members with the savings product, their view on the security of their savings, and their willingness for voluntary savings. CMF study intentionally looked into these aspects.

Factors that influence SHG savings—Table 5.1 shows different trends in the three states that are studied. None of the groups in Bihar offer an interest[5] on the compulsory savings. Around 98.96 per cent

Table 5.1 Percentage of groups by the factors that influence people to save with SHGs

Factors	Bihar		Madhya Pradesh		Karnataka	
	P	NP	P	NP	P	NP
Saving with SHG						
Interest Rate	60	62	80	76	100	98
Savings Flexibility	95	97	86	82	98	99
Convenience	92	98	68	57	99	99
Better Customer Service	99	100	22	12	98	98
Requires Lesser Time	69	71	25	6	98	97
Better Product Features	16	24	9	6	82	93

Source: CMF, 2013, Performance of SHGs in the states of Bihar, Madhya Pradesh and Karnataka.
Note: P—Progressive members, NP—Not so progressive members.

groups in Madhya Pradesh do not offer interest. In case of Karnataka, 52.27 per cent groups offer an interest on these regular savings.

However, members in Madhya Pradesh are not very satisfied with the savings product provided by SHGs because of poor customer service, longer time involved in meetings, and poor product features. Many members in Bihar also do not like the product features of SHG savings.

The risk perceived by progressive members (richer and more powerful members in a group) and not progressive members in savings with SHGs was also assessed during the study and the results are given in Table 5.2.

Overall, the risk perception is high in Karnataka which also has higher incidences of default of loans and poor bookkeeping. While there is not much marked difference between progressive and non-progressive members, overall non-progressive members have higher risk perception in all parameters. Interestingly, in Karnataka where the SHG movement is well established, more members find it risky to increase voluntary savings. It is likely that greater familiarity makes members more aware of the risks. The data on savings shows that on an average Karnataka groups save more than Bihar and Madhya Pradesh groups, despite the higher risk perception.

None of the groups across the study are mobilizing voluntary deposits. Four per cent of groups in Bihar, 7 per cent in Madhya Pradesh, and 26 per cent in Karnataka faced a situation where some members in the group wanted to save more than others. In Bihar and Madhya Pradesh, members with willingness to save more are better off in terms of economic and social standing. In case of Bihar, these members have greater influence in the group more than the others.

Thus four types of practical difficulties are perceived in introducing voluntary savings; while confusion in financial transactions and record keeping can be addressed by the usage of technology-based solutions, internal conflict appears to be a major issue for the groups since there is a likelihood that larger savers may demand and corner larger loans (see Figure 5.1). Nearly 50 per cent of the groups

Table 5.2 Risks perceived in saving with SHG

Risks	Bihar				Madhya Pradesh				Karnataka			
	<=3 Years		>3 Years		<=3 Years		>3 Years		<=3 Years		>3 Years	
	P	NP	P	NP	P	NP	P	NP	P	NP	P	NP
Loss in case of SHG defaulting a bank/SHPI loan	10	7	2	4	6	0	3	11	47	47	42	58
Loss in case of default by a group member for which s/he guaranteed	4	0	2	0	8	9	7	7	43	27	39	35
Loss in case of defaulting own loan	2	0	4	0	3	6	8	11	35	36	34	53
Utilization of money by SHG for group activities that are personally not relevant	6	4	2	4	17	17	16	21	33	37	34	48
Loss of money due to poor accounting	2	2	0	2	8	0	5	1	35	39	34	35

Percentage of groups by the risks associated with saving with an SHG

Source: CMF, 2013, Performance of SHGs in the states of Bihar, Madhya Pradesh and Karnataka.
Note: P—Progressive, NP—Not so progressive.

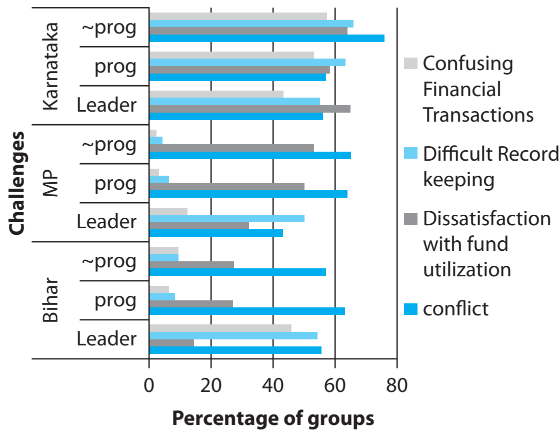


Figure 5.1 Percentage of groups by the challenges in implementing voluntary savings

Source: CMF, 2013, Performance of SHGs in the states of Bihar, Madhya Pradesh and Karnataka.
Note: ~prog—not so progressive members, prog—progressive members.

were of the view that additional optional savings in groups can be considered.

Voluntary savings only with due diligence: SHG 2 propagates voluntary savings both within SHGs as well as with the banks. Institutions promoting voluntary savings have to be responsible promoters; unless sound systems, high portfolio quality, and readiness of all members exist voluntary savings should not be introduced at the group level. Most of the groups are not yet ready to handle voluntary savings within groups. It is advisable to promote savings with banks where members enjoy deposit insurance cover and their hard-earned savings are also better protected. Recurring deposit of fixed amount and tenure is a product that members demand for.

However, there is a temptation among promoters as well as groups to utilize all additional savings for internal lending rather than keep in safe deposit with banks since this will boost interest income and satisfy member needs. However, it is a high risk proposition for groups with inadequate systems, poor internal recovery rates especially since there are many SHGs where the recoveries are not monitored.

Loss of savings in defunct/problematic groups: There is not enough information about loss of savings in SHGs. Field estimates show that each year 5 to 15 per cent of SHGs even in well-managed programmes become defunct. The failure rates will be higher in programmes that are not managed well. Normative rules on how savings of the members in such groups are settled and distributed are not much in evidence. Many promoters abandon these groups after some efforts for revival. There is high likelihood that poorer members who often do not borrow at all or borrow small amounts may lose their savings. More in-depth studies are needed on these aspects.

Savings accumulation/distribution and member protection: There are groups in which large amounts are saved over long periods of time. The larger the amount of savings of the group the higher are the risks. The SHG members do not have adequate exposure and skills in managing large sums of money at the group level. Moreover, members are also not sure whether the savings they deposit are secure and are hesitant to increase savings in groups.

Some NGOs and even banks prohibit distribution of the amounts saved or conversion of group savings into other asset forms. This prohibition and distribution results in build-up of corpus in some groups, amounting to a few lakhs of rupees. At these levels, appropriate investments or appraisal of loan proposals of members have to be ensured. Often idle funds accumulate as cash in hand/and at bank. However, there are no active programmes or capacity-building efforts which focus on these aspects. Protection of member savings is an area that requires attention especially in southern states where groups tend to have large accumulated savings and corpus.

Box 5.2 Distribution of group savings by mature groups

Some institutions such as Hand in Hand and MAVIM proactively suggest to groups to redistribute part of the group savings once a threshold is reached. There are documented experiences of MYRADA groups distributing their savings and positive outcomes of the same. MYRADA groups also enable members to adjust loan outstanding against savings to reduce the interest burden.[6]

Groups usually use the distributed savings to purchase assets such as silver/gold/opening fixed deposits. It has been found beneficial since (a) groups get to finalize the accounts, (b) members feel happy that they get to see a lump sum of their own money, and (c) many groups double the compulsory savings amount immediately following distribution of accumulated member funds to build corpus and probably because the members are sure of getting back their savings with a return. Some groups use this opportunity to settle accounts of irregular members and start afresh with new members.

Source: Personal interview.

Impact of subsidies on savings: However, one of the undesirable outcomes of interest subsidy and availability of cheap bank credit without insistence on savings to credit ratio has been reduction of savings in the groups. Many recently formed groups under government programmes routinely distribute accumulated savings to members after each year.[7] This reflects the low trust in saving with the group and does not serve member needs of long-term savings well. The RBI guidelines for NRLM need to be reconsidered to have mechanisms for promoting savings both within the groups and with banks for ensuring responsible finance practices.

Credit

Savings of the members are utilized for internal lending; on completion of six months of internal savings and lending, groups access bank credit and savings to credit ratio is up to 1:4 times. Thus the financial management capacity of the groups is steadily built over the years. The terms of loan are to be jointly decided. The credit is priced high in the initial years but over the years the interest rates are brought down as loans sizes grow larger and utilized more for income-generation activities.

Groups decide on a member's request for loan based on the need assessment, present debt levels, and repayment capacity of the member. There is lot of flexibility for the loan usage right from food-related expenditure, health, productive purposes (such as agriculture, enterprise), and developmental needs such as house repair, water and sanitation are the purposes the group use funds for. Some groups even have differing loan repayment term, size, pricing, as per the purpose. Thus member needs are considered for the design of the loans.

MYRADA and other SHPIs find that the pricing for loan has declined in older groups with adequate funds. There are several groups which still charge high rates of interest. CMF study finds that groups charge between 24 per cent and 48 per cent declining balance per year.

Three trends have been discernible in the credit dispensation over the years. In southern states aspiration levels of members are high and, thus, the demand for credit is also high. However, the graduation of members to be an individual customer of the bank has not been possible. This has led to enterprising members especially leaders taking larger loans from the savings. Sometimes they borrow in their own names whereas in some they borrow in the name of others with or without the knowledge of all members. Here the interests of the other members stand compromised.

The second trend is the offer of subsidized loans from many governments. The central government also has proposed interest subsidy for SHG loans. The subsidized loans are perceived as benefits by members and seen as an entitlement. Groups distribute loans equally without assessment of need and capacity to repay. At present, equal distribution appears to be followed in several states in varying proportions; in AP it is almost a norm and in other states such as Tamil Nadu and Maharashtra it is estimated that half the groups are distributing bank loans equally. CMF study also finds that both in Karnataka and Bihar more than 50 per cent of the group loans are distributed in equal amounts among members and in Madhya Pradesh it is slightly above 40 per cent.

The third trend is debt levels can be high in southern states where groups access loans from internal savings, bank loan, and federation/MFI loan. This is not systematically measured now. Neither the SHPIs nor the banks are verifying the debt levels of members. Banks are not providing the SHG loan details to credit bureaus. However, over-indebtedness can be a hidden menace in the SHG programme. The neglect of excessive debt by SHPIs and banks negates responsible lending principles.

At banks level

Wide variety and number of banks—public sector and private sector commercial banks, Regional Rural Banks, District Central Cooperative Banks (DCCBs)—have been supporting the SHGs for their savings and credit requirements. With 20 years of experience one would expect services from banks to be made readily available to needy groups. But field feedback is contrary to expectations. Banks make it difficult to open savings accounts for new groups in many states. Loan proposals take longer for consideration and are frequently rejected. Customers face denial of access to services, even from the public sector banks.

Savings: Banks offer a basic savings account for depositing the surplus cash of the groups. This is convenient for SHGs to operate except in areas where the bank branches are far away as in the case of north-eastern states, other hilly states, and eastern India such as the states of Bihar, Jharkhand, etc. Operating a bank account is empowering for several women since this would have been the first time they ever stepped into a bank.

Some banks insist that the SHGs deposit the entire savings of the meeting and then withdraw it either on the same day or the next day for lending to members. They consider this proof of actual savings

mobilized by the group little realizing the transaction time and cost for the members. This reflects the lack of sensitivity to clients' circumstances.

The other practice is where some of the banks force SHGs to offer their savings as lien for the bank loan. The compulsory savings are taken by few of the banks as security deposits, thereby denying the groups the opportunity of making small loans to its members out of their own resources. The opportunity of generating a significant income from a high margin in lending out of member savings has been lost in such cases.[8] Causing loss to SHGs that have the poor as members is not responsible banking practice.

Box 5.3 Low savings to credit ratio for bank loans in tribal areas

In Jharkhand, Orissa, and Chhattisgarh, where tribals are predominantly located, banks often insist on compulsory deposits of their savings. It is not uncommon for groups to deposit their entire savings against which they are sanctioned loans of 1:1 or in a few cases even 1:0.5 times, i.e. against the savings of ₹10,000 banks offer a loan of ₹5,000.[9] This means that they earn 4 per cent on their savings account but spend 12 to 13 per cent on the interest income thus losing 8 per cent per annum on their funds. SHPIs require capacity building on financial management and bankers require to be trained on responsible financing.

Source: Personal interview.

Loans: Many members join SHGs for availing loans.[10] However, receiving a bank loan has not been a smooth process for many of the SHGs. Very few banks have branches/verticals that have exclusive focus on SHG lending. Most of the controlling offices of banks do not track repeat loan to SHGs. Repeat loans even in states such as AP takes three months, where SERP provides the complete human and technical infrastructure for smoothening the bank linkages.[11] Yearly targets are given to branch managers for lending which are largely ad hoc and not based on realistic branch-wise plans based on (a) the number of groups with the branches, (b) number of groups that will be eligible for loans during the year. Banks have constraints in terms of staffing and pressure on achieving targets in other businesses. NPA levels had also been rising in SHG–bank linkage portfolio which has made them weary of the SHG portfolio.

Cash credit limit: To address the problems faced by banks and SHGs, Ministry of Finance issued instructions to all the banks to compulsorily sanction cash credit limit to SHGs and to convert all term loans of SHGs into cash credit limits. This has been followed up with guidelines from NABARD on the sanction and operations of cash credit limit. Several banks had reservations about this arrangement as this could drive to financial indiscipline at the SHG level and lead to over-borrowing and potential defaults.[12] Over the last two years banks have been persuaded into operationalizing this. Some state level bankers committees (SLBCs) have come up with their norms of what is the acceptable level of business in the cash credit to classify the account as normal.

Term loans with specific repayment dates ensured that SHG members were disciplined to adhere to the repayments expected by the banks. While sanctioning larger loans, bankers enquired about the purpose of the loan and improved the consciousness of the members to use loans for income-generation purposes. Sanctioning of cash credit and periodic enhancement of limits based on operation of account means that bankers have limited assurance on the purpose of loan usage.

Moreover, the expectation is that within SHGs term loan arrangement will be followed but with the bank the cash credit limit will be operational. This is a complication which many prudent SHGs may not want. Even with the present system there are challenges in bookkeeping and accounting. In southern states where large loans of ₹500,000 to ₹700,000 are sanctioned to groups, cash credit can lead to undesired consequences.

Box 5.4 Concerns of a banker about cash credit system

There is equal distribution of loans among SHG members in AP because government gives subsidy and all members want to get subsidized loans. Group leaders ask me how much they have to pay every month and the leaders collect the amount from each member and repay. Even if one member does not pay, the groups do not remit the collected amount; nor do they pay for the other member.

Our bank now gives only overdraft facility (cash credit) to SHGs. I am in a dilemma as to what to mention to the group leaders—if I tell them they have to pay to the bank only the interest and

limited principal, the members will pay only that much to the group. This will have ever outstanding loans among members and ever greening of SHG accounts. This will not help the members in the long run. I also want to be prudent.

Source: Bank manager of a public sector bank, AP.

The first loan withdrawal from the account will be a sizeable sum and likelihood of usage in income-generation activities is higher. However, in the process of frequent deposits and withdrawals, the subsequent loans are likely to be predominantly used for immediate consumption purposes. There will be little incentive to accumulate funds and build a corpus in order to access larger loans for business if the groups have cash credit arrangements.

Professor M.S. Sriram points out that 'the government's kindness might be a greater killer than its apathy and the zeal to help the women without realizing that it is gnawing at the basic foundation of the groups and the processes established over three decades.'[13]

Banks and SHGs need to have credit product choices that suit them. Cash credit should be one more product and not the only product. The RBI guidelines for lending under NRLM mention cash credit and term loan as the options for the credit to SHGs. Similar flexibility should be available for SHG–bank linkage programme. Government, NABARD, and bankers have to ensure responsible lending.

Insurance: Many banks now offer insurance services; branch managers and other staff often do not inform the details of the insurance fully to SHG members. Insurance products are target-driven and have often been mis-sold and sometimes without the knowledge of the SHGs. Groups are not informed of the cover and benefits and also how to make use of the insurance services. Product suitability and costs do not dovetail with SHG member needs. Few bankers sell the insurance by adjusting savings account or loan amount. This has resulted in some groups defaulting to banks. Most of the branches do not have the bandwidth to service the insurance claims.

ICICI bank—direct lending to SHGs

ICICI Bank piloted the direct SHG–bank linkage model in 2010 with five SHPIs in Tamil Nadu. On the basis of the experience gained in 2011 the model is upscaled and is currently operational in seven states (see Table 5.3). As of July 2013, 46,000 groups have been credit linked and the loan outstanding is about ₹2,000 million.

Table 5.3 ICICI bank's SHG-lending practices

Aspect	Bank linkage processes	ICICI bank processes
Role of SHPI	Unofficial/semi-official partner	Channel partner of the bank with roles of recommendation for loan and monitoring of the group
Delivery of services	Branch banking	• Relationship managers visit the groups; except for disbursement of loan, groups do not have to visit the branch • Eighty per cent of the groups financed are within 20-kilometre radius of branch
Staff	Staff carry out all loan advances (except in specialized SHG branches)	Trained staff for the SHG vertical; they are attached to Grameen/regular branches
Lending	Directly to the group	Directly to the group
Disbursement time between two loans	Average three months	A week to fortnight
Savings to credit ratio	Varies—in AP no such ratio, in states other than south normally 1:2 to 1:4	• 1:4 and in subsequent loans up to 1:6 based on activity of the members • Groups with larger corpus are first asked to use their own funds and balance needs are met by the bank

(Continued)

(Continued)

Aspect	Bank linkage processes	ICICI bank processes
Group quality assessment	• Group quality graded through grading format of the bank; sometimes grading carried out through third parties • A few bankers hold in-depth discussions on the group functioning and income-generation activities of members	• 10 parameter rating. Meeting and savings regularity and inter loaning performance get high weightage • Purpose of group formation carries weightage since many groups do not have a clear purpose and how to use the funds • Activities of the members checked
Rate of interest	11 to 13%	Fourteen per cent to the groups out of which 2% is paid to the channel partner for their monitoring function
Education of members	Some of the bankers educate the clients on proper utilization of loan	Loan disbursement is done at the branch for all SHG members. Proper utilization, prompt repayment are aspects that are harped upon apart from loan terms
Post disbursement follow up	Negligible, desk-based monitoring of repayments	• Relationship manager visits the groups within 45 days after loan disbursement for utilization check and at least once in the remaining currency of the loan • Call centre reminder for loan repayment two days before monthly due dates • Post disbursement touch with SHGs found critical for the quality of loan book. SHPI follows up. So double monitoring by bank and SHPI Groups with equal distribution and more than 70% of loan amount taken by signatories are put on watch list
Delay in payment of loan instalment	Not much proactive action till NPA stage	When second instalment is delayed, relationship manager informs SHPI and also visits group to understand issues
Transaction cost for the group members	Can be high especially where the groups have to make repeat visits for a loan request	Low due to doorstep delivery

Source: CMF Study.

Bank is diligent in selection of channel partners—the bank first screens and selects SHPIs. At present three types of SHPIs are partners to the bank—NGOs, government programmes, and corporate social responsibility (CSR) initiatives of corporates. CSR initiatives usually deepen livelihood activities and, hence, the credit utilization for income generation is very high. At present, 230 partners are working with the bank.

Federations and financial services

Federated structures of SHGs provide largely SHG maintenance services such as monitoring, training, auditing, facilitating bank/MFI linkages, and provide a platform for addressing common issues facing the women. Few of them are true financial intermediaries which mobilize savings from members and dispense credit and provide members need-based services. Others revolve credit out of the grant funds provided by the government but play a useful role in dispensing government subsidized schemes such as insurance and pension schemes.

Often governments encourage the federations to become bulk lenders, i.e. borrowing from a bank and lending to the SHGs to meet the needs of SHG members. Governments of Tamil Nadu, Kerala, and AP have tried this methodology and except for Tamil Nadu in other states, there is a realization now that this is not a sustainable option. Federations have not been able to manage large-scale

credit, there is pressure from member SHGs to lend indiscriminately, and recovery management has also been difficult. Bankers are also hesitant to lend large loans without adequate collateral.[14]

Federations can become business correspondents of formal institutions for lending to SHGs which is a win-win situation for all concerned. Two working models approach the business from different angles (see Box 5.5).

Box 5.5 Federations as business correspondents

Federations can become business correspondents of formal institutions for lending to SHGs which is a win-win situation for all concerned. Two working models approach the business from different angles.

1. MAVIM is presently implementing a women's empowerment programme Tejaswini (funded by International Fund for Agricultural Development [IFAD] and Government of Maharashtra) and forms three-tier structure of SHGs, Village-Level Committees (VLCs), and Community Management Resource Centres (CMRCs) which are federations of SHGs. As of 30 June 2013, 66,342 SHGs with 8.97 members, 7,189 VLCs, and 315 CMRCs are functional. Each CMRC caters to the needs of 175 to 200 SHGs and provides SHG maintenance and livelihood development services to the SHGs.

   Garnering adequate loans from bankers has always been an issue in spite of the fact that MAVIM groups are considered to be of good quality. MAVIM since 2011 is forging partnerships between ICICI Bank and CMRCs to act as business correspondents of the bank. ICICI Bank has dedicated staff attached to their branches who visit the SHG in the village, carry out loan assessment, and complete documentation. The loan is disbursed in the branch usually within two to three weeks of loan application which is the only visit required by the group to the branch. From the savings bank account of the group, repayments are made by National Electronic Fund Transfer/Real Time Gross Settlement (NEFT/RTGS). There are regular reminders through phone calls before due dates to ensure that groups deposit adequate funds into the account. Thus procedures are simple and timely. Adequate credit is also ensured to the groups since ICICI Bank leverages loans up to six times the savings of groups. Though in the initial stage, understanding each other's system and making adjustments took time; at present the partnership is progressing smoothly.

   During the year 2012–13, 41 per cent of bank loans disbursed to MAVIM SHGs were from ICICI Bank. MAVIM is exploring partnerships with other banks as well. ICICI Bank partnership has helped in quick processing of loan, reduction in transaction costs for the groups, and availability of adequate quantum of loans. CMRC is able to meet member needs and earn a commission for its services (ICICI Bank pays a commission of 1 per cent on loans disbursed and 1 per cent on recoveries). Financial sustainability of CMRCs is that much stronger.
2. Post-tsunami Sustainable Livelihood Programme (PTSLP) funded by IFAD is being implemented by Tamil Nadu Corporation for Development of Women. As of June 2013, the programme works with 5,310 SHGs, with 81,145 members which are affiliated with 109 panchayat-level federations. In some of the PTSLP areas, bankers have not come forward to lend to SHGs due to the poor repayment track record of other SHGs associated with the NGO/poor recovery from SHGs in a village. Programme management facilitated a business correspondent relationship between NABFINS and PTSLP. Memorandum of Understanding (MoU) between three PLFs and NABFINS was signed in 2012. Programme and NABFINS chose those PLFs which were functioning well and where SHG–bank linkages were problematic. NABFINS assesses the group independently and disburses the loans in cash at the village within one to two weeks of the assessment. PLF is expected to monitor the groups and collect recoveries from the groups and remit to the account of NABFINS opened with a local bank.

   PLF is paid 1 per cent as commission on the amount of loan disbursed and an additional 1 per cent on the amounts repaid on time. SHGs and PLF are satisfied with the lending process, quick turnaround time for loan sanction, adequate financing, and doorstep delivery of services. PLF leaders are expected to handle the recoveries in cash which causes discomfort to some of the leaders. NABFINS is planning to

address this by funds transfer through RTGS. Programme after assessing the pilots will be upscaling to other PLFs.

As of 31 June 2013, a total of 76 SHGs of three PLFs have been credit linked with NABFINS with a total loan disbursement of ₹225.70 lakhs.

Source: Personal interview.

Both these models are departures from the usual business correspondent model where SHPIs–NGOs are engaged. The partnerships have been with people's institutions and for credit products.

EXCESSIVE AND MULTIPLE DEBT

Excessive debt is a significant problem in southern states where there is a high concentration of banks, MFIs, and others. The attention to multiple membership in groups, debt levels of the household, interest burden, and repayment capacity is weak. Unlike in the case of MFIs which are now required to examine income level, debt level, and repayment capacity of clients, in SHGs debt servicing capacity is expected to be assessed by the group; and with larger loans, the capacity of the group to assess repayment capacity is low. Neither the SHPIs nor the banks are verifying the debt levels of members. Banks are not geared for providing the SHG loan details to credit bureaus. Over-indebtedness in the SHG programme is likely to blow out when a trigger event happens. Excessive debt in member households remains hidden and might become the cause of bankruptcy of households.

FRIENDLY PROCESSES—STAFF BEHAVIOUR, PROCEDURES

The relationship between the SHGs and banks has been marked both by very good behaviour and bad behaviour depending on the bank, location of branch, and nature of staff. Staff turnover being high in rural branches, often SHGs find a new person to deal with. The process of becoming familiar with each new branch manager is time-taking and it has to be repeated every two or three years. The staff who come on their first posting to rural branches often do not have the right attitude to begin with. The result is general dissatisfaction of SHG members with banks, which eventually reflects in poor recovery rates.

CMF study finds that the involvement of banks with the groups is low in terms of conducting group performance rating and attending group meetings occasionally. The banks have rated only about 19 per cent of groups in Madhya Pradesh and about 14 per cent of groups in Karnataka. Additionally, banks never visited a significant number of groups from study states (Bihar 92 per cent, Madhya Pradesh 93 per cent, and Karnataka 88 per cent) for any kind of activities or checks.

In the GIZ study, overall satisfaction of the credit process (six aspects were assessed) was in the high range of 70 per cent to 80 per cent. Attitude of other staff (other than branch manager) overall is found to be satisfactory. Credit appraisal process and visit to SHG by bank staff are areas the banks have to work upon; more than 20 and 35 per cent of members have expressed least satisfaction for these two aspects. The urban members were more dissatisfied than the rural members on several aspects such as assistance provided by the branch staff in filling out forms, attitude of branch manager and other staff, visit of branch manager to SHG, etc.

GIZ study finds that overall members were not satisfied with the range of products offered, briefing of products by branch staff, and distribution of product-related information in local language. Inadequate briefing by staff is causing the most dissatisfaction for all the members whether rural or urban. This is an area which the banks have to focus upon. Instead of offering a vanilla SHG loan product, the banks have to ensure that with the growth path of SHGs, suitable products are also offered to the SHGs as groups as well as to individual members.

Thus the efforts from the banks to understand SHG needs and design products or improve processes are minimal. Though there is immense potential to provide a whole range of financial services to SHG members, banks have largely fallen short of utilizing this potential.

TRANSPARENCY AND CUSTOMER EDUCATION

Information sharing in SHGs

SHGs are financial institutions albeit smaller in size. The design of nurturing a self group ensures that there is transparency in information available to all members. Meetings are to be held regularly with high attendance rates of members. All important discussions are to be held in the meetings, openly discussed, and decisions arrived on consensus basis. The financial dealings with members are to be completed in the meeting, loan applications considered and sanctioned, SHG books and member passbooks

updated, and the financial position of the group is shared with the members. Key decisions are documented. Cash in hand is to be recorded and the excess cash to be deposited in the bank the next day. Penalty for deviant behaviour ensures that members attend meetings. Annually the books have to be closed, verified by an external person/auditor, and results shared with the members. Thus the design ensures that there is transparency in information sharing and there is member comfort that their savings are safe and risk of mismanagement and credit risks are minimal.

However, over a period of time these practices are neglected in many groups. Capacity-development efforts of SHPIs have been found to be inadequate and often the reason for lack of transparency. Principles of functioning and good practices, duties of leaders and members are not adequately informed to the members. Bookkeeping skills are not adequately imparted.

In southern states where majority of the SHGs are functional over many years, fatigue seems to have set in both the SHPIs and SHGs. Regularity of meetings and attendance rates have been falling. SHPI staff does not attend all the meetings especially of the older groups since there is very little funding available to provide such services though SHGs are expected to monitor the groups. Since women are hard-pressed for time, they do not have patience to wait for all members to assemble and financial dealings often happen outside the meetings. Cash is handed over to leaders and books are updated subsequently. Bank loan recoveries is often done separately nearer the due date and written separately. Large cash remains for an extended period of time with the leaders and this has led to misuse in some cases. Leaders take loan decisions as and when members approach them; group decision-making on loans is on the wane. Books are often updated at the time of external scrutiny by banks, NGOs, and MFIs. Members do not have adequate information since the information is often not generated.

