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# Microfinance India

## The Social Performance Report 2014



Girija Srinivasan

An ACCESS Publication





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The Social Performance Report 2014

Girija Srinivasan

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## ABBREVIATIONS

AABY	Aam Aadmi Bima Yojana
AICI	Agriculture Insurance Company of India
AKMI	Association of Karnataka Microfinance Institutions
AP	Andhra Pradesh
APR	Annual Percentage Rates
ASCAs	Accumulated Savings and Credit Association

ATM	Automated Teller Machine
BC	Business Correspondent
BF	Business Facilitator
BoD	Board of Directors
BPL	Below Poverty Line
BSBD	Basic Savings Bank Deposit
BSBDA	Basic Savings Bank Deposit Account
CAB	College of Agricultural banking
CAGR	Compound Annual Growth Rate
CB	Credit Bureau
CBS	Core Banking Solution
CCFS	Committee on Comprehensive Financial Services
CDF	Common Data Format
CDR	Corporate Debt Restructuring
CEO	Chief Executive Officer
CFRP	Client Friendly Repayment Practice
CGAP	Consultative Group to Assist the Poor
CIBIL	Credit Information Bureau (India) Limited
CMF	Centre for Microfinance
COC	Code of Conduct
COCA	Code of Conduct Assessment
COO	Chief Operating Officer
CPI	Consumer Price Index
CPP	Client Protection Principles
CRAR	Capital to Risk (weighted) Assets Ratio
CRISIL	Credit Rating Information Services of India Limited
CSC	Customer Service Centre
CSP	Customer Service Point
CSR	Corporate Social Responsibility
DBT	Direct Benefit Transfer
DCCB	District Central Cooperative Banks
DFI	Development Financial Institution
DFID	Department for International Development
DHAN Foundation	Development of Humane Action Foundation
DNBS	Department of Non-banking Supervision
EBT	Electronic Benefit Transfer
EC	Enforcement Committee

ED	Executive Director
ESAF	Evangelical Social Action Forum
FD	Fixed Deposit
FI	Financial Inclusion
FINDEX	Financial Inclusion Database
FIP	Financial Inclusion Plan
FIR	First Information Report
FLC	Financial Literacy Centre
FWWB	Friends of Women World Bank
FY	Financial Year/Fiscal Year
G2P	Government to Person
GCC	General Credit Card
GDP	Gross Domestic Product
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
GLP	Gross Loan Portfolio
GoI	Government of India
GPRS	General Packet Radio Service
GTL	Group Term Life
HDFC	Housing Development Finance Corporation
HR	Human Resource
IAS	Indian Administrative Service
ICT	Information, Communication, and Technology
ID	Identity Document
IFAD	International Fund for Agriculture Development
IFC	International Finance Corporation
IFMR	Institute for Financial Management and Research
IFSC	Indian Financial System Code
IGA	Income Generating Activities
IIBF	Indian Institute of Banking and Finance
ILAL	Insuring Lives and Livelihoods Programme
ILO	International Labour Organization
IMEF	India Microfinance Equity Fund
IRDA	Insurance Regulatory and Development Authority
ISMW	Indian School of Microfinance for Women
IT	Information Technology
JBY	Janshree Bina Yojana
JDY	Jan-Dhan Yojana

