

Cashpor Micro Credit

a not-for-profit section 25 company

Varanasi, India

Social Rating

{Second}

September 2010

Mission:

To identify and motivate BPL [*below the national poverty line*] women in the rural areas and to deliver financial and other vital credit+ services to them in an honest, timely and efficient manner; so that our vision is realized and CASHPOR itself remains a financially sustainable microfinance institution for the poor.

Vision:

BPL women in eastern Uttar Pradesh and Bihar having access to microfinance services, and many utilizing them to lift themselves and their families out of poverty. At the same time, we see that their families have become healthy, and their children are in school.

Statements revised by the Board, August 2010

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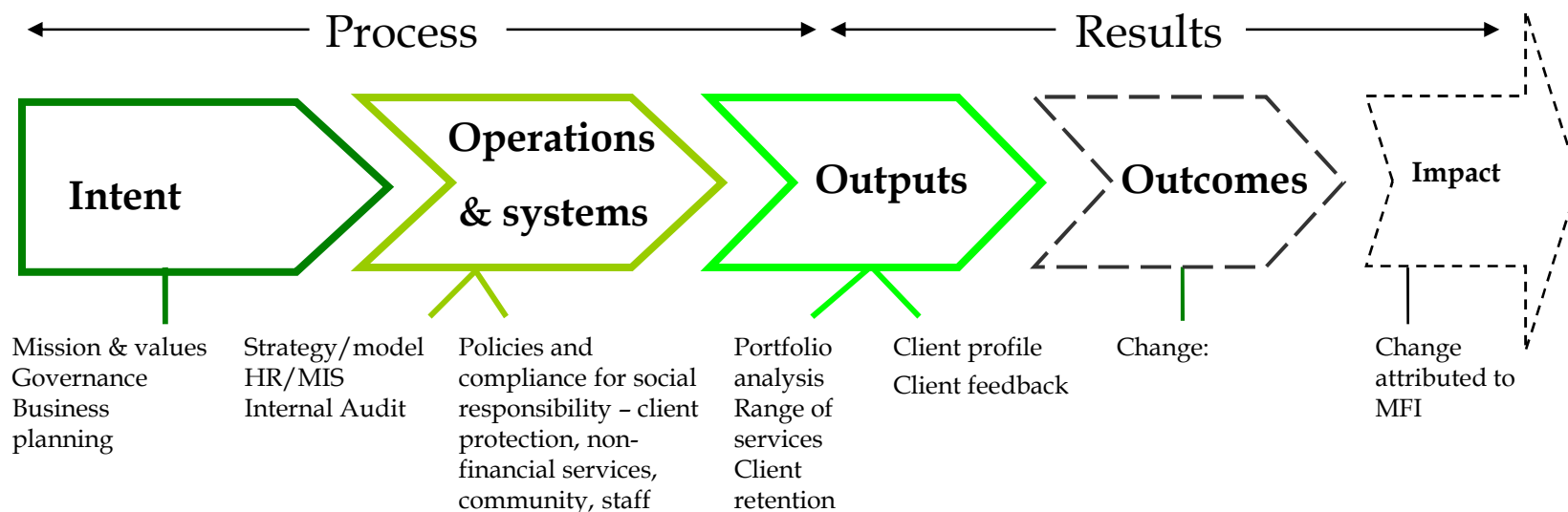
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Structure

- ▶ Social performance pathway
- ▶ Synopsis and Rating Rationale
- ▶ Intent
- ▶ Alignment of systems
- ▶ Social responsibility to clients
- ▶ Other social responsibility
- ▶ Results - outputs
- ▶ Results - outcomes
- ▶ Investment covenants
- ▶ Annexes

Social performance pathway: & what this social rating covers



- ▶ Social performance is: *the effective translation of an institution's mission into practice in line with accepted social values*
- ▶ Social performance emphasizes
 - governance and management processes,
 - outputs and outcomes, as the steps towards achieving impact
 - and generic values around outreach and social responsibilities.
- ▶ This comprehensive social rating covers four steps of the pathway, including MFI data for poverty outreach and outcomes, and client data collected as part of the rating

Abbreviations

BM	Branch Manager	MP	Medium Poor (according to CHI)
CGT	Compulsory Group Training	NPL	National Poverty Line
CHI	Cashpor Housing Index	OBC	Other Backward Caste
EIR	Effective Interest Rate	OSS	Operating Self Sufficiency
GNI	Gross National Income	PAR	Portfolio at Risk
GRT	Group Recognition Test	PPI	Progress out of Poverty Index
HDI	Human Development Index	SC	Scheduled Caste
HR	Human Resource	ST	Scheduled Tribe
IA	Internal Audit	UP	Uttar Pradesh
MD	Managing Director	URN	Unique Registration Number
MFI	Microfinance Institution	VP	Very Poor (according to CHI)
MIS	Management Information System	WSWC	Women Staff Welfare Committee
MNREGA	Mahatma Gandhi National Rural Employment Guarantee Act		