The CMF study shows this trend in Karnataka. Out of a sample of 200 SHGs, 20 per cent SHG members report that they hand over the savings and other funds to leaders or leaders collect door to door. However, in Madhya Pradesh and Bihar almost all the groups collected the cash in the meetings. Eighty five per cent of group members interviewed in Bihar, 65 per cent in Madhya Pradesh, and 36 per cent of members in Karnataka were satisfied with the level of bookkeeping in their groups. Thus dissatisfaction levels are significant in Madhya Pradesh and Karnataka. Nearly 62 per cent of groups in Bihar, 85 per cent of the groups in Madhya Pradesh, and 65 per cent of the groups in Karnataka report that they have not received training on bookkeeping.

As per study of APMAS in 2012 of the SHGs that are maintaining records, the books are often not up to date (minutes book—42 per cent; member passbooks—36 per cent; savings ledger—27 per cent; loan ledger—25 per cent; general ledger—33 per cent; cash book—36 per cent; receipts and payments—44 per cent) and pending for a period of one month to one year; and the majority of the books are with incomplete information and overwriting. This reveals the poor bookkeeping of SHGs. As on the date of data collection of the study in 2011–12, no sample SHG has computerized its operations.

In states where illiteracy levels are high, reliable bookkeeping system and verification is often an issue. This hampers not only adequate information sharing but increases discomfort of group members.

Box 5.6 MIS initiative of SERP, AP

Technological solutions can improve the availability of timely information. SERP has invested heavily in technology to update bookkeeping in SHGs as well as in village organizations and federations. This is a tremendous achievement considering the scale of the SHG programme in the state. SERP will have to work with voluntary organizations (VOs) to ensure that information is shared with the members of SHGs.

Source: Personal interview.

Transparent information sharing by banks to SHGs

Most of the SHGs are not aware of the change in the pattern of getting bank loans by way of cash credit limits. Even under the existing term loan, awareness among SHGs about the terms and conditions of bank loans is limited in a number of states. They go by what the bank manger tells them. Many of the branch managers are choosing not to disclose the full details of cash credit arrangement.

Banks disclose the pricing details of the loans. Some bankers do not inform the correct term of the loan; shorter term is indicated to the groups so that they will repay well within time and the loan will not become NPA since there will be prepayment of loan instalments. Updation of passbook

is time consuming and this is one of the causes of displeasure with SHGs.[15] Very often the bank passbooks are not updated for months together.

According to a few SHPIs working in the southern states, the banks often interact only with the leaders; very few bankers visit the groups and do the rating, loan assessment, and monitoring. They do not ensure that the information regarding loan sanction reaches the members. This has also led to some malpractices and only when there is default on the bank loans, the group members come to know.

DELINQUENCY MANAGEMENT

The rising NPA level in SHG lending has been a matter of concern. As compared to NPA to loan outstanding of 2.94 per cent in March 2010 the same stands at 7.08 per cent as of March 2013. Some bankers in the southern states mention that in case loan sizes are not increased in each cycle, groups tend to default. Increase in loan sizes is the motivator for repayment but at the same time increases credit risk. The rise in NPAs in SHGs is also due to the dilution of due diligence practices by banks. Branch managers accept rating by third parties or carry out desk rating instead of carrying out rating directly in the field. Many branch managers do not visit SHGs before or after loan sanction. Supervision after lending is practically nil barring in a few branches.

NABARD has been concerned about the rising NPA levels and has been commissioning studies to understand the reasons. Specific studies on the defaults of the groups in Tamil Nadu, Rajasthan,[16] Assam, Uttar Pradesh, and Odisha[17] find that the group quality has been poor and enough care had not been exercised in member acquisition, capacity building, and internal discipline. Banks, in fact, had lent to groups which were not of adequate quality and were facing pressures from government agencies and also their controlling offices. In Tamil Nadu, the need assessment and loan usage had not been given adequate attention.

Measures taken for delinquency management: Banks invariably stop further lending in the village and also to all groups associated with the SHPI such as NGOs, federations, etc. This causes discomfort for other well-functioning groups. In AP recovery committees have been constituted with federation leaders and community resource persons for follow up on recoveries. This arrangement is providing assistance to the bankers. In extreme cases banks are now filing court cases against SHG members for recovery of dues.

FAIR, AFFORDABLE PRICING

SHGs have been traditionally charging high interest rates on loans to their members. The high interest rates served as a compulsory capital-building process as the surplus of the group went into its working funds. However, with the advent of subsidized loans, the pricing of interest rates changed. Groups make a distinction between their own corpus and bank loans, and loans to members from these two sources are priced differently. The cost to the customer of an otherwise affordable bank loan can turn out to be high. Two recent studies show that cost to the SHG member of a bank loan is higher than that charged by MFIs.[18] The suitability of loans at costs above 24 per cent per annum for supporting livelihoods in rural areas with limited return potential has to be reconsidered. The subsidies, though welcome should be channelled in a manner designed not to distort credit discipline.

GRIEVANCE REDRESSAL MECHANISM

Intra group issues are solved by open discussions. There is no specific grievance redressal mechanism for the SHG members. CMF study also finds that groups look up to leaders for solving the issues through open discussions. However, internal conflicts are one of the major reasons for the groups to become defunct. Federations and, at times, SHPIs try to intervene and resolve issues. Group members are not aware of the grievance redressal procedures of the banks as has been found in the GIZ study.

SHGs are in a position to lodge a complaint or grievance against the bank with the Ombudsman appointed by the RBI. But in case of members of SHG with a complaint, barring discussion in their periodic meetings there is no other avenue. Some means of capturing complaints of SHG members and dealing with the same are priorities.

MONITORING AND REPORTING SYSTEM TO IMPROVE RESPONSIBLE FINANCE PRACTICES

Outreach data: SHG programme is widely spread, several SHPIs promote SHGs and even in a block or a district no single agency is responsible for the collection of the outreach data of SHGs. The number of groups operating in a geographical is a matter of guesswork as there is neither MIS in place nor a data collection agency.

Bank portfolio data: NABARD collates and provides banking-related data which is a huge task

in itself. They are dependent on banks to provide accurate information. The quality of the data can vary among different banks as has emerged in the interactions with a few lead bank managers. Some critical indicators for measuring financing practices such as SHGs with repeat loans, credit product-wise information, savings of dormant SHGs, lien on savings of groups, insurance offered to groups, etc., are not available. Small sample studies on branches have also had limitations of data access.[19]

SHG internal dynamics and financials: Today government is the largest promoter of the SHGs. Some states have reasonable database on outreach and bank finances. However, these data sets do not provide information on the quality or internal finances of the groups. While some literature is available on impact of SHGs which also discuss in a broad brush manner the quality of the groups, there is hardly any study or analysis on internal dynamics and financial management practices, leadership practices of the SHGs. Internal group financials and, thus, dynamics is an area which is least captured in either MIS or in research studies.

Box 5.7 Early warning system—the case of belstar investment and finance private limited

Belstar Investment and Finance Private Limited (BIFPL), a Chennai-based NBFC promoted by Hand in Hand, adopts SHG lending methodology. One of the major problems for branch managers is their inability to visit all SHGs every month. Since majority of the groups conduct their meetings in the evenings and late night, the credit officers could not attend all the group meetings every month (this is the most common issue faced by SHPIs as well). Though Belstar had a robust MIS for its lending operations, for SHG accounts automated MIS was taking time and paper-based MIS had its drawbacks. In the meanwhile it was noticed, that group quality was not as good as before; during field visits branch managers could see that some groups were not having good internal recovery. The leaders seem to dominate in some groups.

Early warning system (EWS) was introduced which captured six key parameters, viz. number of meetings held in the month versus the planned meetings, attendance in the meetings, number of savers during the month, repayment of internal loans and repayment of bank loans, and the share of loan outstanding of SHG leaders in the total loan outstanding of the SHG. Threshold tolerance limits were set for each of the parameter and monitored every month. Groups were graded and those which have exceeded 'tolerable limits' in two parameters are identified as risky SHGs and are visited by the branch manager. The early detection of the problems enables the branch to nip it in the budding stage.

This involved process re-engineering as well. Credit officers were assigned compact localities so that they could visit the groups each month. Change in meeting timings were consented with the groups so that in a day a credit officer can cover five to six SHG meetings depending on the distance. S/he ensured that in all the groups the meetings took place, members attended, all lending decisions were taken transparently, books were written, the MIS was collected, and the early warning parameters were shared with the members. This took three to four months. Only EWS collected by attending the meetings are accepted as data. Over a period of one year, the EWS implementation has 90 per cent coverage which means that credit officers attend 90 per cent of the group meetings.

Impact of EWS on SHG quality:

Changes in SHG quality due to EWS	As of 1 April 2012	As of 31 March 2013
SHGs showing no signs of exceeding critical levels and classified as good quality groups	64%	81%
SHGs crossing tolerable level in one parameter	27%	12%
SHGs crossing tolerable level in two and more parameters and identified as risky SHGs	9%	7%

The enhancement of SHG quality through direct meeting of SHG members by credit officers improves the client relationship and client retention. The frequent client touch enabled the credit officers to assess the risks involved and increase the loan business. Many of the SHGs which were becoming leader centric are back to being member centric. Regional managers and branch managers assess the risk while considering loan application by linking the EWS with loan

appraisal. Reduction in the time for overdue follow up is invested for bringing new businesses to BIFPL.

Kamalanathan, Chief Manager of BIFPL, in Kaveripakkam region mentioned

> For introducing EWS, we faced challenges with the credit officers and branch managers. But when we explained the status of deteriorating quality of SHGs, misuses by leaders and consequent overdue problems, the staff changed their mindset and gave their 'Buy-in'. With 6 branches and around 1,700 SHGs, after introduction of EWS, I am confident to identify risky SHGs and follow up more closely.

The Kaveripakkam region with 1,700 SHGs where the EWS was first introduced shows improvement in business as well.

Operations at a Glance of Kaveripakkam Region
(in ₹ million)

Parameters	As on 1 April 2012	As on 31 March 2013
Loan Portfolio	1,141.46	1,203.13
Total Active Clients	10,990	12,813
Portfolio at Risk Amount	2.27	0.53
Share of Vulnerable Members	26%	37%
PAR %	0.19%	0.04%
Repayment Rate	98.85%	99.41%
OSS %	90.12%	93.27%

Implementation of Early Warning Signal System has enhanced the effectiveness of monitoring of SHGs, which has resulted in improvement of quality of SHGs, responsible financing within SHGs, and increased business to BIFPL.

Source: Belstar Investment and Finance Private Limited.

OTHER ASPECTS OF WORKING OF SHGs

Graduation of entrepreneurial members

Some group members are more entrepreneurial than others and quite often they are the leaders of the groups. Their loan requirements grow faster than others. Banks are not graduating them to be individual clients of banks and the members are forced to continue to borrow from SHGs. SHG 2 guidelines of NABARD suggest formation of JLGs of SHG members for addressing larger loan requirements. However, bankers are hesitant of this arrangement since the members can borrow from both SHG and JLG thus increasing indebtedness.

Box 5.8 Individual lending to SHG member

Progression of individual SHG members to become direct client of bank needs to happen. When banks are not able to ensure a second linkage after one loan has been repaid, this appears to be an ideal situation.

Source: Regional Manager, Public Sector Bank.

This has led to some bad practices in SHGs where the members with larger needs corner larger loans often depriving other members of adequate loans. In some cases, they borrow in the names of others. Unless this is monitored and checked it causes discomfort to other members (see Box 5.9).

Box 5.9 Not so desirable practices of leader capture

MFI operating in three southern states following SHG methodology found that the leaders were increasingly becoming powerful since credit officers were attending the monthly meetings only once in a quarter. A quick check on their loan outstanding vis-à-vis the outstanding of all members showed that in 26 per cent of the SHGs the outstanding with leaders was more than 50 per cent. In 12 per cent of the groups the leaders and a few powerful members had all the internal savings loans with poor recovery. This put the savings of poorer members at risk. This was openly discussed with members and over a period of six months, the checks and controls were put in place to curtail this. However, the need for a larger loan of ₹100,000 to ₹300,000 needed by the entrepreneurs is not met since neither banks nor the MFI is able to fulfil this.

Source: Personal interview.

Finance plus services

One of the achievements of the SHG–bank linkage programme has been the leveraging of the social capital for addressing common needs of women. There

are documented case studies and studies on several social issues addressed by women's groups from female infanticide to alcoholism and sometimes even intra household violence against women.

APMAS, 2010, in their study of 120 SHGs of MYRADA analysed the meeting agenda items which showed that 53 per cent of groups have included legal awareness issues, 30 per cent skill-based trainings, 8.33 per cent income-generation/livelihood activities, 30 per cent development programmes, and 18.33 per cent health.

However, of late much of the content of meetings is financial. As per APMAS study, in 2012, most of the SHGs' agenda for meetings is limited to financial aspects and a few SHGs included non-financial items. The non-financial agenda includes: (a) information to federations/SHPIs (18 per cent), (b) general body meetings (17 per cent), (c) leadership issues (15 per cent), (d) development programmes (6 per cent), (e) social agenda (8 per cent), (f) maintenance of books of SHG accounts (9 per cent), (g) auditing (4 per cent), and (h) training programmes (2 per cent).

Thus increasingly SHGs transact financial matters. Village organizations and federations serve as the platform for taking up non-financial services.

Box 5.10 MAVIM's VLCs take up gender issues concerning SHG women

MAVIM is implementing the IFAD-assisted Tejaswini Programme under which VLCs are formed of SHG leaders. The VLCs are major force behind taking up gender-related initiatives, drudgery reduction, interaction with gram sabha for solving common issues such as drinking water provision, MNERAGA jobs, ensuring that SHG members access government benefits. These issues are largely identified by the women themselves; a few issues are identified by MAVIM and taken up for the programme as a whole.

Source: Personal interview.

Leadership and responsible finance practices

In SHGs the management and governance functions are merged, with the leaders carrying out both the functions. They set the direction of the group and are responsible for the management functions such as bookkeeping, bank transactions, interaction with SHPI, attending review meetings, representing groups in any forum, etc. With federated structures emerging in several states, the demand on their time is very high. SHGs have been a people's movement enabling grassroots women to realize their potential as leaders.

However, there are some disturbing trends seen and heard from the field. There are number of leaders who influence the groups' strength to work in their individual favour. Cornering of loans attaining resources meant for other members in the group, monopolizing the leadership space, and using SHG as a base for their personal ambitions in political and other spheres are some of the ways in which the leaders unduly benefit from participation in that groups. There are also several instances of ghost loans being taken by the leaders without the knowledge of the members in whose names the loans are recorded. Some of the leaders think that they are entitled to larger benefits (loans) since they carry a heavy workload. Same leader continuing as animator/representative of the group poses a threat to the groups. In many cases, these leaders have taken advantage of their positions and misused the group funds causing financial losses to the groups. Savings of members are put to risk.

In some of the groups the leaders push for certain high risk decisions that benefit them individually and increase the risk profile of all the members in that group. This is seen sometimes in groups taking up joint activity or investment which is beyond the capacity of many of the members of the groups. In the hope that the leader and one or two other powerful members will be able to carry on the activity in the interest of the entire group, rest of the members approve of such proposals. Later when the activities fail or the investments do not produce the return, liability is cashed on the entire group though the members being ignorant had passively accepted to the proposal.

There are also several instances where the leaders had discriminated between the different members in the group in terms of sanctioning loans depending on the price, size, and also source of funds. Some groups have been known to engage in extremely coercive recovery practices in case of default of some of the members. This is an area not so well studied but full of many anecdotal evidences but will require deep corrections by the promoters.

Box 5.11 Leadership development by MYRADA

Some of the SHPIs such as MYRADA have developed strong systems to ensure leadership development, accountability of leaders to group

members, and also frequent leadership rotation to manage power structures within the groups. The study of APMAS finds that each group selects two 'representatives' from its members to lead the group. Groups have formulated roles responsibilities and guidelines to select representatives and to fix a term for them. Groups consider multiple criteria such as consent of majority members, educational qualifications, communication skills and knowledge of the systems and procedures prescribed, members' personal attitude and character such as values, transparency, and those who can devote time for group work.

The study finds that all the groups except three in Karnataka have changed their representatives from one to 15 times with an average of six whereas majority groups in Anantapur, AP have not completed even one round though the groups are small in size and more than eight years old. Thus there are state-wise differences based on local culture and practices.

Source: An evaluation of self help Affinity groups promoted by MYRADA; study by APMAS.

Bank managers do not encourage leadership rotation especially during the currency of a loan since this involves changing the documents with the banks.[20] However, banks should insist for rotation of office-bearers every three years, before sanctioning the new loan facility. Banks also need to facilitate larger loans for enterprising members (usually leaders) which will curb the not so desirable practices within the groups. Thus bankers can drive responsible finance agenda in the groups they finance.

Overall, the group affairs need internal and external monitoring—MIS and audit need to capture benefits to leaders vis-à-vis the members, loans outstanding, and repayment performance of leaders. Appropriate counselling and advice needs to be made available.

Roles of key stakeholders

SHGs are subject to the influence of promoters (SHPIs), funding banks, and the state programmes. The practices of SHGs in dealing with members are guided by the expectations of these external stakeholders. Whether the SHGs are able to conduct intra-group dealings with sensitivity towards members depends as much on external stakeholders as on the group itself. The other level of engagement, between the SHG and bank, SHPI or the government, is one requiring responsible practices that will promote member comfort. Here too the stakeholders play a major role in determining the quality of experience of SHGs. Without a professional management structure and being dependent on support from SHPIs and others, SHGs are unable to fully focus on member interests. The role of external stakeholders determines the extent of responsible finance practices and SP in the SHG chain.

Institutional capacity development of SHGs is a key factor that determines the quality as well as responsible financing practices in SHGs. For group formation, nurturing, and institutional capacity building of SHGs grant funds are made available. In the earlier years, NABARD and bilateral donors were providing the grants. After the year 2000, government has been the major funder, at times with loans from multilateral financiers such as World Bank and IFAD. This is a unique feature of SHG–bank linkage programme where the financing banks are not burdened with cost of group formation but usually the state bears the cost as part of poverty reduction programmes.

Very often the funding is inadequate to provide quality training for SHGs. NABARD till recently was financing very little for formation, capacity building, and monitoring of the groups. They considered that SHG development is an add-on activity for the NGOs who were funded by donors and others. This premise was unfounded. Much of the funding support went for salary costs of SHPIs and very little was spent on SHG training. Moreover, the funding from both government programmes as well as NABARD was related to outcomes such as opening of savings account, credit linkage, etc. While this is a reasonable outcome to expect for the grant funder, in several pockets bankers have been reluctant to open savings account and credit link, with the result that often SHPIs were not adequately paid, staff were loaded with more groups to manage within budgets, and this resulted in poor quality groups. NABARD data on funding SHPIs shows not so good results—only about 50 per cent of the targeted groups have been formed and savings-linked and credit-linked groups are lower[21] (though the work is in progress but year-on-year comparison also shows similar results). Similar was the case with government funding as well.

Apart from the quality issues, the funding of SHGs by grants and continuing support through corpus funds, seed capital, etc., distort financial disciplines. This runs counter to long-term interests of clients; sustained access to financial services is hindered. Government officials have target-oriented implementation often rushing to form groups quickly,

disburse seed money, credit, etc. Group quality and the financing practices within SHGs are not usually monitored. In implementation of NRLM and other government programmes these are aspects the government machinery has to take care.

Box 5.12 Institutional capacity building of SHGs not to be compromised

When SHG promotion became part of government policy in 2000, pressure was exerted by dedicated government officers at the district to grow fast and achieve targets. As a result, the quality of SHGs declined and so did their performance in mobilizing savings, in deciding on loans (equal distribution became common), managing repayments (NPAs increased), and in building a supporting environment for a livelihood strategy. SHGs were formed to achieve targets, with the wives of the panchayat president and secretary dominating proceedings; they borrowed from banks and lent outside at higher rates; other members did not benefit while repayments to banks were good. Official reports focused only on disbursements; corrective measures were taken to balance the spread in areas where growth was slow but no investment was made to add value or to support increases in productivity and diversification. No priority was given to form SHGs on the basis of affinity where the poor members were identified in public and then had the freedom to form SHG by self-selecting their members. Very few SHGs were provided with institutional capacity building so that all members participated in decision-making. All this takes time; the government was in a hurry to disburse and include.[22]

Source: Aloysius Fernandez, Chairman, NABFINS.

CONCLUSION

SHG–bank linkage programme has achieved tremendous results in terms of number of poor and vulnerable women covered, creating an institutional mechanism where they can mobilize savings and improve their financial management capacity, and facilitating their access to credit from banking system. NABARD and RBI have consistently provided the policy support for credit linkage of unregistered groups without collateral. Many governments have been promoting large numbers of SHGs seeing them as vehicles of poverty reduction and women empowerment. The empowerment of SHG women in the social and economic sphere has been proven.

The state of practice in SHG movement shows that the responsible finance practices that were originally built in have been steadily weakening. The large programmes with annual targets tend to reduce group quality, group unity, and, thereby, erode customer protection levels. Weakening of group processes, excessive focus on corpus funding, lending, and recovery have taken the groups away from building social capital and internal capacities for adopting responsible finance principles. The stakeholders with missions of their own do not help the SHGs to realize the best benefits for their members. Excessive funding of the wrong kind results in mobilization of groups with short-term goals and leads to wastage of resources. The conversion of SHGs into delivery channels of government erodes customer protection levels and hinders the ability of groups to work in the member interests. The absence of supervision over SHGs compounds the problems of a customer base that does not have grievance redressal mechanism. While a number of SHGs are able to secure their interests well, there is also an equal number of SHGs that are unable to work in the interests of all members.

Banks have been proactively providing savings linkage and credit support over a number of years to a large number of groups. But the interface between the groups and banks has not always been smooth and friendly across all the states and regions. Banks delay, defer, or deny services to SHGs on various grounds. Opening of savings accounts, control over savings of SHGs, sanction of loans, and use of loans are usually the aspects of discomfort for SHGs. The SHGs are required to offer vague documentation that is not specified at one time, all members required to travel to the branch more than once, keep their savings with the bank as a security deposit, and be subject to rude behaviour of bank staff from time to time. While first cycle loans take time to reach group members, the second and subsequent cycle loans are uncertain, jeopardizing the income-generating activities of the members. When groups want to scale up the member-level activities and apply for larger loans, the banks are unable to respond appropriately. Monitoring by banks has not been consistent and irregular monitoring (with visits in many branches restricted to defaulting groups) has led to weak portfolio quality. These are several aspects where banks have to improve to be responsible financiers.

One should not conclude that SHGs are devoid of responsible finance principles. In programmes

where adequate attention has been paid to institutional capacity building of the groups and monitoring aspects have been aimed at improving practices, the groups are strong, members benefit from quality financial services, need-based products, affordable pricing, social capital, and financial literacy. The empowerment of women, the space they occupy within their homes as well as in society, and their ability to address several issues that affect them are exemplary. The lament is that latter day groups have little patience to build them brick by brick. The stakeholders should return to the drawing boards to find out how to make the SHGs fulfil the promise of responsible finance in the members' interest, which was the original goal.

NOTES AND REFERENCES

1. APMAS. 2012. 'SHGs in India—A Study on Quality and Sustainability', APMAS, Hyderabad, India.
2. GIZ NABARD. 2013. Study on Satisfaction Level of SHGs on Financial Services and Demand for New Products and Services, Draft report.
3. EDA Rural Systems, Lights and Shades study of SHGs. APMAS 2012 study finds that majority of the households (75 per cent) belong to BPL category and the remaining 25 per cent are above poverty level category (APL). The percentage of BPL households is high in AP (98 per cent) and Karnataka (82 per cent) and low in Maharashtra (51 per cent) and Assam (63 per cent) compared to all other sample states. In AP, the number of households that have a white ration card (which is given only to BPL families) is more than the number of total households in the state and, hence, the estimate may not be correct.
4. Fieldwork of the author in Maharashtra, Tamil Nadu, and Gujarat.
5. SHGs offer interest on amounts saved by members at a fixed rate. At the end of the year, the residual surplus after accounting for interest payments and other expenses is distributed among all members in a pre-agreed proportion. In case of groups that do not offer interest on savings the entire surplus of the group is divided among members as per pre-agreed proportion. This might work against the interests of members who only and do not borrow.
6. APMAS. 2012. 'SHGs in India—A Study on Quality and Sustainability', APMAS, Hyderabad, India.
7. N. Srinivasan. 2010 and 2011. Microfinance State of the Sector Report. New Delhi: SAGE Publications.
8. Ibid.
9. Author's own field experience in the states during the last three years.
10. APMAS. 2012. 'SHGs in India—A Study on Quality and Sustainability', APMAS, Hyderabad, India; MicroSave. 2012. 'Why Do People Not Join or Drop Out of SHGs'. Available at http://www.microsave.net/files/pdf/Why_Do_People_Not_Join_or_Drop_Out_of_SHGs.pdf, accessed on 12 August 2013.
11. http://www.rediff.com/news/2013/mar/31jairam-ramesh-letter-to-p-chidambaram.pdf, accessed in November 2013.
12. Santhanam Srinivasan, see http://indiamicrofinance.com/shg-bank-linkage-programme-term-loan-cash-carry-loan.html, accessed on 15 September 2013.
13. M.S. Sriram. 2013. 'Curbing an Alternative'. Available at http://www.livemint.com/Opinion/J7u5-pmAGZ2lixR4Lg6v3vO/Curbing-an-alternative.html, accessed on 27 April 2013.
14. Girija Srinivasan and Ajay Tankha. 2010. 'SHG Federations—Development Costs and Sustainability', Access Development Services, New Delhi.
15. GIZ. 2013. 'Study on Satisfaction Level of SHGs on Financial Services & Demand for New Products and Services', NABARD, Draft report.
16. Abhijit Sharma. 2011. 'Delinquencies in SHGs of North Eastern Region', IIBM, Guwahati. Available at http://www.srtt.org/institutional_grants/pdf/Research_study_on_loan_default_by_SHG.pdf, accessed in November 2013.
17. NABARD. 2013. Status of Microfinance 2012–13, provisional information.
18. Anand Sahasranaman and Deepti George. 2013. 'Cost of Delivering Rural Credit in India', IFMR Finance Foundation, Chennai; NCAER. 2010. 'Assessing the Effectiveness of Small Borrowing in India', Study for MFIN India, New Delhi.
19. http://www.ifmr.co.in/blog/2011/09/20/analysis-of-shg-bank-linkage-programme-sblp-in-andhra-pradesh/, accessed on 12 July 2013.
20. MYRADA and APMAS. 2010. An Evaluation of Self-Help Affinity Groups Promoted by MYRADA.
21. NABARD. 2012. 'Status of Microfinance in India, 2011–12', Micro Credit Innovations Department, NABARD Head Office, Mumbai.
22. http://www.nabfins.org/content/whose-risk-it-anyway, accessed on 3 July 2013.

Regulations and responsible microfinance

6
Chapter

The regulations brought in force by the RBI in 2011 represent a very significant shift in the regulatory stance over microfinance sector. MFI regulation fundamentally focuses on customer protection issues than institutional and systemic risk issues. Most part of the detailed instructions that emanate from the RBI are related to appropriate customer selection, design of loan product, design of the processes including the recovery mechanism, the purposes for which loans could be provided, the field behaviour of MFI staff, and governance. There is very little in the regulator's guidelines that relate to prudential management of financial institutions and the need for their viability and sustainability. Even under financial aspects covered in the guidelines, the rates of interest that can be charged to customers and the need for reasonable margins that do not burden the customer have been the key focus.

Though the regulations are aimed at NBFC-MFIs, all MFIs in any legal form have to comply with the above norms since the banks have been advised that lending to MFIs will be considered to be priority sector lending only if the above norms are fulfilled.

The key tenets of the regulations are as follows:

- NBFC-MFIs are required to maintain not less than 85 per cent of their net assets as qualifying assets.
- The qualifying assets have to fulfil the following norms:

  (a) Income-generation activities should constitute at least 70 per cent of the total loans of the MFI and the remaining 30 per cent can be for other purposes such as housing repairs, education, medical, and other emergencies.
  (b) Annual household income levels of borrowers should not exceed ₹0.06 million in rural areas and ₹0.12 million in urban/semi-urban locations.
  (c) Loan amounts to be limited to a maximum of ₹35,000 for the first cycle; and ₹50,000 from the second cycle onwards; total indebtedness not to exceed ₹50,000; MFIs must be members of at least one credit information company/credit bureau. The credit officers and other staff are to be trained to verify and assess the debt levels of the borrower.
  (d) Loan tenure can be 12 months for amounts less than ₹15,000 and a minimum of 24 months for loans greater than ₹15,000.
  (e) Repayment frequency to be decided in consultation with the borrower—monthly, fortnightly, or weekly.
  (f) Collateral free lending.

With two years having passed since the regulations were brought into force and with changes having been made by the RBI from time to time to ensure better alignment of practice of microfinance with the regulatory guidance, it is time to have a look at how well the regulations match the expectations relating to responsible finance and customer protection.