JLG	Joint Liability Group
KCC	Kisan Credit Card
KGFS	Kshetriya Grameen Financial Services
KYC	Know Your Customer
L&T	Larsen and Toubro
LIC	Life Insurance Corporation (of India)
LWE	Left Wing Extremism
MAVIM	Mahila Arthik Vikas Mahamandal
MBT	Mutual Benefit Trust
M-CRIL	Micro Credit Rating International Ltd.
MENA	Middle East and North Africa
MF	Microfinance
MFI	Microfinance Institution
MFIN	Microfinance Institutions Network
MGNREGA	Mahatma Gandhi National Rural Employment Guarantee Act
MILK	Micro Insurance Learning and Knowledge Project
MIS	Management Information System
MIV	Microfinance Investment Vehicle
MIX	Microfinance Information Exchange
MNAIS	Modified National Agriculture Insurance Scheme
MoLE	Ministry of Labour and Employment
MP	Madhya Pradesh
MP	Member of Parliament
MPH	Master Policy Holder
NABARD	National Bank for Agriculture and Rural Development
NAIS	National Agriculture Insurance Scheme
NBFC	Non-banking Financial Company
NBFC ND	Non-banking Financial Company Non-Deposit
NCAER	National Council of Applied Economic Research
NE	North-east
NEDFi	North-eastern Development Finance Corporation Ltd
NEFT	National Electronic Fund Transfer
NER	North-east Region
NERFES	North-east Region Finservices Ltd
NGO	Non-government Organization
NOC	No Objection Certificate
NPA	Non-performing Assets



NPS	National Pension Scheme
NREGA	National Rural Employment Guarantee Act
NRLM	National Rural Livelihood Mission
OID	Over-indebtedness
PA	Personal Accident
PAR	Portfolio at Risk
PE	Private Equity
PFRDA	Pension Fund Regulatory and Development Authority
PIN	Personal Identification Number
PLF	Panchayat-level Federation
PoS	Point of Sale
PPI	Progress out of Poverty Index
PPP	Public–Private Partnership
Pradan	Professional Assistance for Development Action
PSB	Public Sector Bank
PSIG	Poorest State Inclusive Growth Programme
PSU	Public Sector Undertaking
PTSLP	Post-Tsunami Sustainable Livelihood Project
RBI	Reserve Bank of India
RD	Recurring Deposit
RFPI	Rural Financial Institutions Programme, India
RGVN	Rashtriya Gramin Vikas Nidhi
RPLI	Rural Postal Life Insurance
RRB	Regional Rural Bank
RSBY	Rashtriya Swasthya Bima Yojana
RSETI	Rural Self-employment Training Institute
SBI	State Bank of India
SEBI	Security Exchange Board of India
SERP	Society for Elimination of Rural Poverty
SEWA	Self Employed Women's Association
SHEPHERD	Self-help Promotion for Health and Rural Development
SHG	Self-help Group
SHPI	Self-help Promoting Institution
SIDBI	Small Industries Development Bank of India
SKDRDP	Shree Kshetra Dharmasthala Rural Development Project
SKS	Swayam Krishi Sangham Microfinance limited
SLBC	State-level Bankers' Committee

SPM	Social Performance Management
SPRF	Social Performance and Responsible Financing
SPTF	Social Performance Task Force
SRO	Self-regulatory Organization
TA	Technical Assistance
TNCMCHS	Tamil Nadu Chief Minister's Comprehensive Health Scheme
UID	Unique identification Document
UIDAI	Unique Identification Authority of India
USB	Ultra Small Bank
USD	US dollar
USSPM	Universal Standard for Social Performance Management
UTs	Union Territories
WBCIS	Weather-based Crop Insurance Scheme
YOY	Year on Year

# Foreword

On behalf of ACCESS and ASSIST, I am happy to present the fourth edition of the *Microfinance India Social Performance Report* (SPM report) to be released at the Inclusive Finance India Summit 2014. While it took some time, the microfinance sector, post the Andhra Pradesh Ordinance setback, has gradually recouped its dynamic progress, with flow of funds and higher legitimacy as an alternate channel for financial services delivery within RBI's specialized regulatory mechanism for NBFC-MFIs. Increasingly, MFIs are now consciously developing and embracing better processes and systems for client protection; and various sectoral initiatives such as the adoption of credit reporting and assessment of compliance to the industry code of conduct and client protection principles have supported the efforts of MFIs. Since the SHG bank linkage is community based, not much focus on how it is performing on SPM indicators is evident; but the bigger worry is that its compound annual growth rate (CAGR) over the last 3–4 years has been showing significant slump, along with an alarming rise in defaults.