Glossary

- ▶ Progress out of poverty index (PPI): A set of 10 proxy indicators that are used to score the likelihood that clients fall below a particular poverty line..Statistically derived from the NSSO, Round 62 (2006)
- ▶ International poverty lines at purchasing power parity (PPP): \$1.25/person/day=Rs19.22 (2006 prices) or the amount that would purchase the same basket of goods in India that \$1.25 would fetch in the US. Works out to est. Rs 3,180/household/m. Similarly PPP\$2=Rs30.75 (2006 prices) is Rs5.075/household/m
- ▶ National poverty line: Rs14.25/person/day in 2006 (Rs2,815/household/m). It is expected to be updated to PPP equivalent of \$1.25/person/day, after recommendation by Tendulkar committee.
- ▶ Poorest districts: Listed in Planning commission's 100 poorest districts (excluding Delhi, Goa, Bihar and Orissa) for Govt's backward district programme (RSVY) and for Bihar from Poorest Area Civil Societies programme of DFID
- ▶ Dropout rate: Calculated as: number of clients who did not reborrow within 5 weeks minus expected rejoiners/average no. of clients at the beginning and end of the year
- ▶ Staff turnover rate: Number of staff who left/ Average number of staff at the beginning of the year and the end of the year
- ▶ Portfolio at risk (PAR (>30days)): Ratio of the principal balance outstanding on all loans with overdue greater than or equal to 1 day to the total loans outstanding on a given date.
- ▶ Effective Interest Rate EIR: The full financial costs of borrowing to the client , including interest (on declining annual basis) , and all associated fees.
- ▶ OSS: Ratio of total operating income to total costs for the year.
- ▶ MNREGA: MNREGA entitles 100 days of work with minimum wages for rural households, and wages are through the workers' savings bank account.

Synopsis

- ▶ Cashpor (CMC), 12 years old, not-for-profit Sec 25 company
- ▶ Operations in north India: less developed districts of Eastern Uttar Pradesh and Bihar
- ▶ Strong focus and culture on double bottom line microfinance
- ▶ Poverty focused – intent and practice

Performance (data Mar 2010)	
Group model, weekly transactions	
Services: credit and compulsory loan/life insurance	
Non-financial services: health education	
Clients (active borrowers)	4,17,039
Rural	85%
Women	100%
Depth of outreach	
Clients in poor/poorest districts	51%
Scheduled caste/tribe/minorities	? (>70%)
new clients < \$1.25/day at PPP	61% [^]
% clients aware: (rating survey)	
of interest rate	56%
of insurance	77%
of processes	90%
Client feedback-positive (rating survey)	93%
Dropout rate (minus est rejoiners)	15%

[^] CASHPOR data with PPI, 2,703 new clients

SOCIAL RATING	$\Sigma\alpha$
RATING OUTLOOK*	Positive
PREVIOUS RATING	$\Sigma\alpha$

Visit: 27 Sep - 01 Oct 2010

Previous rating: August 2005

Rating dimensions	2010	2005
Process/organisational systems		
Mission clarity & systems aligned	$\Sigma\alpha$	$\Sigma\alpha$
Social responsibility to clients	$\Sigma\alpha+$	$\Sigma\beta+$
Other social responsibility	$\Sigma\alpha$	
Results/outputs – client level		
Depth of outreach	$\Sigma\alpha++$	$\Sigma\alpha+$
Appropriate services	$\Sigma\alpha$	$\Sigma\alpha$

Strengths

- ⇒ Board and MD strongly focused on balancing the double bottom line – being sustainable but ensuring benefits to clients
- ⇒ Strategic targeting results in deep poverty outreach; significant effort to track poverty reduction: studies show moderate, positive evidence for poverty reduction and reduced use of moneylenders
- ⇒ Fair and transparent pricing (credit and insurance)
- ⇒ Client awareness quite high on credit terms
- ⇒ Introducing mechanism to support women staff (though gender ratio relatively low)

Issues

- ▶ Limited loan size, even for repeat loans
- ▶ Increasing competition in the area – with multiple borrowing and potential for over-indebtedness of clients
- ▶ Unable to track client dropout rate
- ▶ MIS lacks streamlined system for collection, collation and analysis of data on social indicators (Recently introduced client URN will help to address this issue)
- ▶ Client profile information – quality needs attention (‘rural’, caste, asset ownership, CHI, PPI translation)
- ▶ Staff concerns about limited promotion opportunities for staff, may lead to staff attrition (to other fast growing MFIs)

Rating Rationale

Governance: balanced board focused on double bottom line

- Decisions reflect focus on social as well as financial aspects of CMC's operations
- Consolidated growth strategy
- Very reasonable MD remuneration – 22 times field staff

Strong poverty orientation

- Carefully applied criteria for area outreach and targeting clients. Two-thirds of new clients below \$1.25 per day compared to India's poverty rate of 43%