Client acquisition and income criteria: The customer selection mandated by regulation is that poor household with an annual income of ₹0.06 million in the rural areas or ₹0.12 million in urban areas will qualify as a microfinance customer. Currently, the RBI has provided flexibility to MFIs on the means of verifying the income of the households. MFIs take a self-declaration from the borrowers since household income is not easily quantifiable and verifiable.

These ceiling levels of income stipulated by the RBI are low, both in the rural and in the urban context. Households, with income levels bordering above these, face vulnerability and volatility in cash flows. These customer selection norms actually end up in excluding a large number of vulnerable people

rather than facilitating microfinance to include those who do not have access to finance of any kind. It is seen that about 25 to 30 per cent of the clients move above these income levels over a period of four to five years with repeat loans and investment into their businesses. When clients move above the income level stipulated, the MFIs will have to discontinue the customers with the possibility that they might slide back. With banks not keen to service such clients, MFIs have to continue to provide financial services.

The comparable programmes of the government that focus on poverty alleviation or the SHG–linkage programmes do not have this severely limiting income cap on customers. It is time that the RBI rethinks its threshold limits for determining the eligibility of a household to be taken as a client by MFIs.

Ceiling on quantum of loans: The background to these norms is that borrowers can become victims of excessive debt taken from several sources just because it is available in a facile manner. To avoid debt build up in the hands of poor households, the RBI has mandated that no poor household should be financed by more than two MFIs and the quantum of loans at the household level should not exceed ₹50,000. The ₹50,000 limit is arbitrary and does not relate to a purpose. There are income-generating activities that might cost more than ₹50,000 and will produce a return sufficient to service the loan and also give a reasonable surplus to the households to manage their lives.

The assessment of the level of debt is a difficult and complex process. The only viable and formal means available today to verify the level of debt is the credit referencing facility, which MFIs have established by their membership to the credit bureaus. But the credit bureaus represent a partial information base as not all the MFIs are members and the vulnerable households borrow from sources other than just MFIs. SHGs and banks do not report data to the credit bureaus used by MFIs, but provide significant amount of loans to the customers of MFIs. The studies carried out in Andhra over the last three years by Centre for Microfinance show that MFIs account for a smaller proportion of the overall debt. Access to informal sources of credit in AP was quite high with more than 80 per cent families having borrowed from moneylenders, friends, relatives, and other non-formal institutions.

Given the widely dispersed nature of borrowing by the rural households and lack of authentic information on the same, it is very difficult for MFIs to truthfully certify compliance with the RBI regulation. If the MFIs fail most times it may not be for want of effort at getting the information. Within the credit bureaus the data quality and the periodicity of submission create some gaps to facilitate households borrowing from more than two MFIs. Test checks carried out by one of the MFIs in South India revealed that despite ensuring that only one other MFI had provided loan at the time of loan disbursement, 6 per cent borrowers were bound to be having three loans or more at a subsequent date. Even with credit bureaus functioning and continued referencing of loan proposals to the bureau, it had been difficult to prevent borrowing from more than two MFIs and if we reckon the other sources from which households can borrow the outer limit of ₹50,000 is likely to have been breached in a number of cases.

Instead of giving absolute threshold limits in terms of number of MFIs and amount of loans, regulation should focus on MFIs having sound appraisal systems that assess the repayment capacity of the borrower and the income-generating nature of the proposal to try and establish a link between loan servicing ability and the loan that is applied for. Responsible lending principles should be followed by MFIs. The appraisal process should also focus on gathering more information from the borrower to ensure that excessive debt does not become the most probable result.

SHG data to be shared with credit bureau: Banks have to be guided to update the data on loans given to SHG (members). In southern states, the microcredit off take through SHGs is much higher than the MFI lending. Unless the data from two major channels of microcredit are used in referencing, the credit referencing will continue to be partial. This may be piloted in a few districts initially and thereafter mainstreamed.

Loans for income-generation activity: The regulator requires MFIs to provide 70 per cent of all their loans for income-generating purposes. While the objective is sound and is necessary to ensure that customers focus on creating a debt servicing ability with the help of investments out of loans, the small size of loans may not meet requirements of viable income opportunities. The problem of small loan size is compounded by the nature of loan product that's made available with regular instalments of repayment that will not be supported by several types of livelihoods in the rural areas that have lumpy cash flows. The duration of microfinance loans at a maximum of two years is also a hindrance to investments that have a longer payback period.

The response from the MFIs has not been at the optimal level as very few MFIs have invested in new product development that will facilitate purpose-specific loan products. Unless product redesign and

accompanying redesign of lending facilities from banks to MFIs take place, compliance to regulations for directing loans to income-generating purposes is likely to remain on paper.

The aspirations and needs of clients are changing and there is larger demand for developmental loans for educating children, house improvement, and water and sanitation loans. With the present regulation, MFIs are unable to pay adequate attention to these needs. The RBI norms[1] specify that while the rate of interest on individual loans may exceed 26 per cent, the maximum variance permitted for individual loans between the minimum and maximum interest rate cannot exceed 4 per cent. This is likely to deter MFIs to offer developmental loans at reasonable rates of interest.

Clients also would like to deal with institutions that fulfil their needs. Dealing with different institutions and sources of credit does not solve the indebtedness issue. Instead of a cap on loan size, MFIs should be encouraged to do prudent lending based on cash flows of the enterprise and household.

Margin cap: The margin allowed to MFIs had been retained at the level of 12 per cent till 2014 after which larger MFIs have to work with a margin 10 per cent. As regulatory objectives, forcing MFIs to become efficient, achieve fast reductions in operational costs, and pass on the same to customers are laudable. Most MFIs are already driving down costs led by the recovery in business sentiment in the sector. Volume of business per staff as also larger number of loan accounts per staff had been increasing over the past year. The MFIs are compliant with the 12 per cent cap and will eventually comply with the 10 per cent cap as well within the extended deadline. Technical issues on how to calculate the margins when cost of loans varies month to month remain but are an operational issue that can be solved.

However, restricting the MFI margin to 12 or 10 per cent is unlikely to make the loan affordable to the customer. If the affordability of loans for several income-generating activities is one of the aspects of consideration underlying regulation, then regulator should work at reducing the financial costs which today are in the region of 13.5 to 15 per cent for MFIs. SHG loans for similarly placed households are available at anything from 4 to 7 per cent and small farmers enjoy crop loans at 7 per cent. These loans are provided through the banks with government subsidizing the banks for the difference in costs. A similar facility made available through MFIs would achieve the welfare objectives of keeping interest rates at an affordable level for microfinance clients as well. When the regulatory norms mandate that the customers should be poorer than the typical SHG member or the small farmer, there is undeniable logic in providing a subsidy on the finance costs to MFIs so that the more deserving clients get affordable loans. The regulatory objective on margins is not fulfilled as of now if customer affordability is the desired end result.

Loan term: At the customer level there have been issues that have arisen as regards the term of loans. The RBI had prescribed that any loan above ₹15,000 should carry repayment period of not less than two years. There are several places in the country where customers would like to repay the loan within a year and look to obtain a new loan of a different size as and when needed. Carrying the same loan over 24 months limits options available to customers especially those in trading and certain types of businesses where investments are essentially short term. MFIs report instances where clients need more than ₹15,000 for agricultural operations and would like to repay in three to six months. Reportedly clients now prefer to borrow only ₹15,000 from the MFI and the rest they raise externally including from moneylenders.

Similarly, loans less than ₹15,000 at times might be required for longer periods because of the nature of investment. Investment might start providing a cash flow or a return with a time lag. Thus client needs are not matched by the products which MFIs are able to offer.

Instead of relating the size of loan to the desired term of loan, the regulator should advise MFIs to offer the option relating to the maturity period of a loan to the customers and adopt the same. The challenge on the part of the regulator is to ensure that the guidance to MFIs is enforced effectively and MFIs actually offer choices to the customers before finalizing the loan term.

OTHER ASPECTS

RBI licence: Apart from the regulation by RBI, MFIs are governed by laws of the state government as well. Whether Moneylenders' Act will apply to MFIs is an issue of debate that crops up regularly. This affects the business sentiments, investors hesitate to invest in MFIs fearing state action, and banks also scale down lending in the states where these debates emerge. The RBI licence should be considered by the state governments as the licence to operate and compliance under other state acts should be waived.

Priority sector lending: Banks largely lend to MFIs only in the last quarter of the year. Fund management and pressure to disburse are challenges faced by MFIs. Idle funds push up the costs and pressure to disburse affects prudential lending norms. Bunching of sanctions and disbursements,

nearing March each year, results in customers of MFIs suffering from unseasonal loans and long waiting periods during the year. RBI should monitor performance of banks through disbursement flows and calculating compliance from quarterly averages.

Supervision: The RBI inspectors are seen to have meticulously drafted the supervisory reports. However, the emphasis in some of these reports is more on mechanical adherence to guidance rather than substantive compliance to the spirit with which the guidelines have been issued. This is a matter that needs consideration. There are issues in training and orienting the RBI supervisors in understanding what results are expected of MFIs and the best means of securing the same in the best interest of their customers.

TO CONCLUDE

With regards to MFI regulation, considerable distance has been travelled compared to the position two years back. The sector now has a framework that focuses on responsible finance. It establishes certain thresholds and norms of behaviour for the MFIs. The adherence of the MFIs to these guidelines is tested through regular MIS reports as also supervisory visits to the MFIs themselves. However, significant problems persist in the supervisory guidelines. These do not seem to secure the objectives of customer protection qualitatively. In fact, in some cases they seem counterproductive. A sector-wide consultation is likely to yield inputs for a review of the current supervision framework and distinctly shift its orientation towards qualitative improvements in customer protection.

NOTE AND REFERENCE

1. RBI circular no (NBFC- MFIs) directions and modifications RBI/2012-13/161 DNBS (PD) CC.No.300 /03.10.038/2012-13 dated 3 August 2012. Available at http://rbidocs.rbi.org.in/rdocs/notification/PDFs/CCNOI030812FM.pdf, accessed on 10 August 2013.

Human resource practices in microfinance institutions*

7

Chapter

A major part of our organization is our frontline employees who service our customers. They are not only closest to our customers but also act as their surrogates. Hence we firmly believe in 'employees first & customers second' as a philosophy. If our employees are happy, then our customers will be happy too. (Samit Ghosh, CEO, Ujjivan Financial Services Pvt. Ltd)

The HR practices adopted by an organization influence the value systems and process of delivery of its products and services. MFIs are no exception. In fact, the HR practices adopted assume more importance in the case of MFIs as the clientele dealt by them are very unique and vulnerable, needing empathy and understanding at every step. Microfinance is a business of relationships; very few other businesses have to touch base and interact with their customers so frequently. Providing finance responsibly and ensuring profitability is a fine-balancing act for MFIs.

Unless the staff of the institution is dealt responsibly, the responsible financing of the clients cannot be ensured. There are very few studies to throw insights on the HR practices in the sector. MIX based on a small sample-based study concludes that the more progressive the HR policies implemented by MFIs, the higher the productivity of their staff. There was also a strong positive correlation between staff productivity and training on SP.[1] According to a workforce study by global consulting firm Towers Watson, companies with high employee engagement had a 19 per cent increase in operating income and almost a 28 per cent growth in earnings per share; those with low engagement scores experienced an operating income drop of more than 32 per cent with earnings per share declining by more than 11 per cent.[2] Given that personnel costs can range from roughly 50 per cent to over 70 per cent of an MFI's total operating expenses, improved human capital management practices can have a direct impact on an MFI's operating expense ratio and by extension, its profitability.[3]

A specific study on Responsible HR Practices covering 11 MFIs has been commissioned for the purpose of this report. The MFIs are from different geographies, different forms such as NBFC and Section 25 Company, different lending methodologies as well as different sizes from Tier 1, 2, and 3. The list of MFIs studied is enclosed in the Annex 7.1.

The study covers manpower planning, recruitment and placement policy, training, benefits and performance evaluations, responsibility to staff, staff development, and motivation aspects and whether these practices have translated into effective and responsible financing of clients. Some of the MFIs, though shared information orally and discussed all aspects during the study, were hesitant to share information in writing. This has been the experience of the studies of IFC[4] and Grameen Foundation[5] as well. This limits data analysis but overall conclusions are drawn from the information shared during the visits.

The chapter draws heavily from the findings of the study apart from the studies commissioned by Grameen Foundation and IFC, inputs from MicroSave, and discussions with other MFIs and key stakeholders.

MANPOWER PLANNING

Manpower planning process has been adopted by all MFIs studied; while in larger institutions it is very structured, in smaller MFIs it is not so. In MFIs

* With substantial contributions from Rema Karat, K. Jeyachandran, HR AXIS Consultancy Services.

which had an accelerated growth plan, manpower planning is conducted on a half-yearly basis and in others on an annual basis. In smaller MFIs, the plan is more need-based as per their business plans.

In MFIs where the manpower planning was a structured process, the basis of planning was:

- Number of existing clients to be serviced
- Potential for new clients in existing operational areas and new areas
- New product launches
- Annual performance plan
- Attrition

The manpower planning is invariably a centralized head office function. However, in two organizations, a more consultative approach is followed—based on the growth, plans were taken from the existing branch offices and in consultation with zonal head/regional head were consolidated by the head office and integrated into the business plan and presented to the board.

In growing organizations such as Ujjivan and Janalakshmi, majority of the manpower requirements of field supervisory staff (branch manager, senior field officer, cashier, customer relations representative [CRR], area manager, regional manager, zonal manager) are met through internal promotions. Credit officers/collection staff are internally developed to take up such supervisory positions. Only if the MFIs are unable to identify suitable internal staff, they resort to lateral hiring. Largely manpower planning thus concentrates on hiring of field staff and managerial staff.

In MFIs where a structured manpower planning process is in place, it has helped the MFIs in controlling the cost of operations. Such a process enables them in identifying and placing the right person on the right job at the right time. This process also helps the MFIs in executing their growth plans more effectively and efficiently.

ORGANIZATION STRUCTURE

The structure of the MFIs studied was dependent on the business model, business level, and growth pattern which can be categorized into four.

Type I

MFIs had lean staff at the head office level and branch office level structure was generally flat. This type of structure was found in smaller MFIs. As and when more number of branch offices was opened, a regional office/area office was established to supervise the operations. Branch offices were adequately staffed to take care of the business targets. However, at the head office level, the major departments of Operations, Finance, and Audit and the functions of HR, Administration, among others, were taken up by the existing management team along with the operations (see Figure 7.1).

A branch office is typically staffed with around four to five field staff and one branch manager. The field officers have the role of inducting new clients, loan processing, disbursal of loans, loan repayment as well as ensuring retention of clients for subsequent loan cycles.

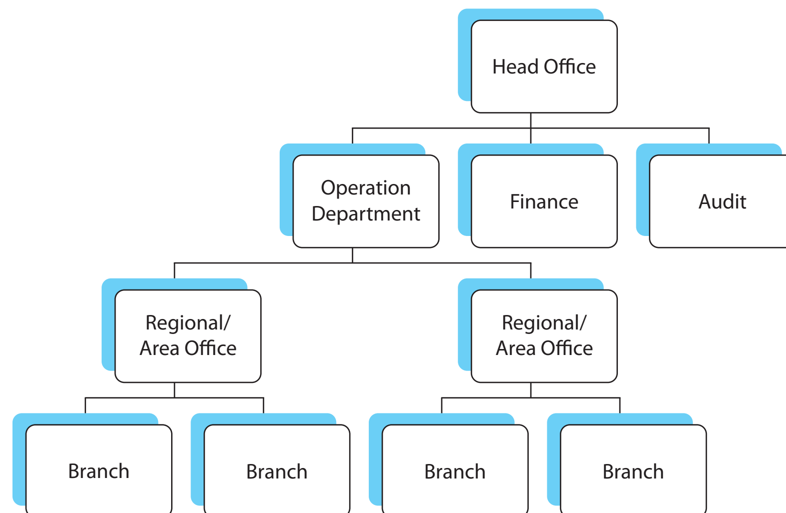


Figure 7.1 Type I organization structure

Source: Study of HR Practices in Microfinance Industry by Rema Karat & K Jayachandran (Hexa Resource Axis India Pvt. Ltd.).

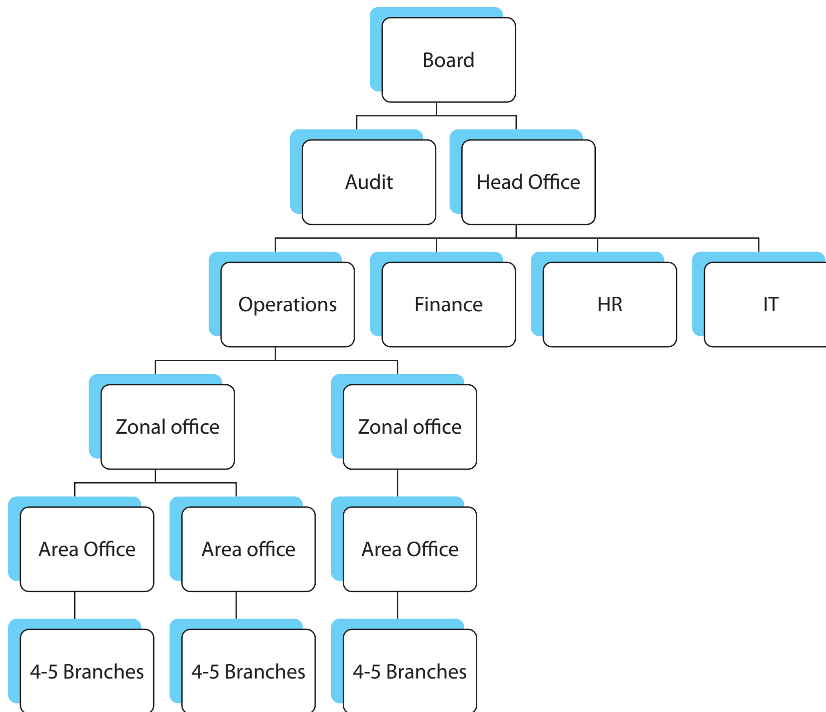


Figure 7.2 Type II organization structure

Source: Study of HR Practices in Microfinance Industry.

Type II

Type II organization structure was more apparent in medium-level organizations. As compared to Type I, there is an additional layer of a zonal office taking care of more than one region. Head office has more functional departments such as HR, Finance, IT, Accounts, and Operations (see Figure 7.2). However, all the major functions are centralized and all major decisions are taken at the head office.

The branch office level structure remained flat, but had additional staff such as cashiers or data entry operators who were also responsible for internal documentation and accounting. Such branch offices typically had a staff of around six to eight including the branch manager.

Type III

In the case of matured MFIs with accelerated growth plans, apart from various functional departments at the head office, representatives of most of the functional department were posted at the zonal and state level with functional delegation. This enhanced the efficiency of the organization through expeditious decision-making at the local level. There was a unit head/area head for every group of four to five branch offices reporting to the state/regional office. The branch office level structure was similar to that of Type II above.

In Ujjivan, at the branch office level, apart from the field officers, the branch manager is supported by a cashier and CRR.[6] The CRR apart from the branch manager reported to the Service Quality Department at the regional office/head office.

Type IV

Janalakshmi Financial Services Pvt. Ltd had a unique organizational structure as compared to other MFIs. Janalakshmi has three separate business units for each of their product lines—Retails Financial Services (RFS) for group loans, 'Janaone' for individual loans to its existing customers, and Enterprise Financial Services (EFS) for people who come under the 'missing middle' category as classified by Janalakshmi. However, the whole operational process including sanctioning of the loan is centralized at the head office. There are three zonal heads under the RFS and each zone has two regional offices. Under the regional head, two to three cluster heads are posted, who in turn are responsible for five to eight branch offices.

The branch office is headed by the branch manager, under whom there are two to three area heads responsible for different areas. Under each area

head, there is a Credit Relation Executive-Marketing (CREM) who is supported by two Credit Relation Executives-Sales (CRESs). Further, there are around eight Credit Relation Executives-Collection (CRECs) under the area manager who take care of collection from the clients. The role of CREM is to survey the areas for business development and carry out the preliminary process for enrolling clients. S/he then introduces the clients to the CRES who then carries out the tasks of formation of groups, household surveys, group trainings, loan documentations, etc. Once the client loans are approved and disbursements made, the clients are transferred to the CRECs who are then responsible for loan recovery. The branch manager has a back-end team headed by branch-in-charge supported by two to three staff members who are office assistants-cum-cashiers. Thus, the branch offices have a total staff of around 35–40.

Different types of structures emerge mainly on the basis of operational requirements such as number branch offices/clients, growth plans, etc. The Type I was found suitable for smaller MFIs, with less than 50 branch offices where they cannot afford to incur high cost on manpower or such other administrative cost at the head office level. When the MFI moved to the next level of operation, say with more than 100 branch offices and proportionate increase in staff, they gradually adopted the Type II having separate departments at the head office level. The MFIs on a high growth trajectory, adopt the more robust structure giving more thrust to customer service quality, checks and balances in the system, improving productivity, and profitability. Type IV is unique for it caters to specialization of functions, faster growth, and readiness to adopt more business units without affecting the operational efficiency.

Generally the branch offices, the area offices/regional offices, and operational departments at head office level were staffed adequately. In case of smaller organizations, the head office departments were not well staffed and the CEO/MD or other directors doubled up as other functional heads as well. CEOs mention that it has been difficult to attract the right experienced person for senior position in a small organization as the salary package that can be offered by the small MFIs is not comparable with the offers from large institutions. Further, MFI business being very unique in its business model, people with the right mindset have to be recruited.

Out of the 11 MFIs visited, a full-fledged HR department was observed in only four MFIs. The HR head position was recently created in one MFI, while in the remaining cases the HR was a sub-function of operations department and did not have an exclusive department headed by HR specialist. In cases of small MFIs, the role of HR was more administrative in nature with no HR specialist; training was found to be part of operations and salary part of the accounts department. Even in MFIs having separate HR department, staff to drive the HR strategy at the head office level have been found wanting. These departments though had specialized recruitment division, training division, and administrative division to take care of salary and other HR administrative issues, separate divisions for driving performance management systems, engagement of employees were missing.

All the MFIs have an audit department separate from the operations department. The auditors report directly to the board and not to the head of the institution. The auditors are required to visit branch offices, apart from checking adequacy of following loan sanction procedure, loan documentation, and other operational processes. They also visit and interact with clients randomly (both through regular and surprise visits). They also check whether clauses of CoC are properly complied with, at the field level.

Though most of the MFIs have a finance head, their major focus is in getting timely funds for the operations. After the crisis in the MFI sector in 2010, the MFIs have had the problem of attracting financial institutions and till recently banks have been apprehensive about lending to smaller MFIs. Thus, major function of the finance head is to liaison with bankers and other funders. Specialized functions, such as treasury management, are not being taken up by most of the MFIs as of now.

In the bigger organizations, separate cell for grievance redressal of clients is in place and in some cases the same cell takes care of the staff grievances too. In smaller organizations, grievance redressal cell is part of one of the departments.

In Ujjivan, a separate Service Quality Department has been operational since 2009, with its major focus on conducting operations in a responsible manner. This department apart from looking into the complaints received from customers and staff is also responsible for improving client retention in their branch offices, monitoring the centre leader meetings which help in interacting with clients, etc. Satin Creditcare has also set up a separate SP department to take care of the grievances of the clients and staff as well as for taking initiatives to conduct client satisfaction survey, employee engagement, among others.

Thus depending on the size of the MFI and its operational level, the tiers are determined. Further, higher the growth rate more is the functional specialization ensuring that proper checks and

balances are in place coupled with timely customer service.

HIRING

Hiring has been a challenge for most of the MFIs at both levels, field/operational level and at the middle/senior management level, more so for the young and emerging MFIs.

Field-level staff

Though there are educated unemployed youth available in the country, recruiting field officers with right attitude and aptitude is a great challenge. All the MFIs are unanimous in saying that the skills and knowledge required for the field staff can be easily imparted within a short time but developing the right attitude requires investment. Initially, many MFIs recruited graduates as field officers but the attrition level has been very high. Since the job requires less of knowledge and more of people skills, it has been found that persons with 12th standard and in rare cases 10th standard education can be a proper fit. Coming from the same strata of society as the clients, they are able to empathize and relate to the clients better.

Box 7.1 Good practice of Samhita

In Samhita, efforts are made to employ candidates from families where nobody is having monthly assured income.

Source: Study of HR Practices in Microfinance Industry.

The strategy for attracting the right candidates differed.

- In some MFIs, the first preference is accorded to employee and client referrals. In Ujjivan, the clients and employees receive referral incentive of ₹500 if the referred employee is appointed. In Grameen Koota too, the first option is to announce the vacancies in centre meeting and only if required, other options are resorted to. However, in some MFIs client referral is not a preferred option as a matter of internal policy of the company.
- Majority of the MFIs prefer freshers to those with prior experience in microfinance. The reason being it is difficult to unlearn the value systems and policies learnt in the previous organization. However, Fusion prefers people with microfinance background and does not find prior experience a hindrance at all.
- While expanding into new areas, MFIs resort to advertisement.
- Walk-ins are entertained by all MFIs.
- Some MFIs, such as Fusion, are experimenting with tie-ups with junior colleges in rural areas for campus recruitments.

Recruitment process

- Apart from a written test to check minimum skills with numbers and communication and an interview, MFIs also ensure that the candidates understand the job content and their responsibility by
  - o Shadowing the aspirant candidates with senior staff for one to seven days of field visits and getting feedback from the senior staff.
  - o Conducting training to orient candidates to the role of field staff. Samhita and Grameen Koota find this system useful in controlling attrition.

This ensures that the candidates have a fair understanding of what the job is about and take informed decisions about joining the MFI.

- Before issue of appointment letter, background check of the candidate is done by one or more of the following:
  - o Household visit and speaking to the neighbours.
  - o Reference checks and guarantee from reputed local person or from the parents or relatives.
  - o In case the candidate was earlier working in MFI, NOC from earlier employer is insisted upon and referral check. This is in line with the Unified Code of Conduct.
  - o In rare cases, background verification is got done through outside agency for senior positions.

Box 7.2 Equitas assesses employee fitment

Equitas assesses fitment by *'know your candidate's family well'*, where the supervisor visits the selected candidate's residence to understand the cultural aspects of and bond with the family. This also serves as a background check. Given that employees deal with customers' money, this assessment is very important. Equitas also ensures that all candidates hired are posted close to their residence to ensure a balanced work life and also enable closer supervision.

Source: SHRM India Case Study of Great Places to Work created in cooperation with Great Place To Work® Institute, 2012.

- In majority of the MFIs, the probation period is six months. The new staff shadows a senior/existing field staff for training for a period of one to seven days. Only after a period of 15 to 30 days (period vary from institution to institution) targets are set for achievement. In some of the MFIs, initial targets set are low and only after three months of experience, full responsibility as a field staff is given.

Recruitment of women as field staff

Microfinance has historically focused on serving poor women clients and is recognized as a powerful tool for empowering women. Many institutions understand that female staff are able to establish a rapport with the clients and can serve as strong positive role models. Though MFIs are willing to appoint more women as field staff, they have not been able to attract many women for the job.

- In rural areas, villages are widespread and field staffs are required to travel from one village to another. There is a perception that routes between villages are lonely and unsafe for women.
- Not many women are willing to drive two-wheelers.
- Perception that field jobs for women are not appropriate.
- Many MFIs have a policy of not posting their staff to their own village/local area. Posting women to far off villages creates problem regarding their stay.
- Even if they join as field staff, after marriage as part of the societal norms, field job is not encouraged for women.
- In urban areas also, similar problems exist. However, the ratio of women working in MFIs operating in urban areas is much better than in rural areas.

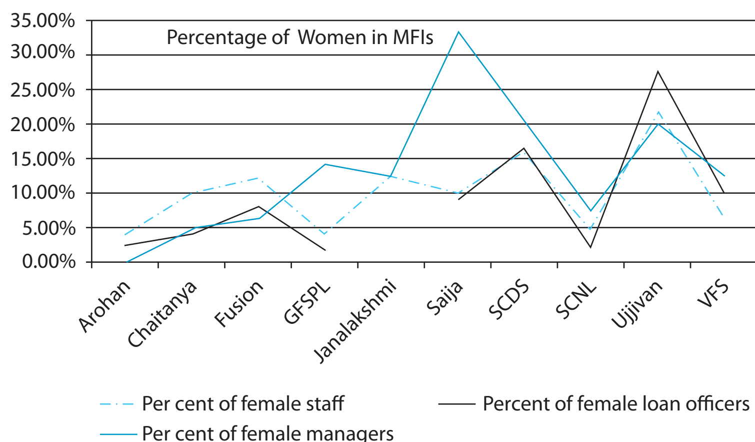


Figure 7.3 Women staff in MFIs studied

Source: Study of HR Practices in Microfinance Industry.