While the sector was eagerly looking forward to the passage of the Microfinance Bill as a potential development that could further bolster its legitimacy, certain policy changes in favour of MFIs have kindled new promise for this channel. The most important of these includes the grant of commercial banking license to Bandhan Microfinance. RBI has also permitted NBFC-MFIs to work as Business Correspondents of banks and allowed one of the MFI associations (MFIN) to set up the SRO function (a first in the financial services industry in India). The game changer for MFIs however could be their eligibility to transform into small banks, making them fully regulated entities offering the full gamut of banking services. These developments auger well for the MFIs and for their next level of evolution in becoming mainstream financial institutions.

The approach of the government however continues to be entirely bank led with the Jan-Dhan Yojana (JDY) envisaging speedy expansion of banking services to the unbanked, beginning with account opening, followed by delivery of other financial services including credit, insurance, and pension. The quality of services delivered to these clients under the mission mode will continue to be a challenge, and issues of client education and client protection will need attention at the policy level and bank level. The role of bank correspondents (BCs) within the JDY will be important in delivering outcomes and in integrating responsible finance in its implementation.

In keeping with the agreed format, the publication continues to report on some aspects such as deeper analysis of outreach, client protection, implications of policy and major initiatives of investors, every year. In addition, some significant themes are identified for deeper reporting. Based on the feedback received in two stakeholder consultations organized to collect reviews on SPM report of 2013 and to generate themes and ideas for the Report of 2014, governance emerged as the 'most-wanted' topic for deeper introspection. An important area agreed upon after much discussion and consideration was to review practices and highlight issues pertaining to responsible finance in financial inclusion through the BC model. Another new sub-theme that the report delves into this year is to review responsible practices and issues in insurance for the poor.

I would like to thank the passionate author, Girija Srinivasan, for continuing to support this initiative and anchoring it with consistent and high level of quality for four years. I would like to thank Sundar Arumugam and the team at

Equifax for providing granular data that enabled more detailed analysis of outreach. We are thankful to DFID and SIDBI for commissioning a study on governance in MFIs and to MicroSave for conducting the study and providing the findings to the author in time for inclusion in the SPM report. MIX's global social performance team as well as the India team continued to provide data and analysis for the report. We value the continued support from other technical partners—Smart Campaign and Social Performance Task Force (SPTF).

I would like to also thank all the MFIs that provided their data for the report, and the institutions—MFIs, banks, BCs, investors, technical agencies, and individuals that Girija visited and interviewed, for enriching the report with information and their experiences and perspectives. We have a new publisher this year; thanks to the team at OUP for their efficient coordination during the publishing process, and bringing the report out in really stiff timelines. I hope that with OUP's partnership, we are able to reach out to a much wider set of readers—within and outside India.

I must thank Prashant and Balaji at Standard Chartered Bank, for facilitating continued support to this document as the lead sponsor, and for providing inputs on its content and structure. Thanks also to IFC and SIDBI for being on board for all the four years that this report has been published; consistent support from these investors gives us the much needed stability and encouragement in operationalizing such an enormous task, and also adds to the credibility of the effort. I also appreciate Maanaveeya's interest and support in this endeavor.

I would like to appreciate the hard work of the new team at ASSIST—Sarthak, Shubhangi, and Anshu—for providing assistance with data collection, collation and analysis; Juhi for providing efficient support to the author in organising meetings; and Tushar for final organizing of the manuscript. Thanks to Lalitha for her excellent logistics management; and others in program support team at ACCESS. Vipin Sharma, as Managing Trustee of ASSIST, entrusts the team with the responsibility and instils faith and confidence in our ability to deliver; and continues to support the effort with ideas, guidance and at times, also trouble shooting.