Box 7.3 Ujjivan prefers women employees

In Ujjivan, clear preference is given to married/needy women since as per their experience women are found to be loyal, sincere, and motivated.

Source: Study of HR Practices in Microfinance Industry.

In order for MFIs to have female staff at all levels, institutions should analyse and understand the factors that contribute to low representation of female staff, major challenges their current female staff face, and explore changes in policies and practices that will enable their employment. MFIs may also find that their current practices such as that of rotating field officers from one branch office to another, often seen as a strategy to reduce the risk of fraud as field officers become more familiar with their clients over time, can be a block for female staff members who are not able to move far from their families. MFIs must evaluate whether the benefit of these practices outweighs the cost of losing female talent.

Management staff

For managerial positions, MFIs first try to network from their known sources[7] to head various strategic departments. Retired bankers are preferred for the audit and finance functions. At times, MFIs are engaging placement consultants; advertisements are also made. However, getting professionals to head HR or IT departments has been difficult.

With the sector showing signs of revival, Tier 1 MFIs such as Janalakshmi, Ujjivan and growing organizations such as Sahayog and Fusion are able to attract good talent including business graduates from reputed institutions. Business graduates are seen opting for MFIs as they see a career growth along with the opportunity to serve social causes without much compromise on remuneration.

Ujjivan has a practice of identifying one problem area every year, for focused solutions and improvement. In the current year, focus is on reduction of attrition to 10 per cent from the present 22 per cent!!

ATTRITION LEVELS

Attrition is a challenge that most MFIs faced especially amongst the field staff. Attrition rates in MFIs

ranges from 5 per cent to 30 per cent.[8] The major reasons for attrition were:

- Stressful job environment (delinquency management, long working hours, pressure from immediate supervisors/superiors)
- Dealing with poor, less educated women to explain the MFI business is difficult
- Transfer policy of many MFIs which stipulates posting away from their own house/village
- Compulsory residential system of staying in the branch office (in some of the MFIs)
- Women staff leave the job after marriage
- Availability of better jobs with good service conditions

Post Andhra crisis the staff turnover rate has increased. This may be attributed to the fact that many MFIs have resorted to reduction of staff and consolidation of their business. Further, that as an industry, employees were sceptical about their future where the MFIs have become vulnerable to social and political vagaries. Adding to this, during this period, there has been increase in the number of bank/corporate-promoted MFIs (such as HDFC and L&T Finance) and they are generally on an aggressive growth phase. These MFIs have been hiring experienced staff from the existing MFIs.

MicroSave in their SPM assessments find that apart from the above, three other factors contribute to attrition—compensation and benefits do not commensurate with workload, strained relationship with superiors, and lack of recognition.

MFIs find that attrition is high among the field staff during the initial period of six months. With a view to addressing this issue, Samhita changed the procedure of hiring—prospective candidates shortlisted by the branch offices are given pre-employment training for 15 days at the head office, tested for suitability, and successful candidates are considered for employment. This has improved retention rates. In MFIs, such as Arohan, where growth has been a constraint in the last three years and which are unable to offer promotions, salary hike, etc., the staff leaves for a better job/higher salary. Such MFIs are endeavouring hard to stabilize operations and post reasonable growth to retain staff. MFIs conduct exit interview and feedback is analyzed for corrective action.

Many small MFIs during stakeholder consultations mention that they choose higher attrition levels over higher salary levels in a bid to contain operating costs. In the scenario where there is a cap on the interest rate that can be charged, the need to keep the operation cost low weighs highly on the minds of management of MFIs. However, it is observed that new staff takes a minimum of three months' time to learn the nuances of the job. In the meanwhile, lack of continuity could lead to a disconnect with the clients which is nurtured with efforts. Thus in the long run, significant cost savings can be realized with reduction in staff turnover.

Box 7.4 HR issues faced by small MFIs

In the interactions with MFIs in West Bengal, the small Tier 3 MFIs shared the following issues with HR practices.

Since banks are not lending to small MFIs in the state, business is coming down. Scope for promotion is negligible and repetitive job is found tiring. Salaries can't be raised to cope with inflation and match opportunities in other sectors. Personal aspirations of the staff are not being met. With failure of ponzi schemes creating a bad name in the state, filling up vacant positions is difficult since the perception about MFIs is that of 'chit funds'. Sector which attracted 200 candidates for a post advertised now gets about 15 applications from not so qualified persons. Motivating staff has been an issue. Well-experienced staff are quitting the institution.

Source: Study of HR Practices in Microfinance Industry.

INTERNALIZATION OF MISSION, VISION, AND INTERNAL VALUES OF THE ORGANIZATION

There is general clarity on mission, vision, and internal values among management staff across MFIs. As for the field staff, there is more clarity on the mission and not much clarity on the vision and internal values of the organization. Interestingly, training plays an important role in the clarity of mission, vision, and internal values of the organization.

Box 7.5 Equitas' HR mission

The guiding principle of Equitas is 'Treat your employees the way you want them to treat your best customers'. The company also has a separate mission for the HR team that would enable it to serve its internal consumers—the employees better. The HR mission is 'To Acquire, Align, Assess, and Retain *Trustworthy* employees'.

Source: SHRM India case study of great places to work created in cooperation with Great Place To Work® Institute, 2012.

TRAINING

Staff training has a direct impact on the quality of services provided to the clients. In MFIs where structured, long duration, and effective training programmes were conducted, field staff spoke with conviction on the need for client awareness building, transparency in interactions, and need for handling the clients empathetically.

> In line with private sector business, MFIs need to start seeing training as as investment rather than an expense. As part of this they need to pay more attention to training and capacity development as a part of an integrated HR management that includes HR retention.

Source: Brij Mohan, former Executive Director, SIDBI.

Induction programme for field-level staff

Duration and methodology adopted for induction training of staff varied depending on the maturity level of the HR management practices followed by MFIs. Classroom induction course duration varied from two to 15 days. Induction training covers company's vision, mission, goals and objectives, organization structure, microfinance principles, operating principles of JLGs, basic product information (financial and non-financial), CoC adopted by the MFI, internal discipline, and Do's and Don'ts. The training is conducted by in-house trainers and is supported by line managers from different departments.

The sequencing of training and branch office exposure vary. In some MFIs, new candidates are posted to the branch office and provided 'on-the-job-training'. Later, as and when sufficient number of new candidates were inducted, induction training at the head office level is conducted. In Satincare Credit, the trainees are first placed in a branch office near to their residence and attached to a senior field staff and given on-the-job-training for a week followed by classroom training for three days at two of their regional training centres.

On-the-job-training of three to four weeks includes field visits along with the senior field officer on practical aspects of identifying clients, orienting them on the principles of microfinance, formation of JLGs, sharing product information including pricing, conducting of CGT, recovery process, handling client grievances, loan documentation, verification of the personal and loan details, home visits, data entry, and MIS.

Employees are on probation for six months during which they are guided and monitored by the branch manager. During probation, self-management training which includes time management, punctuality, discipline, behaviour with clients, behaviour in group meetings are covered.

> **Box 7.6 Ujjivan trains staff intensely**
>
> In Ujjivan, the Basic Level Training (BLT) is a 15-day induction programme for the new staff and includes information on the organization, their role, the CoC, the client education needs, skills in conducting group meetings, and communication skills. It also includes three days of practical training in the field. This is followed by on-the-job-training. In the case of auditors apart from BLT, they work with senior auditors for two months before being assigned independent work.

Source: Study of HR Practices in Microfinance Industry.

Induction programme for management staff

The study finds that there is no structured induction programme for management staff in many of the MFIs. After initial completion of the joining formalities, they are introduced to the department for their on-the-job-familiarization. Department head/ manager explains about the job responsibilities and the staff learns the systems and procedures while doing the job.

In the few MFIs, where structured induction programme is available, a short programme (one to two days) covering topics such as organization structure, business areas of MFIs, service conditions, etc., are undertaken. Functional training is given by the respective departments. Self-learning modules are also given to the staff for further learning and in some cases they are required to take a test so as to assess their level of learning/understanding of the subject. In some MFIs, field visit is mandatory to orient the new staff with the realities of microfinance operations. In few MFIs, top management meets the staff as part of the induction, and reinforces the mission and values of the organization apart from clarifying the purpose of the job.

Periodic training and other capacity building measures

- Training about MFI CoC, internal discipline, product details, communication with clients, etc., are not repeated periodically. Repeat programmes based on field-level practices and practical cases will improve the performance and efficiency of the staff.

- Training is provided when new products are introduced or there are any changes/modifications in the current products, systems, or procedures. Normally, supervisory staff trained at the head office level conducts the training to the field staff during monitoring visit to the branch offices. In Samhita and Sahayog, trainers visit branch offices and conduct these trainings.
- Upon promotion, field staff is initially placed under an experienced staff for about two weeks prior to undertaking the new responsibilities. No other training is provided to them.
- Ujjivan gives lot of thrust on regular staff training as part of the continuous improvement programme. Apart from the initial 15 days' BLT, all the staff is required to undergo one week Repeat Basic Level Training (RBLT) every year. Information on new products launched, changes in systems and procedures, sharing of new learning through case studies are covered during the RBLT programme. Special programmes also have been drawn for the supervisory staff to help them build competencies on team building and leading.
- Another method adopted is weekly, fortnightly, monthly updates on the operations are provided to staff in regular review meetings.
- In some MFIs, staff is subject to special training, post the audit score of that particular branch office.
- For the field staff, operational staff who has good training skills undertake the training.
- In large MFIs, such as Ujjivan, use of technology such as videoconferencing, MIS feedback is extensive for imparting training. Use of technology is cost saving in terms of time and money in deployment of HR for training.
- MFIs engage external agencies/trainers for conducting training programmes on soft skills, communication, leadership through classroom and outbound training. Satincredit Care has taken the support of M2i while Ujjivan was supported by CoCoon Consultancy. However, MFIs find it difficult to get appropriate resource persons for training field staff in local language.
- In MFIs, such as Ujjivan, Samhita, Janalakshmi, where training is given importance, supervisory and management staffs are deputed for external trainings conducted by reputed institutions.
- In Ujjivan and Arohan, top management team has been nominated to business schools such as Harvard, Wharton, IIMs for management development programme and also to international seminars. These are funded by the respective MFIs.

> In Samhita, staff is required to undergo test after every training programme and they are required to score a minimum of 80 per cent. In case they fail to secure this score they are required to repeat the program. Training department very closely monitors such training.

Training on client responsibility

MFIs admit that regulatory intervention has helped the industry in streamlining their systems and practices in the right direction. They feel that they have better framework and systems for avoiding multiple borrowings leading to high debt levels among clients, client's education, and level playing field through uniform regulatory guidelines.

The staff is generally aware of the organizational CoC which is in line with the industry codes. Different tools and methodologies are used to sensitize staff towards the aspects of client's responsibility. In Ujjivan, training on client responsibility starts from induction and is reiterated frequently at various forums, meetings as well as audit and other checks. Each staff reads out aloud a pledge card at the beginning of every meeting, reminding them of their responsibility towards the clients. All operational processes for providing credit are carefully structured to ensure CP. The focus on CP practices and its reiteration ensured that staff imbibed them totally and lived these values day to day. In Samhita, regular tests are conducted to check whether the staff is aware of their responsibility to clients, while in few others, knowledge on these aspects becomes part of the audit rating.

Skill development programmes in the areas of communication, conduct and presentation in meeting with clients, understanding and assessing group dynamics, assessment of the needy clients, etc., have been undertaken by a few MFIs with the help of external agencies/trainers. Practical training through field visits covering the Dos' and Don'ts and the consequences of the negative behaviour are imparted by all. However, it differs in its effectiveness depending on the importance given to training function as an integral part of the business operation.

Capacity building for delivery of other financial services

Most of the MFIs studied had only credit products. A few MFIs in alliance with some of the insurance companies, had insurance as a service for their clients. However, most of them discontinued this service. At present, this service is limited to

credit life insurance in which the client and her/his spouse are insured to the extent of the loan amount. A few MFIs enrol clients under National Pension Scheme (NPS) and micro pension from Unit Trust of India (UTI).

In general, adequate training is given to the field staff and they are equipped to explain and sell the products to the clients. In some of the MFIs, such as Grameen Koota, a test is administered to assess their understanding of this service before the same is offered to the clients. Interestingly, in Grameen Koota even the prospective clients are trained and then assessed to test their understanding and clarity on the products such as NPS in order to avoid mis-selling. Importance of payment of yearly instalments, the fact that instalments are being paid to MFI but pension would come from government, etc., are explained in detail.

BENEFITS AND PERFORMANCE EVALUATION

Most MFIs were hesitant to share the salary structure and other compensation packages. Based on the discussions with HR department and the field staff, it is observed that generally MFIs paid similar salaries to the field-level functionaries which was in line with the Minimum Wages Act. Only the incentives varied from MFI to MFI. MFIs offered other employee benefits such as the following.

- In all MFIs under study, employees were covered under statutory benefits such as Provident Fund (PF), Employee State Insurance (ESI), and Gratuity as well as Group Gratuity in some cases.
- Group Personnel Accident insurance policy was also a general feature in all MFIs.
- Insurance coverage, however, varied for different levels of staff and amongst MFIs.
- Generally employees not covered under ESI were covered under health insurance policies, except in Grameen Koota where the staff was covered under both ESI and health insurance.
- Personal loan, vehicle loan, education loan, emergency loan, etc., are some of the loan benefits given to staff. Vehicle loan was given to confirmed employees. Most of the field staff is encouraged to buy motorcycle for travelling to the field.
- In almost all MFIs, staff was given the benefits of earned leave, casual leave, sick leave, and maternity leave. In some cases, paternity leave up to 10 days was also being provided to male employees.
- Employees covered under the payment of Bonus Act were paid annual bonus as per the provisions of the Act. Employees not covered under the Bonus Act were given ex-gratia on an annual basis. Performance incentive benefit is a regular feature for field staff in all MFIs.
- Employee Stock Option Plan (ESOP) was another employee benefit noticed in some of the MFIs. While ESOP was given to senior management team, in Ujjivan it has been given to all the staff. Under this ESOP, all confirmed employees are given company's share on the basis of their level, number of years of service in the company, etc. In case of exiting, they lose the benefit. The employees interviewed were very happy about the scheme and it appears that the scheme does promote staff loyalty and retention to a great extent and in Ujjivan, the employees are really proud to be a part of such a caring and sharing organization. Ujjivan has also won the Great Place to Work Award and it is a great achievement not only for Ujjivan but also for the MFI industry.

According to MicroSave, MFIs are increasingly facing challenges with respect to managing expectations of staff with respect to compensation.

- During rapid growth phase, many MFIs could give fast-paced promotions and high performance incentives to their staff. When the industry moved into a maturity phase coupled with the margin cap of 12 per cent, there is a pressure on the sector to keep its operating expenses (including personnel expenses) low. In such a scenario, sustaining the pace of promotions and high variable pay is difficult. However, the expectations of staff are high due to historical growth/payouts and attractive salary packages offered by other sectors.
- The challenges of compensation at the middle management level are different. With product diversification (be it individual loans, housing loans, vehicle finance, pension), MFIs are hiring professionals from banks or other NBFCs. Even as this brings in new talent, it also causes comparisons (and thereby dissatisfaction) about compensation levels between old and new staff as professional staff comes at higher cost than the internal staff.

PERFORMANCE EVALUATION SYSTEMS

Performance evaluation system is in the evolution stage in most of the MFIs studied. It has been observed that performance appraisal process is undertaken on an annual basis in all the MFIs but in a few MFIs, employees are not clear about its relevance,

applicability, etc. In some cases annual increment is given uniformly to all employees, as they have found it difficult to rate the performance of staff properly and objectively. Some MFIs follow mid-term review after six months.

In the beginning of the year, though not all Key Result Areas (KRAs) are discussed in a structured manner, important targets are discussed and finalized with the appraises concerned. In relatively new organizations, performance is still assessed on the basis of targets achieved. During the mid-term review, performance during the six months period is discussed and feedback given for course correction, if any. At the end of the year, employee is appraised by her/his reporting officer and reviewed by the immediate superior of the reporting officer. On the basis of the final evaluation by the top management annual increment/annual incentive, etc., are decided. In two of the organizations studied, forced distribution is using Bell Curve to decide on the categorization of employees into grades and resultantly announcing increments.

In Janalakshmi, Balanced Scorecard has been used for performance appraisal for the last two years. Under this system, performance factors related to customer, financial aspects, internal business processes, and learning and growth are considered and KRAs are decided for each employee. In the Balanced Scorecard, 80 per cent weightage is given to KRAs and 20 per cent weightage is for managerial skills and soft skills.

The performance management system is also used for promotion, training need analysis, job rotation, etc., in many of the MFIs. The major key performance indicators based on which assessments are made for different levels of staff are as given in Table 7.1.

However, during stakeholder interviews it has been mentioned that in many MFIs, the focus of the performance management systems is on measuring

Table 7.1 The major key performance indicators based on which assessments are made for different levels of staff

Performance indicators	Field staff	Field supervisory staff (BM, AM, RM)	Management staff	Indicators used for salary increment/ promotion
No. of customers handled	✓	✓		Increment
No. of customers added	✓	✓		Increment
% of loan disbursed*	✓	✓		
% of recovery	✓	✓		Increment
No. of customer under non-financial products	✓	✓		Increment
No. of new customers under non-financial products	✓	✓		Increment
Error free documentation	✓	✓		Promotion
Error free MIS/daily reports	✓	✓		Promotion
Self audit score	✓	✓	✓	Promotion
Branch office/department audit score	✓	✓	✓	Promotion
Customer complaints and redressal	✓	✓	✓	Increment
Team building		✓	✓	Promotion
Hiring		✓	✓	Promotion
Training and development		✓	✓	Promotion
Statutory compliance		✓	✓	Promotion
Business growth		✓	✓	Promotion
Communication and behaviour with company staff and soft skills		✓	✓	Promotion
Conduct and behaviour with clients		✓	✓	Promotion
Polite and empathetic behaviour with clients		✓	✓	Promotion

Source: Study of HR Practices in Microfinance Industry by Rema Karat & K Jayachandran (Hexa Resource Axis India Pvt. Ltd.).
Note: * In one MFI, prior to 15th of a month to avoid bunching of disbursement.

the quantitative performance (PAR, loan outstanding, caseload, etc.) of the staff with little weightage for qualitative performance evaluation (such as customer service, client retention, people skills, etc.). Limited capabilities of staff, especially at the field level, also restrict the use of sophisticated tools such as 360 degree performance assessment in the sector. Due to growth pressures, sometimes staff with better business performance is promoted irrespective of their people skills and they are unable to manage teams or set good examples for client interface.

Performance incentives and lending standards

Achieving the growth and profitability while ensuring SP is a challenge. The staff generally likes to get maximum possible incentive. This can lead to indiscriminate client acquisition, lending or recovery thus exerting pressure on the clients.

An interesting feature observed in one MFI was availability of incentive for tapering disbursements during all weeks in a month instead of clubbing it to the end of month thus helping in fund management!

To avoid this, performance incentives have been designed by most of the MFIs by basing them on number of clients handled, number of new clients added, both of credit and other financial products. There is generally a cap on maximum incentive under all criteria. None of the MFIs visited had directly included recovery rate as the target, except in Janalakshmi where the role of CREC is primarily collection.

- In some MFIs, the incentives were part of cost to company (CTC) while in some incentives were over and above the salary. The incentives were available to all field staff and branch manager in all MFIs studied. Other staff in branch offices, such as cashier, data entry operator, was not included in incentive schemes. In some MFIs, they were also available to the regional level managers. Some of the major criteria based on which incentives were provided to field staff are elaborated as follows:
    - Number of new clients added (per client added)
    - Number of clients serviced (per active client)
    - MFIs having NPS/micro pension as products, provide incentive to staff for enrolling clients under the scheme.
    - Audit score/branch grading, if it was below the set standards, no incentives were paid
    - Adherence to systems such as documentation, checking loan utilization process, attendance of clients, etc., which are important factors to assess risk
    - Loan disbursement as a target was observed only in two of the MFIs studied
    - Though in majority of the MFIs only positive indicators were included under the incentive system, in three MFIs reduction in incentives were mentioned in case of non-achievement of collection target. In such cases, incentives were either reduced on prorate basis or slab basis. In one MFI, if an old group did not renew its membership, a token amount was cut from the incentive
    - Majority of the MFIs had put a cap on the incentives achievable to ensure that this would be the driving force for increasing the clients. In organizations such as Ujjivan after a certain level of achievement, the incentives were merged with the salary thus reducing pressure on achieving numbers

In case of branch managers, focus has been on team performance and incentives were primarily drawn on the basis of achievements by the field staff. Apart from the same, audit score has also been incorporated as an important element for finalizing the incentives in case of branch managers and area managers in case applicable.

This study finds that there are enough checks and balances to ensure that the provisions of the CoC (with specific reference to pressure on clients) and the performance incentive schemes for increasing business do not contravene each other. These include:

1. Generally, initial training given to the staff focuses on the CoC to be followed. The code served as the guiding principle for the staff while performing their job of dealing with the underserved people.
2. Product design and structuring in MFIs are done in such a way that there are limits fixed for clients depending on their eligibility. Loan amount eligibility increases for subsequent cycles of lending avoiding high debt levels in the hands of first-time customers and incentivizing better financial discipline.
3. Customer assessment is based on credit check through credit information bureaus (Highmark, Equifax, etc.). These are, apart from appraisals by field staff, for checking multiple loans and high indebtedness, though the intensity of this check varies from MFI to MFI. This reduces possibility of indiscriminate lending by field staff to ineligible clients.

4. In some of the MFIs, customer eligibility/borrowing limit/repayment capacity etc., are initially suggested by groups/centres.
5. In many of the MFIs, the loan sanctioning power is vested with staff at senior levels who are not covered under the incentive schemes.
6. Another check is that the parameters of incentives are not only limited to lending and recovery but also include audit score of branch office and in some cases individual employee audit.

Despite the above checks and balances pressure for achieving loan-related target and zero default is evident among the field staff.

> MFIs have put enough checks and balances to ensure that the provisions of the code of coduct (with specific reference to pressure on clients) and the performance incentive schemes for increasing business do not contravence each other.

Performance evaluation of CEO

During the discussion with the CEOs it was gathered that the performance evaluation of CEOs is done by the Board of Directors and included SP and responsible finance parameters. However, parameters against which they are assessed are not made available.

HR MANUAL

In large MFIs, HR manual and policies were in place and contained almost all the important policy elements; while in small MFIs, HR policies were in place covering fewer aspects. General contents of most HR manuals are given in Table 7.2.

Table 7.2 General contents of most HR manuals

Contents of HR manual	
Service Conditions	Promotion Policy
Transfer Policy	Other Allowances
Wage Structure	Travel Policy
Leave Policy	Safety Policy
Incentive Policy	Grievance Handling Procedure
Gender-Related Policy	Performance Management System
Training Policy and Procedure	Freedom of Assembly
Placement Policy	Non-Discrimination

Source: Study of HR Practices in Microfinance Industry by Rema Karat & K Jayachandran (Hexa Resource Axis India Pvt. Ltd.).

In many MFIs, gender-related policies and safety policies are not in place. Although most of the MFIs had grievance cells for the clients, very few had specific system for handling grievance of staff. In smaller MFIs, grievance handling procedure is limited to circulating the email ids and telephone numbers of the HR department.

In some MFIs, HR manual is available at the branch office level for reference of the staff while in a few, the policies though available, the staff is not aware of it. In a few MFIs, it is not available at all at the branch office level and in some cases important features of the HR manual, such as leaves, PF, gratuity, medical benefit, etc., are circulated in local language as a separate handout.

Generally, minimum salaries and wages are in line with the legal requirements. However, the implementation system is different in different organizations. For instance, in none of the MFIs studied, a policy for dealing with extra working hours has been observed though staff invariably worked long hours on substantial number of days.

Box 7.7 Service providers in HR for MFIs are inadequate in number

Unlike the corporate sector, strategic human capital management (HCM) in the microfinance sector is quite new and not well understood. MFIs have little financial resources to spend on strengthening their HCM practices and it might take a few years before this stabilizes. Few social investors extend grants and technical assistance to avail HCM services; however, this is limited to a few MFIs.

There are a number of HR consulting firms who cater to the microfinance industry; however, only a few of them offer customized services for this sector. Most of the consultancies offer hiring solutions only. There are very few HCM service providers who exclusively cater to the microfinance sector.

Source: Faisal Wahedi, Grameen Foundation, Landscape Analysis of Demand and Supply of Human Capital Management Services in the Indian Microfinance Sector, 2012.

WORKING CONDITIONS OF STAFF AT BRANCH OFFICE LEVEL

Reporting time for field staff varies across MFIs but is around 0630 to 0730 hours and the working hours extend to 1900 hours and beyond. In MFIs, where a separate data entry operator is not posted

and where the computer systems are limited, field staff is required to work very late which can extend up to 2200 hours. The staff gets a break in between for two hours for lunch especially in MFIs where the field staff stays in branch offices.

Many MFIs place their field officers around 100 kilometres away from their villages and hence residential stay in the branch office is provided for. In two urban-based MFIs, the staff is posted to nearby areas and is not required to stay at the branch office. However, in urban branch offices of two other MFIs, staying in branch office is compulsory and the staff is uncomfortable with this compulsion.

An additional room attached to the branch office is converted as a living quarters and four to five staff members share the room. Facilities such as cook, cooktop, and cooking utensils, etc., are provided by the institution. The consumables and general provisions are the responsibilities of the staffs. Generally the staff is happy with MFIs that provided accommodation on account of the difficulty in getting accommodation in the rural areas.

During the study, it was observed that the facilities provided were inadequate as four to five members are living together and sharing one room and other facilities. Also, the accommodation is generally maintained poorly. While such a residential accommodation is supportive to the needy staff, the working hours get automatically extended. The work-life balance is adversely affected since there is no separation of work and other pursuits.

At the branch office level, some MFIs preferred to have good premises for their branch offices and are maintained well. However, in some MFIs, branch offices are in crowded places with very little ventilation and poor drinking water facility, etc. Toilets are common for all staff and customers and are poorly maintained. Separate toilets are not available for women.

The job of the staff requires them to travel 15 to 40 kilometres in the field every day. Some MFIs are recruiting staffs having motorcycles while some provide vehicle loans on confirmation. In MFIs operating in Eastern India, the staff is provided with cycles for daily travel up to 15–20 kilometres. Where motorcycles are provided, the conveyance reimbursement is given as lump sum or on per kilometre basis. As per the staff, the lump sum reimbursement is often inadequate to meet fuel and maintenance expenses.

Security risk is high for field staff since they collect and carry cash regularly to the branch office and the bank. Insurance policy is taken by MFIs to cover employees and the cash thus minimizing the financial loss in cash handling. Many MFIs have advised/trained staff to take care of their personal safety rather than safeguarding cash in case of any untoward incidents of physical attack, looting, etc. In one of the MFIs, 11 cases of looting have been reported from one state and more checks and balances have been put in place.

- Cash collected from these areas are deposited twice in a day in the branch office/bank to reduce the amount of cash in hand and, thereby, ensuring reduction of risk to its staff and cash.
- Two of the field staff are sent in the same route and to same village if possible so that they safeguard each other.
- Maintain good rapport with clients as they know who all are involved in such lootings and can help warn the staff/help in recovery.

Box 7.8 Snack allowance for employees by Equitas

One of the best practices followed by Equitas is a 'Snack Allowance'. Since most field staff begin the day early they miss breakfast and get time to have lunch only late in the afternoon. Equitas introduced a snack allowance of ₹30, apart from their other allowances, with which they could buy some snacks and water. Given the tendency of most people to save up on that money, Equitas also arranged for surprise audits of its field staff to ensure they are making use of this allowance.

Source: SHRM India Case Study of Great Places to Work created in cooperation with Great Place to Work® Institute, 2012.

MECHANISM FOR STAFF COMPLAINT AND REDRESSAL

In small MFIs, staff is aware that they can raise a complaint to branch manager/regional manager/zonal manager. The arrangement is more informal and unstructured. The staff mostly preferred not to raise a formal complaint. Although staff complaints are heard, many MFIs are yet to establish a system and procedure for staff complaint redressal.

In the case of large MFIs, formal system of complaint redressal mechanism is in place. In some MFIs (e.g. Equitas), a whistleblower policy and mechanism has been introduced. Telephone numbers and email id of the HR department are circulated to staff through their HR manual and related handouts. In Equitas, a Monthly Hotline, an email

facility, is operational where employees can send their concerns and issues at work to the National Business Head, who is committed to resolving them within 48 hours. If the resolution is likely to take longer, the employee is kept informed. It is mandatory for all employees to respond to an email from the National Business Head even if they do not have any concerns to raise. This provides a channel to communicate any issues or concerns and have them addressed.

Box 7.9 CASHPOR's staff grievance redressal system

CASHPOR has a grievance redressal system which is common for both clients and staff. The interactive voice response (IVR)-based system with the toll-free number enables recording of all the calls received. CASHPOR is transparent in sharing information on staff grievance redressal. In the annual report, details of number of clients received during the year, the nature of grievances, and how quickly the grievances were resolved are shared.

Source: Annual report, 2013, Cashpor.

Regular staff meetings are conducted for hearing and redressing the complaints. Senior management is advised to meet and interact with the staff regularly. During the audit process, issues related to staff complaint are examined and reported to the top management/board. In Ujjivan, top management/board directly handled the Field Staff Representative Interaction Programme (FSRIP) where one representative of the branch office collected the complaints/suggestions of the staff and represented the same in a monthly meeting held by the top management/board. At the board level, HR committees also monitored the staff complaints and its disposal by the respective functionaries.

POLICY ON RETRENCHMENT AND LAY OFF

MFIs as a growing industry did not face the situation of retrenchment/lay off. However, post the Andhra crisis, some of the MFIs had resorted to reduction of staff through different methods. Underestimating the gravity of the situation, in the initial six months, MFIs had refrained from retrenching staff. Later, the decisions were taken to not only reduce staff but also consolidate and merge some of their branch offices. Staff to be retrenched was identified on the basis of their performance-cum-merit rating. They were given two months' notice pay instead of one month pay stipulated in the conditions of service for termination. In a few cases, staff was helped to identify new jobs. The retrenchment of staff in the aftermath of the AP crisis was across all levels. Number wise it was more at the field-staff level.

Some examples of good HR practices in institutions who weathered the storm. Even in the time of the crisis, Equitas had a no retrenchment policy which was communicated openly to all the employees. Two additional lines of business in the form of vehicle loans and home loans were started to improve the situation without affecting the livelihood of the employees. Institutions who had established just during the period, such as Chaitanya, managed without lay offs.

Survey on happiest day

While conducting the study, field staffs were asked as to what was their happiest moment in the organization and some of the responses were:

First day of the new job
The day they got first salsry
The day they got promotion
The day they met CEO
The day they ate with the CEO
The day CEO enquired about their wellness
The day COO visited him in the hospital after an accident
The day all the went for picnic together
The day it was felt that their clients lifestyle has improved
The day s/he represented the branch and visited HO

It is found that field staffs of MFIs are generally undergraduates from poor families. Their esteem needs are different from other field level staff in corporate entities. Apart from salary and incentives on time, the greatest motivator is the need for recognition and for being treated wuth importance. Any program revolving around this need was spoken about and highlighted by them again and again during interaction.

STAFF MOTIVATION

It is observed that the salary and incentives are great motivators for the field staff more so in initial stages. Since most of the staff is from the lower

strata of society, additional financial support as detailed below is proving to be a motivator.

- Provision of personal loans such as vehicle loan, education loan, exigency loans to the employees. Many of the MFIs are providing these loans at concessional rates. Some of the MFIs have set certain multiples of salary as a cap for these loans.
- Though most of the field staff has been covered under ESI, some of the MFIs have provided additional health insurance cover. This is very beneficial in case of staff posted to rural areas as in these areas invariably ESI facilities are not available.

Though the financial support is crucial for the employees at lower levels, it stops being a motivator after a point of time and then the need to put other systems in place to keep them motivated arises. In MFIs keeping the field staff motivated has been a challenge and many innovative schemes have been formulated to keep them engaged. Some such initiatives are elaborated below:

- Many of the MFIs have instituted rewards and recognition programmes which are motivating the staff. The Best Field Officer, Best Branch Office, Best Branch Manager, Best Cashier, etc., are some of the awards instituted by the MFIs. The system in most of the MFIs is very transparent and employees are able to predict whether their branch office would come under the award category next time. The awardees are given either cash prizes or given recognition in an award function at regional office/head office, and get an opportunity to interact with the senior management.
- In a few MFIs, such as Janalakshmi and Fusion, newsletters are being published periodically which contain the photographs of the awardees and a small write up on their achievements.
- In some MFIs such as Ujjivan, Equitas part of their profit has been allocated to Social Development Fund for all mature branch offices to take up some development projects in the area of their operations. The whole branch office team gets involved in identification of the right cause for support and feels pride when it fructifies.
- In Janalakshmi, a contribution of ₹300 is made on behalf of all employees for their welfare. The amount is required to be spent by the branch office team together by organizing group events involving all the staff such as going for a picnic. Many of the staff members enjoy and look forward to such events which are a change from the routine.
- Even annual business meets at head office level or regional office level have been highlighted by some employees as motivating for these are opportunities for them to move out of their routine and meet the higher ups in their organization.

INITIATIVES TO DEVELOP STAFF

Apart from these motivators, MFIs are also taking initiatives to develop their staff. It is found that MFIs having structured induction training programme are in many ways helping the staff to develop themselves. Many of the field staff find that induction training helped them gain confidence to face a group, improved their communication skills, and has given them courage to face any public situation.

Further, majority of the MFIs are encouraging their field staff to become graduates. Some of the MFIs such as Janalakshmi are tying up with universities to provide their staff with graduate degrees. Incentives such as education loan and reimbursement of the loan if they continue with the organization for a certain stipulated number of years, cash prizes for completion of their degree or any certification course are being given to them. Equitas provides educational allowances for higher education which is almost 100 per cent depending on the performance of the employee in the course that has been taken up.[9]

Box 7.10 Janalakshmi targets for staff welfare as well

Naukri, Degree aur Makan is the slogan Janalakshmi gives to its field staff. They give jobs to undergraduates, help them become graduates by supporting through education loan, and if they grow with company follow it up with a loan for a house.

Source: Study of HR Practices in Microfinance Industry.

In bigger MFIs, management staff that is expected to grow and be strategically placed is being deputed for programmes conducted by renowned universities in India as well as to institutions such as Harvard abroad.

PROMOTION

Almost all the MFIs studied had the system of Internal Job Posting (IJP) for vacant positions in the organization. The employees who have sufficient experience and qualifications for the job could apply for the same and if found suitable could get promoted. The operational positions up to regional manager/zonal manager levels are filled through internal promotions.

MFIs find that the critical position requiring focused development in order to balance responsibility to staff and customers is the area manager

who has branch managers reporting to her/him. The area manager needs to have keen ears and listening skills to hear and understand the issues the loan officers and branch managers face. Apart from the branch office staff, area managers are the ones who are in touch with the clients though on a selective basis. Working to help middle management, develop more empathy to better understand staff and client-level issues can go a long way in responsible financing.

During the study, it was observed that promotion has been a great motivator for the field staff. Though many of them had completed only up to 12th standard, the fact that they are working in an organized sector itself is a motivator. When they get elevated to higher positions they feel the pride.

Box 7.11 Common causes of dissatisfaction among staff based on staff satisfaction survey

- **Compensation levels** are one of the least scored areas in almost all the staff satisfaction surveys. This is despite the compensation levels of the organizations (which participated in the assessments) being mostly market oriented and competitive. One of the possible reasons for such dissatisfaction can be the comparison made by the staff with other sectors and with the workload. Such dissatisfaction is more at the field officers' level than at the head office level.
- After compensation, staffs were mostly dissatisfied with the **promotions and performance evaluation systems**. The dissatisfaction about these issues comes mainly from the perception that those who are promoted do not deserve promotions and that the performance management system is not fair.
- In most of the organizations, staff also felt that they **cannot openly disagree on work-related matters with the supervisors** in the meetings.
- **Lack of work-life balance** has emerged in a few institutions where the staff felt that there is increased work pressure—especially at the time of delinquency.
- In some of the organizations, the staff gave low scores for the organizations on **medical benefits**. While most of the organizations were providing some form of the medical assistance (ESI or meeting the expenses of the hospital care in case of accidents), awareness levels about how to avail these benefits were low among the employees.

Source: Micro Save.[10]

HR PRACTICES TO IMPROVE RESPONSIBLE FINANCE

CoC makes it mandatory for the MFIs to be transparent in pricing, interest rate charged, number of instalments, details of other charges such as processing fee, insurance premium, place and methods of recovery, behaviour of the staff towards the clients, etc.

MFIs are, on the one hand, driven by social responsibility towards their customers, responsibility to the staff and, on the other, their commitment of profitability to their investors. This balancing act is a challenge that is faced by the management team every single day. It is observed that consistent recovery is another balancing act. Though a small write-off of loans may seem trivial, the signal that this may trigger to other JLG members could result in mass scale overdues, undermine the morale of staff, and affect profitability.

This study indicates that most systems and procedures necessary to safeguard the interest of the clients are in place and the MFIs have a level playing yet a competitive field for their business. In order to align to the regulatory policies, changes have been made by MFIs to the HR systems.

- Almost all the MFIs studied have a system of Centre Group Training (CGT) and Group Recognition Test (GRT) wherein the prospective customers are explained about the principles of MFI, JLG, and need for financial discipline. Products and their details are being explained and their understanding counterchecked by the supervisory staff during the GRTs. Product details are also displayed on the notice board. Passbook is issued to the clients and the passbook contains all the details of the loan taken by the borrower. This also has the telephone number to raise a complaint in case of any discrepancies which the borrower may come across. This is also highlighted during group meetings.
- MFIs have become client centric and the organizational structure expanded and new departments added in larger MFIs to give them the right focus. Inclusions of departments such as Social Performance Department or Service Quality Department in some of the MFIs are some of the examples.
- Simultaneously the roles of different levels as well as departments to ensure transparent and ethical systems are put in place to serve the clients. For

instance, in Ujjivan, the systems are such that job role of functionaries in operations department at each level demands that they visit the centres/clients at least a certain number of times. Apart from the branch manager, who has to meet 100 per cent of the clients, the unit head, the area manager, the COO also have to meet a certain percentage of the clients. Even the CEO has set a target for himself and visits clients every quarter. CRR has been placed in branch offices, who are totally client focused and attend to their grievances, conduct exit interviews (in case the clients decide to drop out), etc.

- In almost all the MFIs, the internal audit staff was playing an important role in understanding whether the field officers were adopting client-centric process and suggesting any changes required as per the regulation. They were required to visit a sample number of centres/clients and check on the quality of delivery at the client level. In all the MFIs visited by the study team, the audit department head was reporting to the board directly or to a director who was not looking after operations. However, in some of the small MFIs this system is weak since they do not have resources to hire additional staff as per Ananya.[11]
- Training plays an important role in orienting the staff towards responsible behaviour with their clients. A direct correlation was seen between the training period, the contents of the training programmes imparted, and the level of awareness at the field level. The longer the training period, with stress on the CoC and other important aspects to be taken care of at the client level, the better the confidence and awareness level at the field. The frequency of training and reiteration of responsible practices improved field conduct of staff. In organizations such as Ujjivan and Samhita considerable time and effort were spent during induction training and as a result the staff is well versed with the reasons for the CoC and has internalized the same. In many MFIs, Saturday meetings at the branch office level are used for reiterating the importance of following the CoC as well as other responsible finance practices. It was observed that induction training at the entry level alone was insufficient and periodic reiteration is required for internalization of the same. Further, in organizations where the methodology for reiteration and encouragement for actually practicing it have been integrated into the HR processes and into operational systems, the internalization of customer protection practices is high.

Box 7.12 Attrition of staff: A major challenge

Attrition is the major challenge faced by our MFI partners. MFIs provide space for staff to save expenses and to save commutation time. However, MFIs should ensure that work-life balance is not disturbed.

Incentives moved on from target driven and caps have been placed at certain levels. Twenty five new clients are acceptable but not 100. Caps are in place for new customer acquisition for rewards. Recovery percentage is not there anymore. Incentives are more towards client service.

Most have moved on to fortnightly and hope that credit officers can carry a case load of 650 borrowers. Few MFIs are moving towards 1,000 clients. That is the cause of worry. Even with 600 clients, customer connect is an issue. We would like them to cap at 600.

Training is an area where we would like to improve—initial 10 to 15 days' training is done by MFIs. What next? How to improve performance consistently? Small part of the training is on communication and soft skills. This emphasis has to improve.

Source: Assistant Vice President, Whole Sale Banking, Private Sector Bank.

- Some of the aspects related to responsible finance have found their way to performance appraisal systems. Factors such as giving importance to 'recovery process' and not to 'recovery percentage' signals a shift in emphasis in performance parameters. Under 'recovery process' the stress is on quality of the customer which is assessed based on attendance of the client, discipline in centre meetings, etc. In many MFIs, the performance appraisals are connected to the audit score of that particular branch office. However, here PAR is an important factor assessed, and has a high degree of weightage which is in a way for assessing performance based on recovery. In Janalakshmi, where collection has been assigned to one field officer, recovery is the major appraisal factor. The person who acquired the client is also assessed on the recovery though with lower weightage.

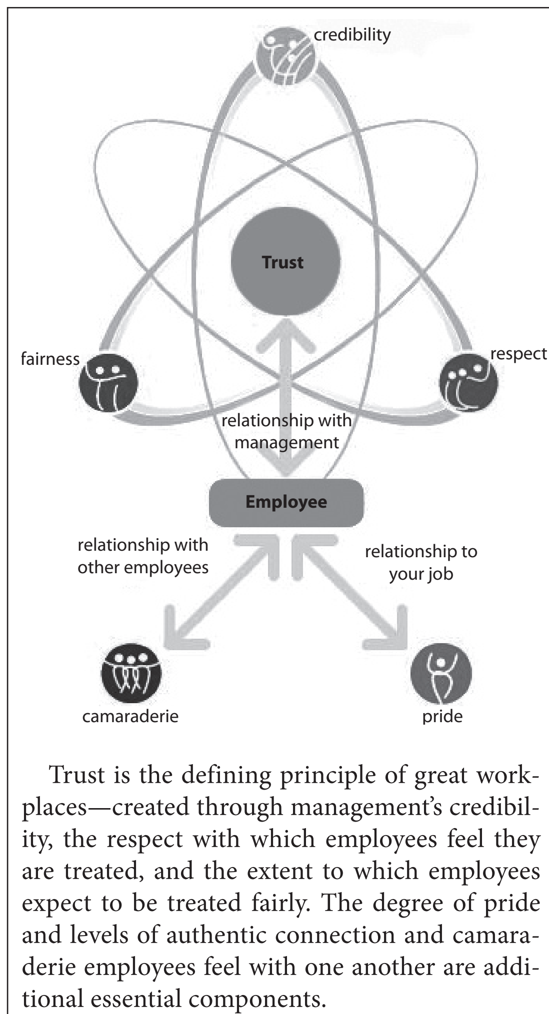
- Recovery management is a very important aspect for the sustainability of the MFIs. Even a single wrong message to defaulting member can trigger a situation of subsequent cascading defaults. Generally, the JLG concept gets activated when a member defaults and the group takes the responsibility of repayment on behalf of its member. However, given the economic condition of the group members, they are unable to afford this repayment for long. Reports by credit bureaus (Highmark/Equifax) have come very handy in case of willful defaulters as it has become easy to educate them on how a default will result in their getting debarred from any loan in the future. This motivates the defaulters to remain sincere to their loan commitments and repay the loans.
- Most of the field staff interviewed felt that the genuineness of the reasons for default can be assessed with the help of other JLG members. In case of serious sickness of the member or one of her/his family members, the field officers pay a social visit to the house to ascertain the facts. In very special cases, the loan repayment instalments are rescheduled. In all the MFIs visited, insurance cover is available to the client and their spouse. Hence, in the unfortunate event of death of a client or spouse the loan gets repaid through the insurance claim and the excess of insurance amount is paid back to the family. In some MFIs, the interest on the loan is also written off as a goodwill gesture.
- The fact that majority of the staff is from similar strata of the society is not an accidental occurrence. MFIs consciously recruit staff from local areas for field work so that they are able to communicate effectively with customers and understand the nuances of their responses. Local staff is more effective in assessing the genuineness of the domestic situation of customers to a great extent. However, if they the default is found to be willful, the employees felt the need to be assertive with the member. In the event they were unable to handle the situation, their branch manager arrived at the scene and in rare cases, the area manager also joined them. The arrival of a senior officer from the organization puts a moral pressure on the client to repay. The approach generally taken was that of assertiveness sometimes turning aggressive to ensure the clients do not violate basic financial discipline.
- Another aspect that underwent a change in MFIs is the incentive system. All the MFIs studied have incentive systems in place but the incentives varied across MFIs. While some MFIs had set the incentives on number of new clients acquired and for maintenance of the existing client, they also restricted the maximum members that can be inducted to prevent indiscriminate client acquisition. However, in some organizations the recovery aspect has been woven into the system, like the use of audit score for the incentive where recovery percentage is one of the criteria.
- One positive aspect observed was that all the clients are being given the contact numbers of the branch managers, head office, the toll-free number for grievance cell (if available). In Karnataka, AKMI is playing an important role and smaller MFIs are using the toll-free number set up by AKMI till the time they set up their own numbers. As per the feedback received, the major complaints are regarding the need for higher loans, non-sanction of loans (which is generally due to non-clearance of credit bureau rating), the field officer coming late for the meeting, etc.

To summarize, the client education effort being taken up during the initial group training and reiterated during subsequent meetings helps in bringing awareness amongst them regarding the need for financial discipline. The use of credit referencing and other systems have brought in credit discipline of not borrowing from more than two MFIs. This results in easier handling of clients for the field staff. A balance of staff education and the client education is the key to 'Responsible Finance'. It is difficult to ascertain the fine point beyond which the pressure on the clients for recovery turns harmful rather than motivating. It is at this point that the quality of staff in terms of training and attitude plays an important role and the value system and organizational culture form their guiding principles.

Box 7.13 What employees look for in a workplace

According to Great Place to Work, from the employee's perspective, a great workplace is one where they:

- TRUST the people they work for
- Have PRIDE in what they do
- ENJOY the people they work with



Trust is the defining principle of great workplaces—created through management's credibility, the respect with which employees feel they are treated, and the extent to which employees expect to be treated fairly. The degree of pride and levels of authentic connection and camaraderie employees feel with one another are additional essential components.

Source: Website of Great Place to Work—India.

To conclude, the impression gained during the study is that HR practices in MFIs have come a long way. Apart from stressing efficiency and productivity, HR processes from recruitment to incentives focus on various aspects of customer protection, responsible finance, and SP. Training integrates conduct in the field as much as business and operational factors. The focus on customers comfort may have increased operating costs and marginally weakened the tight discipline maintained on loan recoveries, but clearly increased customer confidence in the MFIs. There is clarity among the MFIs that the clients handled by them are unique and the competencies and skills required by the staff to handle them are also unique. The crisis arising from AP has sent strong signals across the sector with telling effect on how staff is recruited, trained, and rewarded.

The HR practices need to be balanced taking into account the comfort of the staff as well. The culture and values of the organization largely drive the balancing of the staff and client interests. For some of the institutions, their primary stakeholders are clients but there has to be a balance and the institutions need to have systems to understand and address staff concerns. Senior management should have personal touch with field staff. The margin cap and interest cap are forcing institutions to be efficient and one of the easiest ways is to increase the number of clients handled by a field staff. The workload of staff and the optimum clients to staff ratio is a social metric that has to be monitored since larger the client base, the less time the staff gets to interact with the clients meaningfully.

While customers enjoy improved relationship with MFIs the staff themselves find that their working conditions are yet to improve. Over time MFIs may need to address issues relating to long working hours, sub-optimal working and living conditions, and push back from customers on account of the many grievances, complaint handling systems, and whistleblower policies. MFIs should ensure HR policies achieve a balance between institutional interests, customer interests, and employee interests.

An industry code of HR might induce more professionals to enter the industry. Even small MFIs need to have more professionals to manage operations. MFIs prefer to have women staff but need to have enabling policies and processes to attract and retain them. Specialized courses at diploma/degree levels might prepare university students to enter MFIs with a significant level of knowledge and skills. The industry has to work with academic institutions on the right type of courses and practical experience that might prepare students for microfinance sector employment. Training and development function is still regarded as a cost rather than an operational necessity. This has to change. Staff feedback mechanisms and staff grievance redressal systems will require focused attention of MFIs.

Compensation and benefits system in many of the MFIs is not such that it can attract the right talent and professionals especially since MFIs have to compete with other industries. At the field-staff level, the effort is to match the minimum wage level rather than making it attractive. Larger MFIs in the industry are benchmarking themselves with HR systems and practices followed in other industries. This should set the new standards for others to follow.

Since smaller MFIs find it difficult to meet the cost of professionalization of HR systems and practices, development organizations/funding agencies, such as SIDBI, can think of creating a pool of talent/service which could be shared amongst the MFIs needing such support. Expenses/cost of hiring experts could also be subsidized or fully funded as per

norms to be prescribed for the purpose. This was also suggested by one of the investors interviewed during this study.

Treating employees in the same caring and transparent manner that the organization expects clients to be treated will go a long way to improve the staff commitment to the institution and reinforce the customer values the institution stands for.

SUGGESTED READINGS

Women's World banking, 2007, Building Human Resources Capacity: Developing Competencies for Microfinance Institutions, WWB, New York

Way Forward: Future of Financial Services for the Poor, http://www.microsave.net/files/pdf/Future_of_Microfinance_by_Graham_Wright.pdf

Capacity Building – Needs and Challenges in India, http://www.microsave.net/files/pdf/IFN_11_Capacity_Building_Needs_and_Challenges_in_India.pdf

Being Strategic about Human Resource Management, http://www.microsave.net/files/pdf/BN_75_Being_Strategic_about_HR.pdf

Recruiting and Retaining a Large Workforce—Lessons from the BPO Sector http://www.microsave.net/files/pdf/BN_76_Recruiting_and_Retaining_A_Large_Workforc e_Lessons_from_the_BPO_Sector.pdf **IFc, Grameen capital, Micro save**

ANNEX 7.1
Basic data as on 31 March 2013 for MFIs studied

S. No.	Name of MFI	Legal status	No. of branch offices	No. of active borrowers	No. of staff	Of which field officers	% of female staff	Borrowers per loan officer
1	Arohan Financial Servics Pvt. Ltd	NBFC	67	113,665	511	349	4.11	326
2	Chaitanya India Fin Credit Ltd*	NBFC	24	30,359	163	88	10.00	186
3	Fusion Microfinance Pvt. Ltd*	NBFC	20	36,996	123	63	12.2	301
4	Grameen Koota (GFSPL)	NBFC	170	346,519	1,189	800	4.21	291
5	Janalakshmi ((JFS)	NBFC	91	695,974	2,005		12.57	347
6	Sahayog Microfinance Ltd*	NBFC	32	27,367	185	142		193
7	Saija Finance Pvt. Ltd	NBFC	7	30,489	120	77	10.0	254
8	Samhita Microfinance (SCDS)	Sec 25	44	45,552	200	108	16	422
9	Satin Creditcare Network Ltd (SCNL)	NBFC	161	485,033	1,437	1,007	4.66	338
10	Ujjivan Financial Services Pvt. Ltd	NBFC	301	1,006,052	3,656	1,934	21.72	275
11	Village Financial Services Pvt. Ltd (VFS)	NBFC	101	165,479	743	407	6.46	223

Source: Data on Sahayog as collected during discussion. Rest from MIX Market.
Notes: * As collected during discussion with MFI.

ANNEX 7.2
MFI—compensation, benefit policies, and HR trends benchmarking study 2012

The study was carried out by Towers Watson, international consultants, among 27 Indian MFIs especially MFIN partners in 2012.

KEY OBSERVATIONS

Benefit policies

1. Seventy two per cent of the MFIs provided health care plans to their employees. Main reasons cited were to improve health and productivity apart from improving retention levels.
2. Sixty per cent of the organizations provide loans to their employees and 93 per cent of them lend out of their internal funds.
3. Sixty eight per cent of MFIs provide life/disability cover to their employees.
4. Ninety two per cent of the MFIs have awards and recognition programmes.
5. Thirty two per cent of the MFIs provide the benefit of employee education across all levels to enhance professional prospects.

HR trends

1. The industry analysis indicated 35 per cent average attrition. Attrition remains high at the middle, supervisory, and clerical levels of management. Family reasons, pay, growth, and career opportunities are the top reasons cited by the employees while leaving an organization. Seventy six per cent of the MFIs are facing major attrition and retention challenges at the clerical/general staff level. Fifty two per cent of the MFIs are facing major attrition and retention challenges at the supervisory level of management.
2. The average projected salary increase amongst the MFIs is 11 per cent. The trend of review of the timing of salary increase from 2011 to 2012 remains consistent with the maximum number of organizations conducting the salary review once a year, typical month being April. Fifty two per cent of the MFIs calculate the salary increase on CTC.
3. Interestingly, 44 per cent of the MFIs have indicated that they are losing talent to other industries. Many MFIs indicated movement of employees to NBFCs as well as consumer industry.
4. Sixty eight per cent of the MFIs are adopting HR Cost Control Measures. The most prevalent measures in 2012 for controlling the cost are

   (a) Hiring freeze
   (b) Alternate low-cost recruitment channels—for example, employee referral programmes, online portals such as Naukri.com
   (c) Cutting down on training budgets

Some roadblocks faced by the study team

Many MFIs were extremely apprehensive in sharing compensation information for executive level roles.

During the course of the study, it was found that the number of roles being benchmarked were not exhaustive enough to capture the broad roles and levels of the industry. Although we did consequently add the additional roles into the benchmarking exercise, but it led to a lot of back and forth with participating MFIs on recapturing details of roles additionally included (which may not have been included during the previous job matching sessions).

Majority of the larger-sized MFIs present across the industry did not participate in the study.

Source: Towers Watson. 2013. 'MFI Compensation, Benefit Policies and HR Trends Benchmarking Study 2012', Executive Summary.

NOTES AND REFERENCES

1. Gonzalez. 2010. Microfinance Synergies and Tradeoffs: Social versus Financial Performance Outcomes in 2008, MIX Data Brief No. 7.
2. Towers Perrin Global Workforce Study 2007–08, Global Report.
3. Ross Peg. 2011. 'Why Invest in People? Leveraging Talent to Reach Strategic Objectives', Grameen Foundation, USA.

4. Towers Watson. 2013. 'MFI Compensation, Benefit Policies and HR Trends Benchmarking Study 2012', Executive Summary.
5. Faisal Wahedi. 2012. 'Landscape Study of Demand and Supply of Human Capital Management Services in the Indian Microfinance Sector', Grameen Foundation.
6. Ujjivan has made large investments to implement training and cover salaries of customer care representatives. Ujjivan obtained grants from IFC, Unitus, Lok Foundation, Michael & Susan Dell Foundation, and Citi Foundation, but believes that the economic value of the interventions will be recovered over a four-to-five-year timeframe through higher customer retention rates. 'Deutsche Bank Customer Service Highlights Exploring Customer Service Excellence around the World of Microfinance'.
7. This is evident from the fact that many of the senior staff have worked together/or served the same organization earlier in their career.
8. The methodologies adopted for arriving at attrition rate by them were not uniform and comparable; in some MFIs, trainee field officers are not included while calculating attrition, while in a few others all staff (whether trainee or confirmed) are included.
9. SHRM India Case Study of Great Places to Work created in cooperation with Great Place To Work® Institute, 2012.
10. MicroSave has incorporated a staff satisfaction survey/staff climate survey as part of its SPM assessments. Observations made are from various SPM assessments (including staff satisfaction surveys) that MicroSave teams have conducted in the past three years. These assessments were conducted for a range of MFIs—small, medium, and large MFIs.
11. Ananya Finance for inclusive growth's observations from the technical support they are providing to their partners.

Unique institutions

8
Chapter

The financial services space for vulnerable people might seem restricted for bringing in new institutional models that are very different. The customers being vulnerable and very small the motivation to design and establish a different and customized model of institutions with suitable products and processes is low. However, in such a restricted environment too there are players that seek to be different and make meaning for the customer. Some of these organizations are reviewed here as they contribute to improved customer comfort and better quality of service.

The four entities that are taken up for discussion in this chapter are in different niches of the financial sector of the vulnerable. One is a high street bank in the private sector, another is a full service financial institution that does not want to remain as NBFC-MFI on account of wanting to provide all required products and services to all customers in its area of operation. There are two financial institutions that focus on providing loans to SHGs to fill a void in bank lending—one of these is a company promoted by an Apex Development Bank and the other is a cooperative society promoted by a state government to deal with withdrawal of MFIs from the market. While their differences are obvious, the common theme running through all the institutions' business objectives is that of 'focus on the customer'. The focus on the customer has led to unique designs in product or process design and delivery. The sensitivity to the customer needs is reflected to their approach to pricing, speed of service, and comfort to the customer.