The scope of the SPM report has, over the last four years, broadened from MFI model to including community-based models in 2012, discussing responsible finance in SHG bank linkage model in 2013 and the BC model and insurance this year. It is possibly time to evolve the global SPM framework developed by the SPTF to make it applicable and adaptable to other channels of financial inclusion. I suspect that with the changing landscape of the microfinance sector, the new policy developments, and the merging boundaries of various channels and models in financial inclusion, we may need to further broaden its scope next year beyond microfinance and even rechristen the report to make it relevant to the context and to the stakeholders. The endeavor of bringing out the India SPM report is to ensure that all initiatives and efforts in access to finance integrate the principles of social performance within all programmes, policies, and practices.

Radhika Agashe  
Executive Director, ACCESS ASSIST



# Preface

This is the fourth and last year of my involvement with this report. It has been a fascinating ride, having a ringside view of how the sector and its stakeholders coped with calls for customer-centric initiatives and ethical considerations in business while dealing with vulnerable customers. I thank Vipin Sharma and Radhika Agashe, Access Assist for this enriching experience.

The past year has seen a resurgence of microfinance institution (MFI) model of business, stagnation in outreach of self-help groups (SHGs), but with higher loan disbursements, a large national programme of financial inclusion and interesting policy and regulatory developments. A report of this type requires cooperation and sharing of information from several stakeholders. As in the past, there was willing cooperation and overwhelming support for the report. I have a lot of organizations and people to thank, for providing data, sparing time for discussions, sharing study findings and reports, pointing towards useful sources of information and actually helping with advance drafts relating to certain parts of the report.

I commenced the discussions with Kalpana Sankar and Jeyaseelan, Hand in Hand/Belstar who were generous with their insights and time. Hand in Hand arranged for discussions with key bankers in the state. Suresh Krishna, Grameen Financial Services, not only spent substantial time in sharing his experiences and thoughts on what further needs to be done but also ensured that I could meet with senior executives of banks. Executives of Institute for Financial Management and Research (IFMR) group—Bindu Anand, S.G. Anil, Anand Sahasranamam, and Bama Balakrishnan—shared the key developments in their groups and innovations that are needed to meet client needs. Satyajit Das, Annapurna Microfinance; Mukul Jaiswal, Cashpor; P.N. Vasudevan, Equitas; Paul Thomas, Evangelical Social Action Forum (ESAF); Samit Ghosh and his team, Ujjivan; Rangarajan, Janalakshmi, and M. Naryanan, Madura Microfinance; Rupali Kalita, Rashtriya Gramin Vikas Nidhi (RGVN); Ritesh Chatterjee, Swayam Krishi Sangham Microfinance Limited (SKS); and G.V.S. Reddy, Stree nidhi, spent a lot of time in sharing their experience and concerns despite their busy schedules. North-east MFIs—Nightingale, Asomi, Chanura, RGVN, NERFES, Arohan, Unacco, North-eastern Development Finance Corporation Ltd (NEDFi), and Grameen Sahara—participated in the round table and shared their experiences and anguish.

The deep insights of the industry leaders Brij Mohan, Y.C. Nanda, N. Srinivasan, Frances Sinha and Manoj Sharma have enriched the report. Bhavana Srivastava, MicroSave; Microfinance Information Exchange (MIX) market team; Hema Bansal, Smart Campaign; and Ananya Finance for Inclusive Growth provided substantial information for the report. Atul, M2i, shared the progress in Code of Conduct Assessment (COCA) and other assessments. Grameen Foundation shared their work on Progress out of Poverty Index (PPI) and human resources (HR). I am thankful to N. Srinivasan for his contribution on regulatory aspects as also inputs on Governance. Without the inputs of Karunakaran Krishnaswamy and Aniruddha Shanbhag, Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), the chapter on micro-insurance would not have shaped up.

Girish Bhaskaran Nair, Sakshi Varma and their team in IFC, Viswanath Prasad, Caspian, Ranjani and her team in Dia Vikas, Abhijit Ray, Unitus Capital brought in the perspectives of the investors and their work. My special thanks to