IndusInd Bank interprets financial inclusion as just not savings but also provision of credit to vulnerable people. In doing so, it chooses partners that are close to customers who can provide the bank with competencies to reach the vulnerable sections. In this partnership, the bank works with the customers on areas where it has higher level of competence, while the MFI partner is used for its core strengths. The result is a quality of service that complies with regulatory requirements and satisfies the customers while at the same time helps the bank to extend its outreach to excluded people. The involvement of bank's staff in the last mile in doorstep banking with small customers is a significant initiative. An important feature of the Business Correspondent arrangement of the bank is that it lets the MFI continue to acquire customers without major changes in its processes; but only introduces rigour to KYC and monitoring. This ensures that MFI staff is best used for their skills and customers are not hassled with having to understand a new way of dealing with a financing agency. The ramp up of business to more than ₹2 billion in disbursements over eight partners and the goal of reducing the interest on loans between 21 to 24 per cent augur well for the customers.

Stree Nidhi came up in the aftermath of microfinance crisis in AP. The closure of MFI operations that served about 7 million customers in the state left a void that was not likely to be filled by others. The state government acted to set up a state-level apex financial cooperative—Stree Nidhi—to cater to credit needs of SHGs. The issues before the new institutions were the huge number of SHGs and their higher tier organizations in the state and the large-sized loan exposure of banks to these groups. The challenge was to ensure that credit needs of groups are met with low operating costs, high efficiency, and low defaults. Stree Nidhi in its short existence so far has managed its business admirably well. It has covered more than half a million customers with loans outstanding at ₹5.5 billion; with a PAR of 0.12 per cent while maintaining a declining interest cost of 14 per cent per year to the customer. It is true

that its operational costs are low as it rides on the architecture of the Indira Kranti Patham (IKP)'s tiered structure of SHGs and their organizations, but it has kept its margins thin and still has posted impressive profits. Its mobile-based MIS and fast sanction processes seems effective. It has to work on ensuring that the VOs and SHGs get viable margins in acting as its agents for securing long-term sustainability of the model.

Kshetriya Grameen Financial Services (KGFS) has cut a path for itself in a landscape that is by and large uncharted. It has positioned itself as a full service financial institution providing access to a variety of financial products and services either on account or as an agent. Its insistence on providing only regulated products and services goes a long way in protecting customer interests. The customer-centric approach through the wealth management concept combines the best practice of financial literacy, financial services advisory, and provision of suitable products to the customer. For the customer households, KGFS offers the 'best in class' suite of products and services compared to competitors. The long-term engagement with households and universal coverage of all households in its area of operation makes its business model sustainable and provides comfort to customers of having to deal with just one institution to meet all their service needs. KGFS has invested in creating five local institutions in different parts of the country rather than one large institution so that local needs are better met with flexible and appropriate products and services. The integration of products at households—savings complementing risk mitigation, insurance stabilizing the household against shocks, credit supporting enterprise based on the equity of savings—has shown households the power of using products in combination to manage their livelihoods. KGFS focuses on avoidance of excessive debt, responsible pricing, appropriate recovery processes, transparency, and ensuring privacy of client data.

NABFINS, promoted by NABARD to provide models of lending to vulnerable people, has been successful in financing SHGs through a network of NGOs as agent partners. The familiarity of NGOs with their groups provides a comfortable environment to SHGs and easy entry point for NABFINS. The larger loan size, expeditious loan processing, rigorous monitoring, and emphasis on quality appraisals have been the hallmark of NABFINS' terms of engagement with SHGs. While the rate of interest charged by NABFINS (at 14 to 15.5 per cent) is nominally higher than banks, the real cost is much lower as the delivery of services is at the doorstep and bundled with other handholding services through the NGO partner. NABFINS has disbursed ₹6.5 billion so far, to 21,000 SHGs with negligible defaults. NABFINS, though not required to do so, is set out to comply with the RBI regulations applicable to NBFC-MFIs especially in aspects of customer protection. Its relationships with customers, flexibility, and credit plus activities mark a significant difference from other institutions in this space. NABFINS has been able to prove that SHG financing can be done profitably while meeting customers' needs with sensitivity. It is seeking to scale up with presence in states other than Karnataka where it is currently located. It is also in the process of offering other credit products for producer companies helping them to focus on market linkages. No doubt the pedigree and continued funds support from the parent have been helpful so far in its operations and expansion. It offers a sustainable model of agent-based SHG financing that should enthuse others in microfinance.

There is no finding that these institutions are the best examples in their class; but they represent a set of ideas that have a concern for the customer. The cases of these institutions show that customer interests can be served through thoughtful design of institutions, products, and processes. In any chosen business model, regardless of institutional form, there is always space for innovation that could lead to better service and greater utility to the customer. A single product such as a bulk loan or a direct loan to SHGs with a simple objective of providing access at affordable costs to the customer can be a valid way of serving vulnerable people. A full service institution offering multiple products to customers can be sustainable with patience and long-term engagement with customers in its area of operation. The overarching lesson is that 'responsible finance' does not depend on specific institutions, products, or business models. It depends on the power of ideas behind institutions that focus on customers. Responsible finance is viable for both the customer and the institution.

CASE STUDY 1
Responsible financial inclusion by IndusInd Bank

IndusInd Bank has been lending to MFIs and has a significant exposure to the sector. The partners chosen with diligence are supported and the relationships have been maintained over the years. While the bank has been promoting financial inclusion through such relationships, there are some

regulatory and business considerations that have led to a rethink on the model.

- RBI expects the banks to own the process of financial inclusion including how the end client is serviced and treated. In case of loans to MFIs, the monitoring by banks on how the end clients are acquired and serviced can only be limited due to spread of branch offices and the client acquisition and servicing being done by MFIs. The onus is on the banks to ensure that the end clients are protected and responsibly financed.
- Growth of MFIs is not totally controlled or carried out as per business plans since there is year-end rush for lending by banks. Due to liquidity and business considerations, MFIs have to tackle this disbursement pressure which can lead to a compromise in the acquisition, appraisal, and disbursement processes.
- MFIs have a proven business model of reaching the unreached population with very good track record. Reportedly, as per credit bureau information, historically more than ₹1,200 billion has been disbursed by MFIs with a PAR 30 days of 0.20 per cent (excluding AP). The channel's strengths in client acquisition and management have to be leveraged while addressing the limitations in product offering and lack of smooth flow of funds that hamper client servicing and uncontrolled growth.
- The clients at the bottom of the pyramid have some characteristics that require a unique business model.

The brick and mortar model of bank has been historically proven to have issues in viability. The customization required in products and processes keeping in view the characteristics of different geographies involves time and resources of banks which affect the viability. Thus a collaborative BC model with channels which have proven experience in financial dealing with this customer segment has been designed. The bank carries out customer acquisition and financial services in its books.

Presently, MFIs are a proper fit for this model but agriculture and dairy cooperatives with sound systems have also been considered.

The key features of the collaborative model are given in the following paragraphs.

Geographical area selection: IndusInd Bank uses the market intelligence in identifying areas of financial exclusion through two sources—credit bureau report shows pin code-wise presence of MFIs. Crisil Financial Inclusion Index provides district-wise data on bank branch penetration, savings and credit penetration index, and also grades the districts on a scale of four in financial inclusion. These market reports ensure that the financial inclusion initiative is line with responsible financial inclusion.

Table 8.1 Considerations for designing of the business model by IndusInd Bank

Client characteristic	Considerations for business model
Low size of transactions leading to high transaction costs	Need to lower costs through low-cost branch offices, appropriate technology, and local and low-cost human resources
Low financial literacy	Financial literacy initiatives to be integrated
Unpredictable cash flows	Customized products
Need for all services at one place	Doorstep delivery of all the needed services through one channel
No collateral and no credit history	JLG/SHG as collateral substitutes. Build credit history record
Small savings with infrequent frequency	Transaction-based fees

Source: Indus Ind bank.

Though partners working in rural areas are preferred, IndusInd Bank finds that the financial inclusion is high in all areas including urban.

Thorough due diligence: Reputation being a key risk for the bank in outsourcing any function, the MFI is appointed only after thorough due diligence of their governance, transparency, business model, ability to offer scale, ability to withstand shocks, local knowledge, understanding of the nuances (political/cultural/economic) in a given territory, commitment to the segment, among others. The due diligence process takes into account the various processes in detail.

MFI selection: MFIs that work in three to four contiguous districts with a plan to offer ₹500 to 600 million business in the next three years are preferred. Since there is investment to be made in systems and technologies, the mid-sized MFIs are preferred to small ones.

Exclusive geography: The collaboration in a particular geography is on an exclusive basis, i.e. the MFI will not be rendering any parallel service to other banks. This enables sound monitoring for the bank.

Roles and responsibilities: The roles and responsibilities of the MFI and the bank are laid down. It is ensured that the turnaround time is not stretched because of the involvement of the bank.

Minimal changes in the processes: Since staff has been trained and systems are attuned to select processes, at the time of engagement with the MFI, sufficient care is taken to ensure minimal disruption

to the operations on the ground and full compliance with the regulatory framework.

Technology interface: Finanical inclusion–core banking solutions (FI-CBS) arrangements are made for parallel hosting of these accounts as an end-to-end solution. The solution is neutral to any kind of front-end solution and thus able to integrate with an MFI's software whether it is Internet/computer-based or mobile-based.

Products: Presently credit products are being offered since the MFIs have proven experience in these products, clients' immediate needs are fulfilled and the clients have to build trust with the institution before meaningful engagement for savings can be made.

There are proposals to offer other products such as recurring deposit/fixed deposit, pension, and insurance apart from remittance. Since the bank can act as an aggregator across geographies, better terms can be negotiated for the clients for insurance and pension products. Figure 8.1 indicates the phased approach of the bank in delivery of financial services.

Target group and client acquisition: The RBI guidelines on income criteria are followed in client acquisition—less than ₹0.06 million household income for rural and ₹0.12 million for urban clients. While the MFI staff selects the clients, all KYC documentation is carried out by the bank at a centralized location. The clients are aware that the bank and MFI are jointly providing the financial services.

Lending and monitoring: Similarly, the bank through a centralized process sanctions the loan applications, post credit bureau checks. On real-time basis, the transactions with clients are tracked.

A three tiered monitoring structure: (a) Field-level monitoring through process control executives, (b) Business Analytics Team does the data analysis from the industry and partners performance up to individual client level, and (c) relationship team who monitor the overall relationship. The process control executives do thorough monitoring of the processes in the field including CoC compliance and staff behaviour, etc.

Cost to the client: The bank being an additional player in the value chain has additional costs. Overall, MFIs continue to charge the same rate that they offer clients in other geographies under their normal lending. However, the bank studies the cost

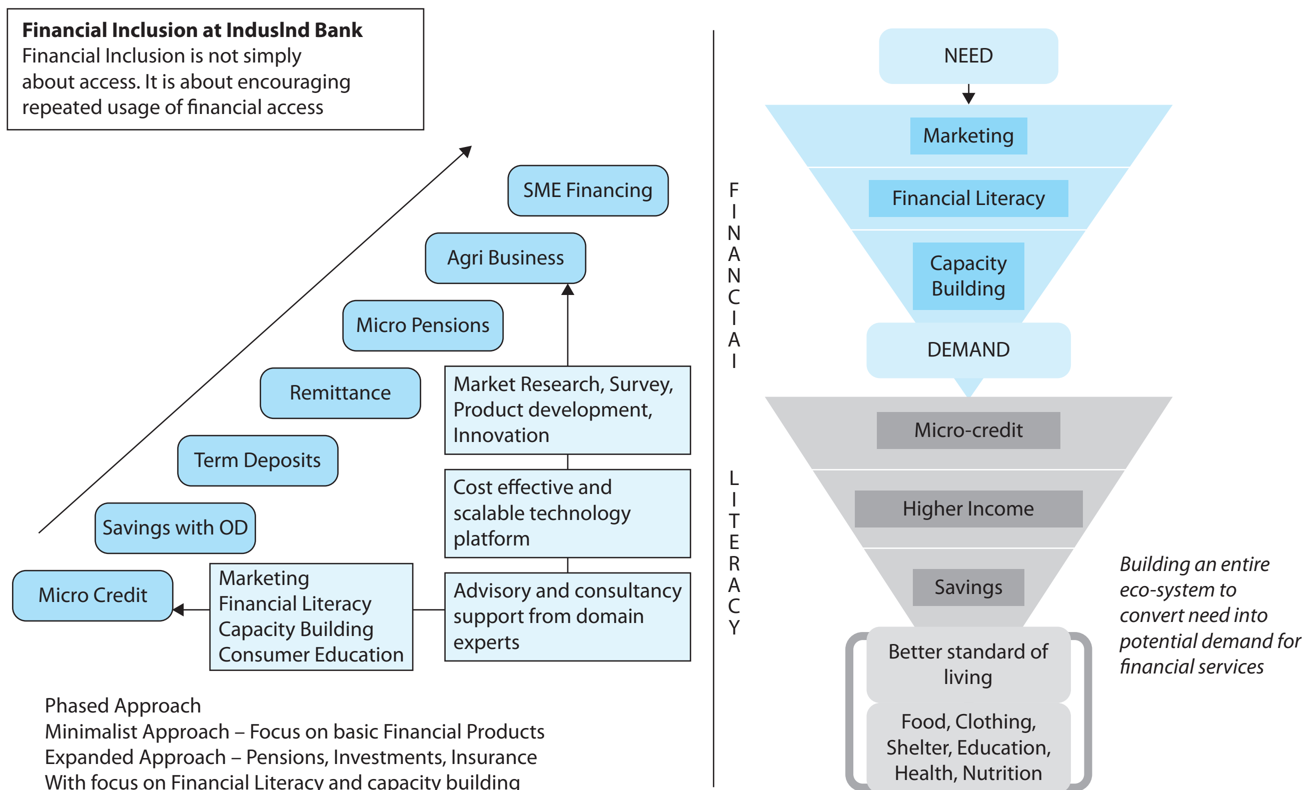


Figure 8.1 Phased approach for delivery of products

Source: Indus Ind bank.

structure of the MFI and ensures that the RBI norms for interest rate and margins are not exceeded. The bank is also engaging with the MFIs on processes which can reduce costs further. The average loan size is ₹12,000 which is expected to increase over a period of time. Over a period of time the interest rate on loans is expected to range between 21 to 24 per cent per annum.

The other benefit to the client is that on savings account no transaction fee is levied.

Revenue sharing: MFIs get a net benefit from the collaborative arrangement, the same as they are getting under term lending. Thus care is taken to ensure that the MFI is rewarded adequately under the BC arrangement.

Present Portfolio: IndusInd Bank presently has collaboration with eight MFIs and since May 2012, when the initiative was rolled out, ₹2,050 million has been disbursed and current outstanding is ₹1,170 million. The partners are adding a few thousand clients every month since they are assured of credit flow and IndusInd Bank is also confident of the systems. The bank plans to have such collaboration with 25 MFIs across the country.

CASE STUDY 2
Stree nidhi credit cooperative federation

Stree Nidhi Credit Cooperative Federation is promoted by Mandal Mahila Samakhyas (MMS), federations of SHGs at Mandal level, in association with the Government of AP. Stree Nidhi has been set up as an alternative to MFIs to provide low-cost credit to SHG members. The federation is registered under Andhra Pradesh Cooperative Societies Act, 1964. Though the MMS are owners the bylaws are framed in such a way that lending to SHGs is enabled.

Guiding principles: The federation will provide low-cost credit to the poor as one of the strategies of the government is poverty alleviation. It will supplement the bank credit especially to meet credit needs in exigencies and term loans for business purposes. Timely credit will be provided to an SHG preferably within 48 hours from the time of request. The poorest of the poor will get at least 50 per cent of the credit disbursed.

Equity: With an initial authorized equity of ₹5,000 million and subscribed equity of ₹2,550 million in order to address the credit needs that cannot be addressed under the SHG–bank linkage schemes.

Ecosystem of the institution: Government of AP has built the tiered grassroots institutions both in rural and urban areas. SHGs in a village form a VO, which in turn form the Mandala Samkhya (MS). Both VOs and MS are registered under the Mutually Aided Cooperative Societies Act, 1995, and thus are in enabling legal form to offer a range of financial and non-financial services. In urban areas, a similar structure is followed—Self-Help Group Level Federation (SLF) at cluster level and Town Level Federation (TLF) at town level. Stree Nidhi utilizes this institutional infrastructure for delivery of financial services to SHG members through the MS/VO in rural areas and SLF/TLF in urban areas.

Deposit services: Compulsory deposits of ₹100 per SHG per month is collected through the MMS. These deposits are collected from all the SHGs affiliated to MMS/TLF (about 1.35 million SHGs). While in the first year they will be in nature of recurring deposits, from the second year onwards they will be turned to fixed deposits. Interest rates on deposits are matched with the rates offered by SBI.

MMS/TLF and VO/SLF with surplus funds also park them with Stree Nidhi and they are offered 1 per cent higher rate than that of SBI.

Loan products: Stree Nidhi lends to SHG members through MS/VO, TLF/SLF, and SHG. The process is described below.

Stree Nidhi fixes credit limit to MS/TLF and VO/SLF based on their financial performance.

- Stree Nidhi rates the VOs/SLF and fixes credit limit to each VO based on the grade and number of SHGs. The maximum limit is ₹1 million and minimum limit for a D grade VO is ₹0.1 million. 'E' and 'F' graded VOs do not get a limit.
- Similar grading is done for MS/TLF and credit limit is fixed. The maximum limit is linked to the aggregate eligibility of VOs based on their rating for MMS in A, B, and C grade. MMS in D grade are eligible for ₹25 lakhs only.
- Debt to equity ratio based on borrowing power of community-based organizations (CBOs) is maintained. Any institution with less than 60 per cent recovery rate will not be eligible to get a loan.
- Stree Nidhi though is a cooperative follows the guidelines of the RBI for NBFC-MFIs since it is positioned as a micro-financier. Norms relating to aggregate borrowings not more than ₹50,000, income norms for rural areas (₹60,000), and balance between IGA and emergent needs are put in place.
- Each SHG can get a maximum loan of ₹0.15 million and not more than six members can have a loan from Stree Nidhi. While VO and MS get a

cash credit limit, for the SHG it is a term loan of 24 months.

Loan appraisal and sanction process: The unique feature of the loan process is the promise of disbursement within 48 hours of the loan request.

- Members who are in need of loans place a request with SHG.
- VO scrutinizes the application in terms of loan amount, purpose, repayment capacity, quality of SHG, repayment track record.
- VO applies for a loan using Interactive Voice Response System (IVRS) through a mobile with a unique PIN number registered with Stree Nidhi. Each SHG has a two-digit code and each member in an SHG has a two-digit code.
- In IVRS the qualifying conditions are in place to ensure that eligible loan applications only reach MS/Stree Nidhi. The conditions include loan limit to VO, norm of IGA/other purposes, loan purpose, denial of loan to defaulting SHG under SHG–bank linkage programme and community investment fund (CIF).
- MS scrutinizes the loans in respect of eligibility norms of VO and forwards to Stree Nidhi.
- Stree Nidhi scrutinizes the loan applications and sanctions. The loan accounts are generated at four levels: MS, VO, SHG, and member.
- The loan application and loan documents are executed simultaneously.
- Stree Nidhi maintains accounts with several banks and the loan sanctions are informed to them who in turn transfer the money to VOs' accounts. The banks are informed of the sanctions and VOs get a mobile alert on transfer of funds by INTRA/NEFT/RTGS.
- VO issues cheques to SHG and disburses the amount.
- The loans issued in a month are ratified by executive committee (EC) of VO and MS in the next meeting.
- SMS alert is sent to member/SHG/VO/MS one week prior to the due date of instalment.

Loan purpose, amount, and tenure: Stree Nidhi has specified six purposes (education, health, marriage, IGA, dairy, and agriculture) for which loans are provided. The tenure is 24 months. All loans are of ₹25,000 except health loan which is ₹15,000. Other than these purposes, loans can be availed for other purposes such as petty shop and non-farm sector, etc. Unlike bank loan which is divided equally by SHG members, Stree Nidhi loan is need-based. In case of project-based lending the limit per member can be higher.

Interest rate: Stree Nidhi loan is available to the member at 14 per cent per annum on a declining balance (see Table 8.2).

Table 8.2 Interest rate charged by each structure

Stree Nidhi to MS	12%
MS to VO	13%
VO to SHG	14%
SHG to member	14%

Source: Sthreenidhi.

Thus each tier of the structure has a margin to monitor the loans. The loans provided to SHGs are eligible for interest subvention of AP government and thus the groups can avail loans at zero per cent interest if repaid within seven days from due date.

Loan monitoring: Stree Nidhi monitors the repayment on line and follows up on recovery of overdues. Village organization assistant in the VO, two designated members at MS, and staff at MMS, district, and state level are responsible for recoveries. Out of 1 per cent interest received by MS and VO, 0.25 per cent is retained by the institutions. The remaining 0.75 per cent is paid to the persons involved in the monitoring and recovery—village organization assistant and two members from MS as a performance-linked incentive.

MIS: Stree Nidhi has a robust MIS which generates monthly grading of SHG. The technology-based MIS enables it to monitor the quality of the institutions as well as the loan portfolio. Social category-wise membership data is available which is used for screening eligible members. Individual-wise performance is also monitored.

Resources: Equity from government is to the tune of ₹1,550 million and from the community institutions is ₹1,000 million totalling to ₹2,550 million. Stree Nidhi borrows from banks as cash credit limits.

Governance and management: The managing committee consists of 10 members from the community-owned institutions and three nominees of the government. MD who is a professional is ex-officio and appointed by the state government. Professionals with banking experience manage the operations. Retired bankers with experience in SHG lending are appointed at senior positions.

Financial Sustainability: As of 31 March 2013, about ₹7,458 million has been disbursed as loans to 559,748 members of 113,216 SHGs. During 2012–13, ₹6,600 million was disbursed. As per the provisional financial statements, for the year 2012–13, Stree Nidhi has revenues of ₹350 million, net profit of ₹185

million, and loan outstanding of ₹5,570 million. NPA is ₹15 million which is 0.12 per cent of the loan outstanding.

Stree Nidhi's weighted average cost of funds is 9.25 per cent leaving a margin of 2.75 per cent. Since SERP provides the institutional building support, and last mile connectivity is provided by CBOs, Stree Nidhi is able to provide the financial services at least cost.

The institution has received a BBB-plus rating for its loans which is commendable for its short history of operations.

New initiatives: Stree Nidhi has entered into an agreement with Andhra Bank for acting as BC with the aim that 50 per cent of the transactions at a village level will be through the BC. VOs will be the customer service points. Stree Nidhi plans to route transactions—savings, loans, remittances—up to ₹50,000 through the BC. In due course BC agreements will be entered into with other banks as well. Thus, financial inclusion in its true dimension will be possible through such collaborations.

Stree Nidhi has extended loan-linked insurance to its loans with effect from June 2013 and SERP helps in documentation and submission of claims on revenue-sharing basis. Stree Nidhi collects ₹4 per ₹1,000 loan and gives it as additional loan. It thus ensures that loan is repaid to Stree Nidhi in the event of death of a borrower and that the balance if any after repayment goes to the dependents. This also ensures that an SHG does not default in repayment and thus ensures its smooth functioning.

CASE STUDY 3
Wealth management to improve financial well-being of customer—Kshetriya Grameen Financial Services (KGFS)

IFMR Rural Finance has a mission to maximize the financial well-being of every individual and every enterprise by providing complete access to financial services in remote rural India.

The core operating principles that guide the functioning of the institution are as follows:

1. Complete coverage of the population in a focused geographic area thus a localized institution.
2. Customized client wealth management services which are an advise-based framework of wealth management that help the clients make optimal financial decisions.
3. A broad range of products offered through village-based branch offices. KGFS works as an agent of banks, insurance companies, mutual funds, and pension funds to offer each client smooth access to a broad range of services.

Operating structure: Each KGFS institution has its own CEO and head office structure. All KGFS staff members are local residents who have in-depth knowledge of the local area. Each branch office serves a population of roughly 2,000 households. Branch offices have two or three staff members called 'wealth managers' who perform all administration and customer service functions. Regional managers oversee 35–40 branch offices and 90–120 wealth managers. Branch office timings are continually adjusted to reflect village level and seasonal variations.

Local CEO, local board, local staff, and local language are able to continuously sense the needs of the local households, detect and fill any gaps between the idealized environment and the actual reality being experienced by local households and enterprises.

OUTREACH

As of 31 July 2013, the five KGFS units have enrolled 330,732 people in through 162 branch offices (see Table 8.3).

WEALTH MANAGEMENT PRINCIPLES AND PROCESS

The Wealth Management Process is underpinned by the following four strategic elements—Plan-Grow-Protect-Diversify (PGPD).

1. PLAN: Provide for the basics first and balance your budgets.
   Plan is a diagnostic process that helps the household to recollect and plan for all its current and future expenditures against current and planned income. Basic consumption needs must be

Table 8.3 Cumulative enrolments by KGFS

Particulars	Pudhuaaru	Dhanei	Sahastradhara	Vellaru	Thenaaru	Total
Cumulative Enrolments	195,016	45,974	41,367	26,330	22,045	330,732
Cumulative Branch Office Count	67	26	30	19	20	162

Source: KGFS.

provided for, the budget must balance, and the household must not face bankruptcy.[1]

2. GROW: Earn as much as possible and build long-term skills.
   This part of the conversation with the household tries to deal with the question, 'Is the household making best use of all its available resources—physical, financial as well as human?' If the household has the potential to grow by utilizing it resources better, how can the household be helped in achieving this? This is done by assessing if there are any high-cost liabilities that the household can pay-off to reduce interest costs. The wealth manager tries to understand if the household can either do this by selling off unused assets, utilizing unused capacity of family members or assets, expand existing activity or by replacing existing loan.
   In all of these dimensions the wealth manager is careful not offer any advice outside of financial services. These are household characteristics that s/he observes and if such households ask for a loan in order that they may use the idle asset better or if they ask to purchase insurance or wish to diversify their asset holdings, s/he encourages them to do so.
3. PROTECT: Follow a sensible risk management policy.
   The household has to ensure that sudden and unexpected extreme shocks (in life, health, rainfall in the village, etc.) do not result in the household having to reduce basic essential expenditures. Helping households plan an adequate amount of insurance is a very key part of the wealth management function and needs to be balanced very carefully against consumption needs and the growth needs of households.
4. DIVERSIFY: Once other needs are met then save and invest carefully.
   Once the household has set aside sufficient resources to manage its consumption expenditures, growth plans, purchased adequate amount of insurance, and still has a net surplus left, the household needs to invest this surplus in well-developed regular savings and investment plans. This is a complex area and one in which wealth management is expected to play a key role.

WEALTH MANAGEMENT PROCESS

The ideal wealth management process has several steps which need to be followed sequentially so that the best possible outcomes may be obtained. Wealth management at individual household level calls for adequate and accurate information that a wealth manager collects. It becomes critically important, therefore, for the wealth manager to obtain accurate estimates of the information required for wealth management. This is not easy to do and requires a considerable amount of training and skill-building on the part of the wealth manager.

At the branch office level

1. New branch office opening:
   a) As a first step, the service area of the branch office is mapped which includes every household and the boundaries of the service area on a Geographic Information System (GIS).
   b) As a part of mapping each household, invitation cards are distributed to each household announcing the opening of a new branch office.
   c) KGFS Awareness Meetings (KAM) are conducted at the village level to explain the KGFS model and its mission and eventually to commence the enrolment process.
   d) For the first month, after a branch office is established, enrolment of individuals is the only activity.
2. Daily customer case discussion ritual:
   A daily beginning-of-day ritual of wealth managers discussing a specific customer's household in great detail and evaluating various financial strategies for that household is mandatory. This sharpens the minds on the core purpose of KGFS and also builds expertise among wealth managers over a period of time.

At the customer level

1. Basic Enrolment: The first step in enrolment is the procedural part that entails collection of biometrics and any documentary proof required for identity/address. This also includes enumeration of the different members in the household and updating this information in the Customer Management System (CMS).
2. Detailed Enrolment: The second step is the visit to the house of the customer, where the key objectives are:
   a) Verify the identity and address details provided in the branch office.
   b) Understand the household composition.
   c) Understand the profile of various activities (farming, livestock, enterprise, etc.) undertaken by the household. For each activity, information is collected from member/s of the household engaged in the said activity,

seasonality, related incomes and expenses as well as the assets and liabilities.

d) Understand the major assets owned by the household (land, house, shop, livestock jewellery, etc.)

e) Understand the nature of liabilities assumed by the household from different formal and informal institutions (financial institutions, local moneylenders, friends, relatives, etc.)

f) Understand the educational and health status of each member of the household. Any peculiar health circumstances that might impose a financial drain on the household are also captured.

3. Diagnosis and Recommendations: This step in the wealth management process involves the following:

a) The diagnosis starts with understanding the short-term or long-term goals of the household and the timing associated with the realization of each of these for meaningful planning.

b) The system generates a Financial Well-being Report (FWR) based on the information gathered during the enrolment along with the goals. The report highlights the unique aspects of the individual customer and her/his household's risk profile and makes specific financial recommendations for the household.

c) The wealth manager uses the FWR for having the discussion with the household. Until this point, the wealth manager does not recommend any product to the customer.

d) After the FWR discussion, the wealth manager and the customer jointly agree on a set of financial strategies (which include products) that are important for her/his household and secure her/his commitment to these.

e) The household may adopt certain strategies that have been recommended (including purchase of a product) immediately or may commit to do so on a mutually agreed later date.

4. Updating of Information and Follow-up:

a) Every six months, the wealth manager and the customer revisit the FWR to track progress made against the commitments.

b) Wealth managers also follow-up with customers on the mutually agreed specific dates for adherence to the advice. This step might have to be done repeatedly and is key for the overall wealth management process to be effective (see Tables 8.4 and 8.5).

Table 8.4 Customers enrolled by KGFS

	Pudhuaaru	Dhanei	Sahastradhara	Vellaru	Thenaaru
Year of commencement	2008	2009	2009	2012	2012
Customers enrolled as on 31 July 2013	195,016	45,974	41,367	26,330	22,045

Source: KGFS.

Table 8.5 Number of active customers of KGFS under different products

Product	Pudhuaaru	Dhanei	Sahastradhara	Thenaaru	Vellaru	Total
JLG	26,685	10,189	676	7,900	13,545	58,995
Jewel	399	2,522	417	–	–	3,338
Retailer	746	2,613	2,748	1,266	472	7,845
Other Asset Backed	8,129	–	50	2,851	1,930	12,960
Others	304	439	488	110	997	2,338
Accident Insurance	96,004	35,014	13,706	6,636	10,457	161,817
Term Life Insurance	59,593	7,952	3,727	3,461	6,864	81,597
Retailer Insurance	76	8	658	2	–	744
Cattle Insurance	8,145	–	43	3,004	1,981	13,173
NPS	31,173	5,437	2,122	676	781	40,189
Remittance	961	75	46	87	95	1,264
Savings Accounts	12,994	78	17	14,252	18,641	45,982

Source: KGFS.

PRODUCT UPTAKE—NUMBER OF ACTIVE CUSTOMER AS ON 31 JULY 2013

Wealth managers: KGFS wealth managers are from the local area and typically have 12 years of schooling. Few have university degrees, and their position at KGFS is often their first professional job. The KGFS model emphasizes systematic staff training. A curriculum based on a conceptual understanding of household finance is the main building block of staff orientation and ongoing capacity development. New wealth managers must complete a 21-day training course and pass a certification test. The induction programme focuses on familiarizing the employees with the organizational policies as well as the product and related processes, systems, operations, wealth management, and also on aspects of behavioural skills.

Trainees are given branch attachment sessions at different stages of the training in order to ensure that the trainees have a practical understanding/hands-on experience of the concepts taught in the classroom. A structured lesson plan is provided to every participant in order to utilize the branch attachment activity effectively. Weekly tests and regular frequent revision sessions are conducted in order to have an ongoing monitoring mechanism throughout the training programme.

Performance incentive: No product-level financial incentives are offered for the wealth manager. The KGFS model incentivizes the entire organization—from the head office team to the wealth manager not on the volume of transactions or sales achieved but on a metric of financial well-being, which is expected to be fulfilled through the process of wealth management.

KGFS has introduced KGFS Max, a branch office performance management tool, for all branch offices. In its pilot stage at present, each KGFS branch office gets a score, based on the branch office's performance against annual targets on enrolment, disbursements, life insurance, non-life insurance, NPS, audit, and data updation. It also assigns an FWR Achievement Score and deducts a penalty for any offering outside the FWR. The objective is to build a strong culture around customer centricity and the KGFS Wealth Management framework.

Technology and cost-effectiveness: High level of automation for data capture and analysis, and standardized processes at the branch office enable a three-member branch staff, recruited mostly from within the remote rural geography, to serve over 2,000 households with multiple financial services. The model leverages technology by using the best hardware and connectivity solutions available in the market and software such as a Core Banking System (CBS) and a proprietary CMS. The functioning of the entire set up, therefore, is online, real-time, co-ordination, and monitoring becomes automated and effective. Each KGFS has high degree of automation via centralized technology back-ends coupled with standard processes creating outreach to otherwise unbanked areas. Extensive use of technology and fixed costs so that as volumes increase transactions cost rapidly approach zero. This gives the ability to support very frequent low-value transactions without diluting the ability of the wealth manager to spend time on the wealth management process.

Customer protection: The customer protection approach adopted by KGFS focuses on ensuring the suitability of products sold to each household's unique financial situation.

Avoidance of over-indebtedness: Apart from offering customized credit and insurance products, KGFS also facilitates opening of savings accounts for clients. The staff incentives are synchronized with the wealth management approach, which emphasizes overall financial well-being of clients. KGFS is in the process of bringing all lending decisions in our branch offices within the framework of the FWR as has been the case for insurance and pension recommendations. This will be done by computing a Debt Service Capacity number, based on information gathered during enrolment that establishes a household's total borrowing capacity. All loans, whether secured or unsecured, will have to be informed by this number. This will enable us to fully unlock the growth potential of enrolled households while ensuring that an eye is kept on total leverage across multiple credit products

Transparency: As KGFS branch offices are typically located within the service area, most clients residing in close proximity to the branch office are encouraged to walk-in for information and clarification. Prices, terms, and conditions of all financial products are fully disclosed to the client prior to sale, including interest charges, insurance premiums, minimum balances, all fees, penalties, linked products, third-party fees, and whether those can change over time.

Responsible pricing: KGFS operates with the philosophy that existing clients should not bear the cost of institutional expansion. Hence, since inception, product pricing has been maintained at a level which is affordable to clients. KGFS has also instituted internal benchmarks such as targeted Operational Expense Ratio (OER) and capped the ROE. These predetermined benchmarks are used to technically

determine pricing, thus insulating clients from organizational inefficiencies while ensuring that the benefits of scale are passed on to clients.

Appropriate collections: KGFS follows a structured delinquency management policy. Staff is trained on abiding by the values and rules of the organization. The HR manual also outlines applicable disciplinary action in case of errant staff. KGFS also shows restraint in liquidating collateral and provides necessary cushion for defaulting customers to take steps to re-possess pledged collateral.

Mechanism for complaint resolution: KGFS has implemented practical innovations such as 'call back' facility, where clients have the option of providing their telephone numbers and a KGFS tele-calling executive reverts to check for their complaints or feedback.

Privacy of client data: The CoC addresses the aspect of data privacy and client consent for data sharing is obtained through loan contracts. As per the terms of employment of KGFS, staff is required to maintain highest levels of confidentiality. This is included in the KGFS HR manual and communicated to the staff (see Table 8.6).

KEY RATIOS

Pudhuaaru KGFS is the oldest and its financials are presented in Table 8.7.

Deepening Poverty Targeting and Assessing Client Impact: In order to closely monitor client impact, KGFS performs regular small sample surveys at each KGFS, every month, taking 20–30 households per KGFS, and assessing their current appraisal of their own financial well-being. Going forward, KGFS would be using a system-generated report to track the client's progress over time using the FWR and its recommendations.

Parallel to this effort, KGFS would also be systematically targeting households in its service area

Table 8.6 Financial sustainability as of 31 March 2013

Parameter/name of KGFS	Pudhuaaru	Dhanei	Sahastradhara	Vellaru	Thenaaru	Remarks
Total loans disbursed during the year	34,757	13,744	3,906	10,281	7,738	
Number of loan accounts	26,239	9,905	4,053	12	8	
Average loan outstanding per client	14,066	14,324	28,244	27,433	27,569	
Average case load per wealth manager	134	168	42			No. of loans per wealth manager
Minimum and maximum loan term						Minimum one month for emergency and three years for salary loan

Source: KGFS.

Table 8.7 Key financial parameters of Pudhuaaru KGFS

As of 31 August 2013	Pudhuaaru KGFS (in %)	Derived as
Portfolio Yield	25.80	(Interest Income + Processing Fee)/Average Portfolio
Operational Expense Ratio (OER)*	12.37	Operational Expense/Average Portfolio
Operational Self-Sufficiency	116.30	Income/Expenses
Cost to Income Ratio	85.98	Expenses/Income
ROA (PBT / Average Assets)	3.28	PBT/Average Portfolio
ROE**	16.41	PBT/Allocated Equity

Source: KGFS.

Note: *Head office expenses in OER include manpower capacity built for 100 branches and infrastructure for 250 branches whereas currently Pudhuaaru KGFS operates 73 branches.

** ROE has been calculated on 20 per cent capital allocation.

on the basis of the clusters they belong to in terms of their financial well-being. For instance, vulnerability measures may be developed based on combinations of parameters, such as income volatility and dependency ratios, among others. Hence the initial focus would be on the households that are ranking lowest on financial well-being and the attempt would be to push them upwards.

CONCLUSIONS

The KGFS model aims for a fundamental shift from a supply-driven, one-size-fits-all focus to a customized sales process centred on client needs.

The model reflects the belief that geographical focus ensures a sustained effort to engage clients intensively. A branch office is required to focus on maximum possible enrolment within its area of operations and constantly deepen relationships with its clients.

KGFS follows the responsible financing principles following the wealth management approach focusing on financial education, a range of products to suit the client needs, reasonable product pricing; the institution is not driven by numbers and profit maximization but by the financial well-being of the clients. The institution has designed its operations in such a way that the break-even is not aimed early by loading the clients with higher charges.

CASE STUDY 4
NABFINS—NBFC with a different DNA

NABFINS is a subsidiary of NABARD with equity participation from NABARD, Government of Karnataka, and four other banks. It is a non-deposit taking NBFC registered with the RBI. The main objectives of the company are to provide financial services in two broad areas of agriculture and microfinance.

Guiding principles: NABARD while setting up this company has envisaged that NABFINS shall evolve into a Model MFI to (a) set standards of governance among the MFIs, (b) operate with exemplary levels of transparency, (c) operate at reasonable/moderate rates of interest, and (d) provide doorstep delivery of services. NABARD ensured that design of the organizational structure and supporting systems adhere to sound management principles and provide appropriate services to the poor households.

> *Reducing the risks of clients will be a structural part of NABFINS core strategy and not an add-on through corporate social responsibility. This requires that the core of its business model does not adopt any strategies, systems, and practices which increase the risk of the client in order to reduce the risk to NABFINS and maximize profits.* (Aloysius Fernandez, Chairman, NABFINS)

Operational area: NABFINS has set up branch office network which covers about 51 districts in four states including some of the backward and distress prone districts (Karnataka—16 branch offices, Tamil Nadu—13 branch offices, Royalaseema area of AP—one branch office, and Vidharbha area of Maharashtra—two branch offices). Since MFI operations are differently regulated in AP, NABFINS has got an exemption from the clearances of the state government machinery for lending. NABFINS has plans to expand to Madhya Pradesh and Odisha.

Lending strategy: To promote inclusion in growth NABFINS works in partnerships with NGOs, cooperatives, producer collectives, federations which not only function as business correspondents and facilitators, but more importantly are able to provide technical and other support services critical (a) to make the grassroots institutions sustainable and (b) the household investment productive, to reduce production risk, to aggregate, add value, and market commodities.

OUTREACH

Portfolio: NABFINS lends to SHGs/JLGs as well as secondary institutions such as producer collectives and federations of SHGs. SHG portfolio constitutes nearly 85 per cent of the ₹658 million loans disbursed since inception. During 2012–13, about ₹4,120 million was disbursed to 12,060 SHGs. For second-tier institutions, the disbursements were about ₹28 million. NABFINS believes that SHGs give the space to the poor and enable them to build their management capacity, confidence, and also lobbying power whereas JLG is much more suited for clients with better resources.

Choosing the business correspondents: NABFINS works in areas where the SHG–bank linkage programme is not doing well and also in areas where people find it difficult to access a bank due to distance and lack of transport facilities. NABFINS does not directly source SHGs but works with SHPIs as business correspondent. NABFINS enters into an agreement with NGOs and others that are reputed and entrenched in the community to act as business correspondents. NGOs as well as some of the federations are engaged as business correspondents.

Roles in SHG lending and recovery: Staff of NABFINS and the business correspondent assess the SHGs/JLGs together and those eligible are advanced

loans directly by the NABFINS staff. The responsibility for ensuring repayments lies with the SHG itself, responsibility for collection of repayments lies with the business correspondent.

Appraisal and disbursement process: Some of the unique features of the loan process which are simple and client friendly are

- The entire loan process is carried out at the doorstep of the SHG, i.e. in the village itself.
- SHG recommends the members, loan quantum, term, etc., BC also has to concur.
- The quantum of loan is not based on savings but based on the repayment capacity of the household. As part of family survey, household cash flows are analysed and repayment capacity is assessed of individual households.
- NABFINS carries out a grading of the SHG—there are two parts to the grading—financial and non-financial—and only those SHGs which score 80 per cent and above are eligible for a loan.
- Current debt of the household is checked.
- If the SHG has an outstanding bank loan and at least 70 per cent of the amount is repaid then NABFINS loan is considered. NABFINS adjusts the outstanding amount to the eligibility of loan.
- From the time of family survey till loan disbursement the time taken is about three weeks and from the time of grading till loan disbursement is about 10 days.
- Loan is disbursed in cash at the village to the individuals directly thus eliminating frauds, ghost loans, and elite capture to a large extent.
- Post disbursement visit is undertaken by NABFINS to ensure utilization of the loan.

Loan term: The tenure of loans is not uniform or standardized; it ranges from 12 months to 36 months depending on the purpose of the loan and the cash flow. However, as of 1 April 2012 the shortest tenure is 24 months in compliance with the RBI norms.

Interest rate: The interest rate charged depends on the quantum of loan and ranges between 14 per cent per annum for loans below ₹2 lakhs to 15.5 per cent per annum for loans above ₹5 lakhs.

Other charges: Loan processing fee of 1 per cent is charged.

Repayments of loans: The members repay the loan in the group meetings, business correspondent collects the cash, enters the details in the handheld device which is linked to NABFINS, gives a receipt, and ensures cash remittance to NABFINS account within 24 hours.

Rescheduling of loans: In case any individual has genuine difficulties in repayment, on the basis of the SHG resolution, the repayments are rescheduled within the term of the loan through differential repayment. Thus there is flexibility to accommodate a member's situation. The software is also customized for such eventualities.

Customer connect: NABFINS staff visits the groups at least two to three times in a loan cycle and the personal contact with the groups helps in maintaining and building mutual trust. Two months prior to closure of the loan, customer feedback is taken through telephone. NABFINS district and head office numbers are made available to SHGs, who can call NABFINS in case of any grievances.

Payment to business correspondent: Business correspondents get 2 per cent commission on the loans disbursed—1 per cent immediately after disbursement and 1 per cent on monthly repayments.

Credit plus: To build confidence and management skills, NABFINS provides grants sourced from NABARD for institutional capacity building and to improve the organizational and financial management of SHGs, JLGs, and producer collectives. The organic link of NABFINS with NABARD enables it to bring convergence with provision of credit and several grant-assisted developments of NABARD.

Financial sustainability: NABARD provides refinance support to NABFINS. NABFINS has an equity base of ₹1,040 million and reserves of about ₹150 million. As of 31 March 2013, the loan outstanding is ₹3,776 million. Per staff loan outstanding is about ₹25 million. The average cost of funds for NABFINS is about 9.5 per cent per annum. The operational cost ratio is about 5 per cent. The risk cost is negligible. The effective interest rate to SHG varies from 15.9 per cent to 17.5 per cent per annum depending on the loan amount and tenure of the loan. NABFINS has reported profits.

NABFINS has a staffing pattern which helps it to reduce costs. As of 31 March 2013, the total staff strength is 152. At the districts, the company recruits just retired commercial bankers who have worked in that particular district and have a sound reputation, who have experience in working with the SHG–bank linkage programme and relate well with NGOs; they need to have a house in the district headquarters in which they reside. A separate NABFINS office is provided; they are assisted by two to four field service officers. Thus the costs related to training, salaries, and housing are minimized.

The model adopted by NABFINS involves the engagement of NGOs as business correspondents. This methodology reduces transaction costs and ensures doorstep delivery of services thus reducing costs to clients. Since NABFINS gives bulk

loans to the SHGs (as in the SHG–bank linkage programme) it reduces transaction costs as well as enables the member to borrow according to her/his requirements.

NOTE

1. This becomes a key area of concern when households have (a) higher utility of current consumption over future needs and (b) high utility of certain classes of social expenditures, end up overdrawing on their current household resources and do not plan for known expenditures over their lifetime. Once again here there may be implicit contracts operating here, such as 'the son will take care of the family', 'marrying the daughter off well will reduce her chances of being abandoned', and 'let me worry about the present, the future will take care of itself'.

Conclusion

9

Chapter

As we solve older problems, new ones emerge…

In the last year's report, the need to work towards building an inclusive microfinance sector with active contributions from all the stakeholders was highlighted. As one looks back at the last year's developments, the question that arises is whether we see the beginnings of credibility returning to the sector. The developments of the past year indicate that MFIs are able to attract more customers and also mobilize more loan funds from banks. Some of the equity investors have reposed faith by selectively contributing to equity of MFIs. The regulator has refined the guidelines applicable to NBFC-MFIs to make it more practical and defer the stringent margin cap by a year. On the part of the government, Ministry of Finance had signalled its continued interest in the sector by announcing a larger microfinance equity fund of ₹2 billion. Overall, there is more optimism in the market, though cautious, compared to the last year. However, the continued problem of the AP portfolio where banks stand to lose around ₹60 billion in loans that will never come back from borrowers to MFIs and consequently from MFIs to banks. This hole in the finances of banks is likely to have an impact on continued funds flow to MFIs but this is expected to be a fairly short-term phenomenon. By and large banks seem to have factored the possible write-off into their accounts and barring a few who will be hit on account of their large exposure to AP MFIs, the others might continue funding with higher safeguards and greater due diligence.

The most interesting development in the sphere that has improved the sentiment of credit customers is the increasing interest of banks to use MFIs and NGOs as business correspondents on the credit side. A number of interesting business correspondent partnerships have been reported during the year where MFIs extend loans to customers on behalf of banks. Though the rates of interest have not fallen dramatically on account of banks being principals, assured flow of funds and the possibility of large ticket loans have made the sector perk up. MFIs without adequate capital to leverage loan resources also find that they can acquire more customers as an agent of a bank and keep the existing customers well serviced. Over time this model has the potential to bring down rates of interest with increased volumes and, thereby, benefit the customers more. While private sector banks are more active in the credit-led agent banking model, some public sector banks are reported to be considering partnerships with MFIs.

The alternative institutions such as NABFINS and Stree Nidhi which basically have SHGs as customers have been able to grow. While these institutions have a limited footprint when compared with the number of groups that are active in the country, the models of business show that SHGs can be financed by niche small institutions to great effect. The customer interests are better served through adequate and timely credit as also rigorous appraisal of the groups' requirement and focus on financial discipline.

While compliance to the regulatory guidelines as also the CoC had been at a satisfactory level there are continuing concerns. One set of concerns arise from the competitive initiatives of institutions that seek to certify the compliance of MFIs with different SP and responsible finance actions. Last year, the report highlighted the multiplicity of such initiatives and the time and effort spent on the part of MFIs in proving to different assessors that they comply with differing requirements of different assessors. The situation has not improved as yet. If anything some of these initiatives have gathered strength with

comparisons being made between different instruments and different frameworks. Though there is widespread acceptance among stakeholders that assessment and certification in the responsible finance space should be harmonized and MFIs should be asked to comply with just one set of standards, the actions towards harmonization and unification have remained weak. The reluctance on the part of those who came up with initial ideas should be overcome and very soon the proponents of responsible finance should move towards adopting one harmonized set of standards. This would free time and resources on the part of MFIs to focus on their business and customer protection.

Another continuing concern is in relation to debt levels. Despite the RBI guidelines being complied with and credit referencing made a compulsory part of most MFIs appraisal process, there are concerns since households borrow not from just MFIs. The borrowings of households from other sources such as SHGs, directly from banks, and informal sources do tend to be significant. Field studies in some parts of the country indicate that the debt levels of households might be far above the RBI threshold of ₹50,000. The debt build up in the last three years seem to be high consequent on the high inflation levels and higher investment requirements that support livelihoods. The formal sector loan limits have not kept pace with the changing requirements of both consumption and investments. The gap between the formal sector resources and the actual requirement is apparently sought to be filled with informal debt. The issues that arise are not of the level of debt but the high cost that makes it unserviceable with limited incomes that customers of microfinance generate. The way this concern is dealt with so far has been less than optimal. A comprehensive review of how debt levels in the hands of households are measured and how serviceability is calculated is required. New products to replace existing high cost debt with affordable lower cost debt should be thought of. The response to higher incidence of debt at household levels is not to deny further formal sector debt but to ensure that people are not driven to informal sector for larger higher cost debt. This is an aspect on which information availability is limited and is compounded by the fact that formal institutions such as banks are not required to report credit information on microfinance clients to credit bureaus. This is an area that needs to be prioritized by the regulator, the credit bureaus, the other funding stakeholders as also the MFIs. There are signs that in a few states such as West Bengal and Tamil Nadu the households' debt levels might be beyond the servicing capacity of a significant proportion of households. The sooner the issue is studied and remedies identified the better it would be for the sector and it would avoid future break outs of customer resistance to repay.

Governance standards across institutions remain a concern. Despite the improvements made in responsible finance and SP in the sector the governance standards have not shown desired improvements. There has not been a systematic review of the constitution of boards, the capacity, and competence levels of those manning the boards. The rigour with which boards review customer protection issues and also whether the different stakeholders' interest are being satisfactorily dealt with are not being examined. Funds should be allocated by investors and donors for training of boards and making available quality personnel to take positions as independent directors on MFI boards. This is an aspect that requires more intensive action in the next few months. Sustaining the initial momentum achieved in responsible finance practice and SPM cannot be left at the door of external assessors. MFIs more particularly the boards should be called upon to play a greater role. A concerted programme of action aimed at improving capacities of those manning the boards and also increasing the bandwidth of the boards to deal with responsible finance and SP should be designed and implemented. This would go a long way in making MFIs own the agenda for customer protection and improving customer satisfaction which would be a better avenue for using grant funds rather than mere assessments.

The high rates of interest and cost of credit to the customer need attention. While RBI had relaxed the cap on interest rate which was set at 26 per cent, probably no institution has raised their interest rates. But loans at an effective interest rate of 28 per cent are not best equipped to support several livelihood activities (barring may be a few activities in trading and high turnover businesses). Ways of reducing the rate of interest especially for livelihood activities should be found. As had been pointed out in the last two years' reports the burden of providing vulnerable people with lower cost loans should legitimately be borne by the government. Where the institutional architecture is missing MFIs provide the same with their investments. But the funding that goes to the vulnerable people comes from the banking system and with the cost of operations the interest rates on the ground for door delivery of services can't be far lower than what is prevailing today. If the governments can provide subsidies to commercial banks, cooperative banks, and regional rural banks in order

to reduce rate of interest to agricultural borrowers and SHGs, there is no reason why the same set of subsidies cannot be extended through MFIs as well which would lower the cost of credit to borrowers of MFIs. Since the ultimate users of credit are vulnerable sections of people to discriminate against some of them because they chose to avail services from an MFI (most often on account of the failure of banks to provide the service) seems unfair.

Next year the larger MFIs will be under pressure to operate with a reduced margin of 10 per cent. Some of them are yet to recover their peak efficiency in terms of operating cost as they are rebuilding from the crisis of 2010. The reduction in operating cost will not come from an actual reduction in absolute costs but from an increase in average loan size. Some MFIs have already thought through the issues and have launched loan products of a larger size. The increased loan sizes to vulnerable customers should be accompanied by rigorous appraisal procedures that would ensure that loans do not end up as excessive debt but get invested in income-producing assets. The combination of larger loan sizes and longer maturities will compel MFIs to move away from what may be called 'lazy lending' to proactive customer management. The sector does not still show very many new credit products that suit customer requirements. The call has been on the customer to adjust to the products that have already been designed by MFIs. In financing investments in income-generating assets the current set of products will not be suitable as the investments and cash flows arising from there do not really match the loan terms. If there is one area in which the MFIs have really not moved much in the last two years it is product development. The call for reduction in operating cost and the need to work with thinner margins is really a challenge in product development and business modelling. The customer interest will be better served if MFIs can relook at their business model, bring in better technologies that avoid cash dealings, and improve appraisal processes so that larger loans become possible. The current focus on compliance with customer protection needs should give way to looking at satisfying the customer. The grievance redressal initiatives should shift to actively finding out customer needs and fulfilling them. The recovery phase from the injury caused by the AP crisis is nearly over. MFIs should recognize that they are no more in the recovery phase but are in the phase of rebuilding a strong sector that has the customer at its core.

The small MFIs, especially those in remote areas, with designs of remaining local have had a hard time. These are likely to become extinct, resulting in retraction of financial services to people who may not have other options. While the IMEF has provided equity support to some of them, a solution to the problems of all small MFIs should be found. The preference to large MFIs among banks should not result in denial of funding support to viable small MFIs that are critical in their local areas. Not supporting them is not responsible behaviour on the part of funders and donors—who demand that MFIs engage in socially responsible practices. The way out for such small institutions could be in becoming agents of banks through which the clients can gain access to savings and credit services.

Customer protection and responsible practices in case of SHG–bank linkage was examined in a limited way. Being people-based institutions, SHGs should logically drive customer protection and customer-centric practices much better than in other models of financial services. However, the findings are not too encouraging. Impressions from the field as well as a study brought out that the risks for SHG members savings is high, elite capture reduces quality of benefits, government programmes reduce sustainability and erode discipline, and client fatigue with meeting requirements opens up space for frauds. The uncertainty of continued credit availability, increasing indirect costs, lack of grievance redressal mechanisms, and group bonding of the wrong kind adversely affected quality of service and client-level outcomes. Policies and practices of SHPIs—governmental and non-governmental—in institutional capacity building of SHGs are critical in promoting responsible finance practices. This large iconic programme should carry out serious soul searching and ensure that responsible practices are adopted by banks and groups in their operations.

Even as the past problems are attended to, newer problems emerge. This is part of the growth pains of the sector. The last year has seen considerable progress in compliance with CoC, introduction of grievance redressal procedures, education of both staff and customers, transparent communications to customers and other stakeholders, reduction in operating costs, and attention to social aspects of customers lives in health, education, sanitation, and livelihood skills. Much more information is generated and reported on responsible finance aspects of business. With the help of specialist institutions the SP aspects have been assessed to be of acceptable to good quality. Across the globe, India seems to be a major microfinance market in which responsible finance and SP aspects of business have been internalized and put into practice. In no small measure is

this due to regulatory guidance; institutional readiness has also been a major contributing factor.

Looking ahead one can see that governance, technology, partnerships with banks, larger loan sizes and individual loans, introduction of new products, cost cutting, and enlarged credit plus activities are the priorities that MFIs need to address. Each of these carries the potential to positively impact the customer and bring the MFI nearer to them. In case of SHGs, consolidation through weeding out dysfunctional and dormant groups, more investment in rebuilding discipline, investing in supervision over SHGs, attention to customer protection and responsible finance issues, and funding for handholding of new SHGs for longer periods are the issues that need a resolution. The higher tier organizations of SHGs should be brought under supervision on par with MFIs to ensure that customer interests are protected. SHG loans should also find a place in credit bureau records so that excessive debt problems can be dealt with in case of these households.

The initial investments made in different parts of the microfinance sectors can be justified only when the sector becomes disciplined and acts in favour of the vulnerable customer. There are signs of both willingness for doing the right thing and the awareness of the urgency of doing so. The work in responsible finance space so far has perhaps been motivated by an urge to recover damaged credibility; by the desire to rise up in the eyes of funders, regulators, donors, investors, and critics. Hopefully in future the sector will be motivated by an urge to live up to client expectations and establish relevance of MFIs in the eyes of the vulnerable customers.

> Customer is not an outsider in our business. He is part of it. We are not doing him a favor by serving him. He is doing us a favor by giving us an opportunity to do so.
>
> —Mahatma Gandhi

Bibliography

CHAPTER 1

Ananth, Bindu. 2013. Innovations in Micro Finance: Field Notes from Eastern Uttar Pradesh, IFMR Blog. Available at http://www.ifmr.co.in/blog/2013/04/20/innovations-in-micro-finance-field-notes-from-eastern-uttar-pradesh/, accessed on 21 April 2013.

Business Standard. 2013. 'With MFIs out, SHG-Bank Bond Grows Stronger in AP', Available at http://www.business-standard.com/article/finance/with-mfis-out-shg-bank-bond-grows-stronger-in-ap-113042400503_1.html, accessed on 27 April 2013.

CASHPOR. 2013. Annual Progress Report, CASHPOR, Varanasi.

Government of India. 2013. Report of the Financial Sector Legislative Reforms Commission, Available at http://www.finmin.nic.in/fslrc/fslrc_report_vol1.pdf, accessed in November 2013.

Guérin, Isabelle. Available at http://www.cgap.org/blog/loan-defaults-versus-over-indebtedness-rural-tamil-nadu, accessed on 10 June 2013.

IFMR Finance Foundation. 2012. Envisioning the Future of Financial Consumer Protection in India, Financial Systems Design Conference, IFMR Trust, Chennai.

MFIN. 2013. MFIN MicroMeter, data as on 31 March 2013, MFIN, New Delhi.

MicroSave. 2012. 'Access to Credit in Andhra Pradesh Post Microfinance Crisis'. Available at http://www.microsave.net/files/pdf/RP159_Access_to_Finance_Andhra_Pradesh.pdf, accessed in October 2013.

Ramírez, Renso Martínez and Pistelli, Micol. 2011. 'Microfinance Market Report for Latin America and the Caribbean 2010', MIX Microfinance World, pp. 19–20. Washington, DC: Microfinance Information Exchange (MIX), Inc. Available at http://www.themix.org/sites/default/files/LAC%20Benchmarking%20Report%202010%20English_2.pdf, accessed on 5 August 2013. A forthcoming MIX publication will establish this correlation for other regions as well.

RBI, 2013, Guidelines on Fair Practice Code for NBFCs, Circular RBI / 2012-13/416 DNBS.CC.PD.No.320/03.10.01/2012–13, dated 18 February 2013.

RBI, 2013, Guidelines on Fair Practice Code for NBFCs—Grievance Redressal Mechanism—Nodal office, RBI / 2012-13/416 DNBS.CC.PD.No.320/03.10.01/2012-13 issued on 18 February 2013.

Sahasranaman, Anand and George, Deepti. 2013. Cost of Delivering Rural Credit in India, IFMR Finance Foundation, Chennai.

Sane, Renuka and Thomas, Susan. 2013. 'The Real Cost of Credit Constraints: Evidence from Micro-Finance', Indira Gandhi Institute of Development Research, Mumbai. Available at http://www.igidr.ac.in/pdf/publication/WP-2013-013.pdf, accessed in October 2013.

CHAPTER 2

Cambodia Institute of Development Studies. 2013. 'Study on the Drivers of Over-Indebtedness of Microfinance Borrowers in Cambodia: An In-depth Investigation of Saturated Areas'. Available at http://www.blueorchard.com/wp-content/uploads/2013/05/OID-Final-Report.pdf, accessed in November 2013.

Deutsche Bank. 2013. Deutsche Bank Balanced Return Framework, Draft.

GIZ and IFC. 2012. Financial Awareness Scoping Initiative—Part 2, GIZ Rural Finance Institutions Programme, New Delhi.

http://articles.economictimes.indiatimes.com/2013-08-17/news/41420923_1_mfis-trident-microfin-microfinance-institutions, accessed on 20 August 2013.

Jayashankar, Priya. 2013. 'An Accent on Social Returns from Microfinance: The Story of Deutsche Bank'. Available at http://www.microfinancefocus.com/an-accent-on-social-returns-from-microfinance-the-story-of-deutsche-bank/, accessed on 6 August 2013.

Koning, Antonique and McKee, Kate. 2013. 'Six to-Dos Now for Responsible Investors', 23 March 2013. Available at http://www.cgap.org/blog/six-dos-now-responsible-investors, accessed on 3 August 2013.

Microfinance CEO Working Group Working Paper, 'Insights from "Beta Testing" the Universal Standards

for Social Performance Management', May 2013. Available at http://centerforfinancialinclusionblog.files.wordpress.com/2013/05/insights-from-e2809c-beta-testinge2809d-the-universal-standards-for-social-performance-management.pdf, accessed in November 2013.

Ujjivan. 2013. Annual Report 2012–13. Ujjivan, Bangalore.

United Nations Development Programme (UNDP). 2012. 'Financial Literacy as a Tool for Financial Inclusion and Client Protection'. UNDP, New Delhi.

CHAPTER 3

NBFC-MFIs: Directions—Modifications in Pricing of Credit—Margin cap, 31 May 2013. Available at http://rbidocs.rbi.org.in/rdocs/notification/PDFs/CIRMACA31052013.pdf, accessed in October 2013.

Ramesh Arunachalam's article 'Have Sophisticated Thermometers ever Reduced the Temperature?' in Moneylife, December 2011. Available at http://www.moneylife.in/article/have-sophisticated-thermometers-ever-reduced-the-temperature/22144.html, accessed in October 2013.

http://www.centerforfinancialinclusion.org/collaborators-a-sponsors/microfinance-ceo-working-group, accessed in October 2013.

Master Circular—Prudential Guidelines on Capital Adequacy and Market Discipline—Implementation of the New Capital Adequacy Framework, July 2008. Available at http://rbi.org.in/scripts/BS_ViewMasCirculardetails.aspx?Id=4353&Mode=0, accessed in October 2013.

RBI Guidelines for NBFC-MFIs, 2 December, 2011. Available at http://rbi.org.in/scripts/NotificationUser.aspx?Id=6857&Mode=0, accessed in October 2013.

RBI Guidelines for NBFC-MFIs, 3 August 2012: http://rbi.org.in/scripts/NotificationUser.aspx?Id=7493&Mode=0, accessed in October 2013.

CHAPTER 4

Grameen Foundation and EDA. 2013. 'A Poverty Lens on Financial Inclusion', Grameen Foundation, New Delhi.

Mark Schreiner. 2002. 'Aspects of Outreach: A Framework for the Discussion of the Social Benefits of Microfinance', *Journal of Institutional Development*, 14 (5), USA.

MFIN. 2013. MFIN Micrometer, Issue No. 5.

Sa-Dhan. 2012. Bharat Microfinance Report, Sa-Dhan, New Delhi.

Sa-Dhan. 2013. Presentation made by Sa-Dhan at the FICCI Workshop on Sustainable Financial Inclusion, 5 August 2013, Mumbai.

CHAPTER 5

APMAS. 2012. 'SHGs in India—A study on Quality and Sustainability', APMAS, Hyderabad, India.

Centre for Microfinance. 2009. Research Study on Loan Default by SHGs. Available at http://www.srtt.org/institutional_grants/pdf/Research_study_on_loan_default_by_SHG.pdf, accessed in November 2013.

EDA Rural Systems. 2006. 'Lights and Shades—Study of SHGs', EDA Rural Systems, New Delhi.

GIZ NABARD. 2013. Study on Satisfaction Level of SHGs on Financial Services and Demand for New Products and Services, Draft report.

http://www.ifmr.co.in/blog/2011/09/20/analysis-of-shg-bank-linkage-programme-sblp-in-andhra-pradesh/, accessed on 12 July 2013.

http://www.nabfins.org/content/whose-risk-it-anyway, accessed on 3 July 2013.

http://www.rediff.com/news/2013/mar/31jairam-ramesh-letter-to-p-chidambaram.pdf, accessed in November 2013.

MicroSave. 2012. 'Why Do People Not Join or Drop out of SHGs'. Available at http://www.microsave.net/files/pdf/Why_Do_People_Not_Join_or_Drop_Out_of_SHGs.pdf, accessed on 12 August 2013.

MYRADA and APMAS. 2010. An Evaluation of Self-Help Affinity Groups Promoted by MYRADA.

NABARD. 2012. 'Status of Microfinance in India, 2011–12', Micro Credit Innovations Department, NABARD Head Office, Mumbai.

NABARD. 2013. Status of Microfinance, 2012–13, Provisional Information.

Santhanam Srinivasan, see http://indiamicrofinance.com/shg-bank-linkage-programme-term-loan-cash-carry-loan.html, accessed on 15 September 2013.

Sharma, Abhijit. 2011. 'Delinquencies in SHGs of North Eastern Region', IIBM, Guwahati. Available at http:/www.srtt.org/institutional_grants/pdf/Research_study_on_loan_default_by_SHG.pdf, accessed in November 2013.

Srinivasan, Girija and Tankha, Ajay. 2010. 'SHG Federations—Development Costs and Sustainability', Access Development Services, New Delhi.

Srinivasan. N. 2010. 'Microfinance State of the Sector Report'. SAGE Publications, New Delhi.

Srinivasan. N. 2011. 'Microfinance State of the Sector Report', SAGE Publications, New Delhi.

Sriram, M.S. 2013. 'Curbing an Alternative', first published on 23 January 2013. Available at http://www.livemint.com/Opinion/J7u5pmAGZ2lixR4Lg6v3vO/Curbing-an-alternative.html, accessed on 27 April 2013.

Tanka, Ajay. 2012. 'Banking on Self Help Groups, Twenty Years On', SAGE Publications, New Delhi.

CHAPTER 7

Being Strategic about Human Resource Management. Available at http://www.microsave.net/files/pdf/BN_75_Being_Strategic_about_HR.pdf, accessed in November 2013.

Capacity Building—Needs and Challenges in India. Available at http://www.microsave.net/files/pdf/IFN_11_Capacity_Building_Needs_and_Challenges_in_India.pdf, accessed in November 2013.

Peg, Ross. 2011. 'Why Invest in People? Leveraging Talent to Reach Strategic Objectives', Grameen Foundation, USA.

Recruiting and Retaining a Large Workforce—Lessons from the BPO Sector. Available at http://www.microsave.net/files/pdf/BN_76_Recruiting_and_Retaining_A_Large_Workforce_Lessons_from_the_BPO_Sector.pdf, accessed in November 2013.

Towers Watson. 2013. 'MFI Compensation, Benefit Policies and HR Trends Benchmarking Study 2012', Executive Summary.

Wahedi, Faisal. 2012. 'Landscape Study of Demand and Supply of Human Capital Management Services in the Indian Microfinance Sector', Grameen Foundation.

Way Forward: Future of Financial Services for the Poor. Available at http://www.microsave.net/files/pdf/Future_of_Microfinance_by_Graham_Wright.pdf, accessed in November 2013.

Women's World Banking. 2007. 'Building Human Resources Capacity: Developing Competencies for Microfinance Institutions', WWB, New York.

Index

Ananya Finance for Inclusive Growth, 26
Arohan, 109, 111
ASSIST survey, 63, 65, 68
attrition, in MFIs, 108–109, 120
average full annual percentage rates (APRs), 9

backward districts, outreach to, 62–63
balanced returns and reasonable pricing, 27–29
Balanced Scorecard, 113
Bandhan financial services, study by, 68, 72
Basic Level Training (BLT), Ujjivan, 110
Bell Curve, 113
below poverty line (BPL) list, 80
Belstar Investment and Finance Private Limited (BIFPL), 92–93
beta testing of Universal Standards, for Social Performance Management, 37
Board of Equitas, 4
Bonus Act, 112

CASHPOR, 2
  board, 2
  development loan products, 5
  grievance redressal mechanism, 9, 117
  social covenants, 24–25
Centre Group Training (CGT), 119
client protection principles (CPPs), 11, 12, 26. *See also* regulations, and responsible finance
Code of Conduct Assessments (CoCA), 7, 12, 21, 55–56
  board involvement and, 41
  client awareness on insurance and, 42
  client orientation and education and, 41
  documentation and, 40–41
  evolution of, 37–40
  features and strengths of tools of, 53–54
  grievance redressal and, 41–42
  internalization of code and, 41
  learnings from assessments in year 2012–13, 40–43
  loan appraisal for repayment capacity and, 42
  loan repayment options and, 42
  loan utilization checks and, 42–43
  methodology of, limitations of, 40
  overdue recovery process and, 42
  over-indebtedness and, 41, 42
  pricing norms and, 42
  product offerings and, 42
  repayment culture and, 41
  staff training and awareness, 42
  staff training and conduct, 41
  usefulness of, to MFI, 43
Community Management Resource Centres (CMRCs), 88
complaint redressal mechanism, 116–117
Consultative Group to Assist the Poor (CGAP), 14
corporate social responsibility (CSR) initiatives, 87
CPP assessment and certification, 37
CPPs. *See* client protection principles (CPPs)
customer focus, evaluation of, global initiatives for, 43
  CPP certification, 44–45
  observations on state of practices on CPPs, 45–49
  Smart Campaign, 43–44
customer selection norms, 99–100

Department for International Development (DFID)-funded Poorest State Inclusive Growth (PSIG) project, 20, 26
Deutsche Bank, 28
Developmental financial institutions (DFIs), 3
development goal, and outcome indicator, 67
Dia Vikas, 27

early warning system (EWS), implementation of, 92–93

employee fitment assessment, 107
employees benefit, 112
Employee State Insurance (ESI), 112
Employee Stock Option Plan (ESOP), 112
Equitas, 4, 27, 107, 116
ESAF microfinance, study by, 68, 73

federations as business correspondents, 88
field staff, 107
  induction programme for, 110
  recruitment of women as, 108
  recruitment process, 107–108
Financial Awareness Scoping Initiative study, 10
financial literacy programmes, 10–11, 27
  studies on, 33
Financial Management and Research (IFMR) Foundation study, 7
Financial Sector Legislative Reforms Commission (FSLRC) Report, 6
Focus Group Discussions (FGDs), 45
Fusion, 107, 118

gender composition, of board and staff, 11
geographical outreach, of MFI, 62–65
global investors, 27–28
Grameen Foundation India, 64
Grameen Koota, 107
grievance redressal, 9
grievance redressal cell, 106
Group Recognition Test (GRT), 119

Hand in Hand, 83
human capital management (HCM), 115
human resource (HR) practices, 103
  attrition levels, 108–109
  benefits and process evaluation, 112
  CEOs, performance evaluation of, 115
  client responsibility, training on, 111
  hiring, 107–108
  HR manual and policies, 115
  to improve responsible finance, 119–123
  initiatives to develop staff, 118
  internalization of mission and, 109
  manpower planning, 103–104
  performance evaluation system, 112–115
  periodic training and capacity building measures, 110–111
  promotions, 118–119
  retrenchment and lay off policy, 117
  staff complaint redressal mechanism, 116–117
  staff motivation, 117–118
  staff training, 110–112
  staff working conditions at branch office level, 115–116
  studies on, 103, 123, 124
  type III organization structure, 105
  type II organization structure, 105
  type I organization structure, 104
  type IV organization structure, 105–106
  vision and internal values of organization, 109

ICICI bank's SHG-lending practices, 86–87
IDF financial services, study by, 68, 72
India Microfinance Equity Fund (IMEF), 23
Indian School of Microfinance for Women (ISMW), 27
Indira Kranti Patham (IKP), 128
IndusInd Bank, 23, 127
  responsible financial inclusion by, 128–131
insurance products, for SHG members, 86
Insurance Regulatory and Development Authority (IRDA), 5
interest traffic light tool, 28
Internal Job Posting (IJP) system, 118
International Finance Corporation (IFC), 3–4, 10, 12, 26
investments in MFIs, trends in, 23–25
  covenants for responsible financing, 24
  valuations and return expectations, 24

Janalakshmi, 104, 105–106, 113, 118
JLG methodology, 9
Joint Liability Groups (JLGs), 1

Know Your Customers (KYCs), 22
Kshetriya Grameen Financial Services (KGFS), 128, 133–138

lay off policy, 117
Lender Code of Practice, 29
Lenders' forum, 22
liquidity constraint, of small MFIs, 20
loan cards, 9
loans, developmental, 5, 6

management staff
  hiring of, 108
  induction programme for, 110
manpower planning process, 103–104
margin cap, 101
  by RBI, 2
MAVIM, 83, 88, 94
MFIs. *See* Microfinance Institutions (MFIs)
microcredits, 8
microfinance clients, client protection norms by RBI for, 79
Microfinance Development and Regulation Bill, 2
Microfinance Information Exchange (MIX), 5, 25, 61

Microfinance Institutional Rating (MIR), 51, 51f
Microfinance Institutions (MFIs), 1, 12–13, 141–144
  Andhra crisis impact, on MF clients, 12–13
  boards of, 4
  client feedbacks obtained by, 5
  and cost of compliance, 10
  dependence on bank loans, 19–20
  equity investors investments in, 3–4
  external assessments for, 12
  financial inclusion strategy of bank and, 14
  financial literacy programmes by, 10–11
  financial products and other services, 5–10
  gender balance in board and staff, 11
  governance and social performance management, 4
  HR practices in. *See* human resource (HR) practices
  internal audit teams in, 4
  investments in, trends in, 23–25
  large, 3
  pricing data set of, analysis of, 9
  progress of, 1–2
  quarterly performance analysis of, 11–12
  regulation of, 2–3
  responsible finance practices on ground, adoption of, 21–22
  small, 3, 20–21
Microfinance Institutions Network (MFIN), 1–2
microfinance investment vehicles (MIVs), 4
MicroFinance Transparency (MFT), 5
micro insurance, 5
micro pension, 5–6
MicroSave, 109, 112
MIV fund managers, 28
multiple membership, in SHGs, 81
MYRADA, 94–95

NABARD Financial Services Limited (NABFINS), 19, 88–89, 128, 138–140, 141
National Bank for Agriculture and Rural Development (NABARD), 1, 81, 91, 95
National Pension Scheme (NPS), 112
National Rural Livelihood Mission (NRLM), 1, 14, 80
newsletters, 118
Non-Banking Financial Companies (NBFC)–MFIs, 2, 4, 99
non-performing assets (NPA), 1, 91

Oikocredit SPM mentoring programme, 31–32
Ombudsman, 9, 91
operating cost ratio, 66
over-indebtedness of clients, 15, 29–30

participatory identification of poor (PIP) methodology, 80
Pension Fund Regulatory and Development Authority (PFRDA), 5
performance appraisals, 112–115, 120
performance incentives, 114–115
pilots of True Lift, 37
Post-tsunami Sustainable Livelihood Programme (PTSLP), 88–89
poverty measurement tools, 63–64
poverty outreach, of MFI, 63–65
Poverty Outreach Report (POR), for Karnataka, 64
pricing, fair, 6–9
Principles for Investors in Inclusive Finance (PIIF), 14
  initiative of reporting by investors, 30–31
Principles for Responsible Investment (PRI), 30
private sector banks, 19–20
  initiatives by, 3
  innovations by, 22–23
product development, supporting of, 27
product suitability paradigm, 6
Progress out of Poverty Index (PPI), 64
public sector banks, 20

qualifying assets, 99

Rajan, Raghuram, 2
RBI index, parameters and weightages assigned for, 54–55
RBI supervisors, 102
recovery management, 121
recovery process, 120
regulations, and responsible finance, 99
  ceiling on quantum of loans, 100
  client acquisition and income criteria, 99–100
  loans for income-generation activity, 100–101
  margin cap, 101
  priority sector lending, 101–102
  RBI licence, 101
  SHG data sharing with credit bureau, 100
  supervision, 102
  term of loans, 101
Reserve Bank of India (RBI), 1, 2, 21, 43, 79, 99, 101
Responsible Business Index (RBIndex), 43
Responsible Finance Management Systems (RFMS), 26
responsible financing practices, 13–14, 24, 37. *See also* regulations, and responsible finance
  external assessments of, 26
  financial education of clients in, 27
retrenchment, 117
return of equity (ROE), 66

return on assets (ROA), 67
rewards and recognition programmes, 118

Samhita, 107, 109, 111
Satincredit Care, 106, 110, 111
Savings and Credit Co-operative (SACCO), 33–35
savings, in SHGs, 81–84
screening tools, on balanced returns, 28
Self-Help Group Promoting Institutions (SHPIs), 79
Self-Help Group (SHG)–bank linkage programme, 1, 143
  ASSIST study on, 79
  responsible financing in, 13–14, 79–96 (*see also* Self-Help Groups [SHGs])
Self-Help Groups (SHGs), 79
  agents on, influence of, 81
  banking-related data and, 91–92
  cash credit limit to, 85
  credit facility, 84, 85–86
  delinquency management, 91
  drop out groups, 80
  entrepreneurial members and loan requirements, 93
  excessive debt and multiple debt, 89
  fair and affordable pricing by, 91
  federations and financial services, 87–89
  government-supported, 80
  grievance redressal mechanism for, 91
  ICICI bank lending to, 86–87
  individual lending in, 93
  information sharing in, 89–90
  institutional capacity development of, 95, 96
  internal dynamics and financials, 92–93
  key stakeholders in, role of, 95–96
  leadership and responsible finance practices, 94–95
  mission and purpose, 80
  multiple membership in, 81
  non-financial services, 93–94
  outreach and inclusion, 80–81
  outreach data of, 91
  products and services, 81–89
  responsible finance and customer protection for, 80
  rising NPA level in, 91
  saturation approach and, 81
  savings products, 81–84
  staff behaviour and procedures, 89
  targeting of poor in, 80
  transparency and customer education, 89–91
  transparent information sharing by banks to, 90–91
SHGs. *See* Self-Help Groups (SHGs)
SIDBI. *See* Small Industries Development Bank of India (SIDBI)
SIDBI Foundation for Micro Credit (SFMC), 26
Small Industries Development Bank of India (SIDBI), 4, 21, 24–26, 38
Smart Campaign, 12, 26, 37
Smart client protection assessments, 56
social performance management (SPM), 4
  capacity building for, 26–27
  measuring and reporting on, by MFIs, 25–26
  tools in, comparison of, 57–58
social performance measurement and reporting, 61, 69
  backward and poorer pockets, outreach to, 62–63, 74
  balanced performance metrics-based information, 68, 70–71
  balanced returns, 66–67
  geographical outreach and, 62–65
  MFI loans in backward district**s,** 76
  outcomes related to social goals, tracking of, 67–68
  outcome studies, summary of, 68, 72–73
  outreach and, 61–62
  poor and poverty-related outcomes, 63–65
  products and services, 65–66
  savings and insurance, 66
  state-level comparison of outreach of MFIs, 67–68, 74
  state-wise status of MFI loans, 75
  target market and, 62
social performance mentoring programme, 31–32
social performance (SP) report, 4
Social Performance Task Force (SPTF), 12, 14, 15, 26, 37, 61
Social Rating methodology, 51–52
Society for Elimination of Rural Poverty (SERP), 12, 85, 90, 133
SPM. *See* social performance management (SPM)
staff satisfaction survey, results of, 119
staff training, on Code of Conduct (CoC), 10
state level bankers committees (SLBCs), 85
State Rural Livelihood Missions (SRLMs), 81
Stree Nidhi Credit Cooperative Federation, 19, 127–128, 131–133, 141
Sustainable Livelihood Initiative (SLI), HDFC bank, 23

target market, 62
transparent information sharing, 9
Triple Jump, 28
True Lift Assessment, 37, 50–51

Ujjivan, 104–106, 108, 111, 117, 118
Ujjivan's initiative to service quality, 41
Unified Code of Conduct, 37
Unit Trust of India (UTI), 112
Universal Standards on Social Performance
    Management (USSPM), 15, 49–50

Village-Level Committees (VLCs), 88, 94
voluntary savings, in SHGs, 83

Women's Self-Help Group (WSG), 81
women, as field staff, 108
workplace, employee's perspective on, 121–122

Technical Partners

Centre for Microfinance (CMF) at IFMR Research, Chennai, was established in 2005 to conduct rigorous research in topics related to financial inclusion for the poor in India to improve access to and quality of financial services through knowledge dissemination and evidence-based policy outreach. Since its inception, CMF has conducted over 65 research studies that are completed or are currently being implemented in different regions of India. CMF works with many prominent national financial service providers, researchers, policymakers, and regulators, in addition to internationally renowned universities and organizations.

MicroSave

Market-led solutions for financial services

MicroSave is a consultancy firm and training provider that focuses on the needs of financial institutions targeting under and unserved populations and enterprises. We also assist institutions such as telecom operators, technology service providers, fast-moving consumer goods companies, livelihood institutions, and development agencies serving the bottom of the pyramid. We have nearly 80 financial services professionals assisting our clients to achieve their business objectives with practical, market-led solutions.

MIX is the premier source for objective, qualified, and relevant microfinance performance data and analysis. Committed to strengthening financial inclusion and the microfinance sector by promoting transparency, MIX provides performance information on microfinance institutions (MFIs), funders, networks, and service providers dedicated to serving the financial sector needs for low-income clients. MIX fulfils its mission through a variety of platforms.

On MIX market (www.mixmarket.org), we provide instant access to financial and social performance information covering approximately 2,000 MFIs around the world. Our publications, *MicroBanking Bulletin* and *MIX Microfinance World*, feature thorough and timely analysis based on qualified data and research. Incorporated in 2002, MIX is a non-profit organization headquartered in Washington, D.C. with regional offices in Azerbaijan, India, Morocco, and Peru.

The Smart Campaign is a global effort to unite microfinance leaders around a common goal of keeping clients as the driving force of the industry. The

Smart Campaign was launched in October 2009 and has worked to successfully embed the core Client Protection Principles (CPPs) within the industry. It has achieved this through securing industry endorsements, conducting trainings, and fostering a market of technical assistance and support for institutions who want to improve adherence to the CPPs. Over 3,000 MFIs, microfinance support organizations, investors, donors, and individual industry professionals have signed up with the Smart Campaign, representing over 130 countries.

Equifax Inc is headquartered in the US and operates in 18 countries through North America, Latin America, Europe, and Asia. It is a global leader in information management services and has been trusted by customers across geographies for over 113 years, working to deliver innovative solutions with the highest integrity and reliability. In India, Equifax Credit Information Services Private Limited (ECIS), a joint venture between Equifax Inc and six leading Indian financial institutions, operates a consumer credit information bureau for lending institutions (banks and Non-Banking Financial Companies [NBFCs]) and a specialized bureau for MFIs.

The Social Performance Task Force (SPTF) is a non-profit organization that serves the microfinance sector globally. SPTF's mission is to engage with microfinance stakeholders to develop, disseminate and promote standards and good practices for social performance management and reporting. Created in 2005, SPTF today has a membership of over 1,500 people, with representation from every major stakeholder group in the microfinance sector. This includes direct practitioners, national associations, MFI networks, investors, donors, social auditors, social raters, support organizations, and more. The daily operations of the SPTF are run by a small Secretariat and overseen by a Board of Directors, whose members collectively represent various geographic regions and stakeholder groups within the sector.

Micro-Credit Ratings International Ltd (M-CRIL) is a premier global microfinance rating agency. Since its inception in 1998, M-CRIL has played a pivotal role in facilitating funds flow to financial inclusion initiatives through its robust ratings. Besides financial rating, in line with its development focus, M-CRIL is also a pioneer in social ratings, rating of Microfinance Investment Vehicles (MIVs), and schools. In addition to ratings, M-CRIL undertakes sector analysis, research, and technical services across countries. M-CRIL has worked across 33 countries in Asia, Pacific, Africa, and Eastern Europe and Central Asia (EECA).

MEDIA PARTNER

About the Author

Girija Srinivasan started her career as a development banker after a master's degree in business administration. After 12 years of development banking, Srinivasan turned to international consulting in development finance and has been a leading international consultant in development finance and rural livelihoods in India and abroad for the last 17 years. She has authored handbooks and manuals on group-based approaches in microfinance and co-authored two books on community-owned microfinance institutions and SHG federations.

SAGE Impact

Microfinance India: The Social Performance Report, launched in 2011, is now an annual publication that captures the status and progress of microfinance sector in moving towards higher responsibility and social performance, alongside the growth in outreach and quantum of loans.

The Social Performance Report 2013 evaluates the prevalent responsible finance standards and tools of assessments, as well as attempts to initiate a framework for tracking composite performance, financial and social, of MFIs year on year on a set of metrics. The report presents a discourse on the status, innovative cases, and gaps, in policies and practices of MFIs, including a deeper study of human resource practices. The theme on role of investors and lenders in ensuring that social performance of MFIs continues from previous years, with an added scrutiny of the question of these institutions being responsible funders. The interplay of social performance and compliance to the existing regulatory guidelines for MFIs is analysed separately. This year's report for the first time includes a chapter on applying the responsible finance lens on the SHG–bank linkage programme.

Girija Srinivasan is an expert in development finance and rural livelihoods, with extensive experience of consulting, technical assistance, and research in India and internationally. Previously, she has been a development banker for 12 years. She has documented publications and manuals on community-based approaches on microfinance and livelihoods. She was the lead editor of the launch edition of *Social Performance Report* in 2011 and authored the 2012 report.

Core Sponsor

Other-sponsors

Citi Microfinance

www.sagepublications.com
Los Angeles • London • New Delhi • Singapore • Washington DC

₹ 995
ISBN 978-81-321-1736-0