Standard 'vanilla' product

- Scope to adapt to different client segments/livelihoods

Transparent and fair pricing

- Terms and conditions of credit communicated clearly, interest on declining basis,
- Recent profits led to reduction in EIR this year
- Very carefully designed insurance product to cover client and spouse. Low margin to CMC; full benefits of payout to clients

Organisational data as on 31 March 2010

Annual growth rate – clients	50%
Annual growth rate – portfolio	48%
Average outstanding loan size	Rs 6,412
Average disbursed loan size	Rs. 9,920
Average loan balance/GNI per capita	12.8%
Effective Interest Rate	27.9%
Loans < INR 10,000 (\$250)	67%

Social data

- Significant effort to monitor poverty levels of clients. Introducing the PPI to benchmark poverty from this year. Annual sample survey by Internal Audit to determine poverty status of mature clients, introduced from 2009. Positive results in terms of poverty reduction, though less than stated (applying the \$1.25 poverty benchmark)
- Need better definition and quality data for key client profile information (rural, caste)
- Limitations in the MIS to collate and report on social indicators; unable to track client dropout, and loan information over time

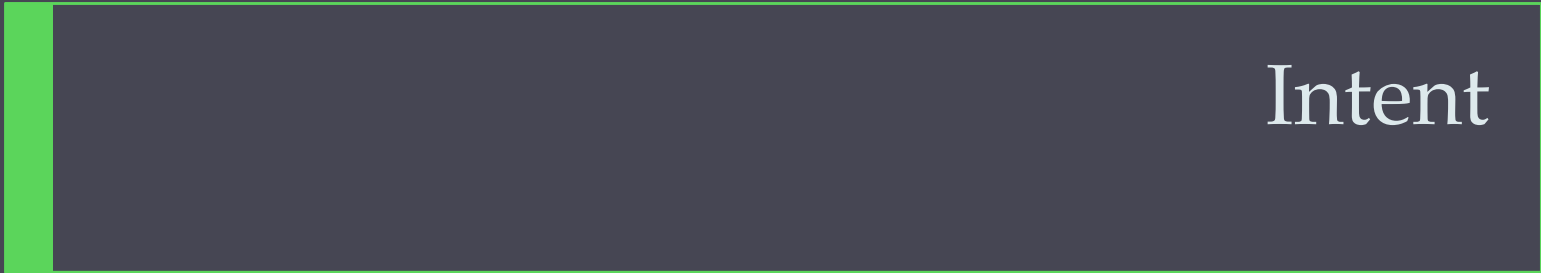
Staff issues

- Like improved field efficiency measures
- Straightforward incentive system
- Performance appraisal need to be linked with social performance/values
- Salaries this year brought in line with market, but staff likely to be affected by limited promotion opportunities

Competition

- Lacks systematic check on multiple borrowing by clients, anyway affected by limited loan size
- May lose staff to other fast growing MFIs

Total staff	1,661
Women staff	10.5%
Clients/field staff	371
Staff turnover	6%
RoA	3.3%



Mission & values
Governance
Business planning

Mission: clarity and communication

- Mission and vision statements specify:

Who	<u>BPL women</u> (below the national poverty line)
Where	<u>rural areas in north India</u> : eastern Uttar Pradesh (UP) and Bihar
What	financial services and (<i>recently added</i>) credit plus services
For what	<u>poverty reduction</u> , and (<i>recently added</i>) better health, and clients' children complete schooling

- National poverty line assumed – but benchmarking (applying the Progress out of Poverty Index) indicates more varied income levels for new clients (see slide 36)
- Mission and Vision statements were redrafted and approved by the Board in August 2010 to include credit+ services
- Spirit of mission and vision is stressed through trainings; mission focus and awareness was evident during interactions with all levels of management and staff; most staff have memorized both statements (the old version)
- Specific social objectives are part of the social covenants suggested by Cashpor for investment agreements to maintain mission focus

Governance - strong, ethical governance

- Experienced and socially committed Board
- Nine Board members, 4 are independent, 2 are women
- Executive chairman – founder and key influence in CASHPOR. Has over 30 years experience of promoting and building institutional capacity for poverty focused microfinance in Asia.
- Regular meetings every quarter. Meetings well attended and documented
- Board minutes reflect concern to balance double bottom line.
- Remuneration (salary + bonus) of the MD (at Rs24,00,000 p.a.) is 22 times the salary of a Centre Manager (at Rs1,08,000).

Strategic planning

- Well laid plans to grow in terms of client outreach at a cumulative annual growth rate of 29%. Will continue expanding to adjacent districts of Eastern UP and Bihar, increasing to 27 districts
- Business plan does not reflect targets related to social performance (although these are part of the MFI's suggested social covenants for investors)
- Strategy is to increase operational efficiency by increasing the centre size to a maximum of 25 clients (from current 18).
- Board has decided that OSS should range between 105% and 114% (tax exemption status limits the OSS to 115%): focus will be on efficiency and client addition using existing outreach and infrastructure
- 5% annual surplus to be allocated for credit + activities
- Savings mobilization has been proposed through Banking Correspondent tie-ups

Alignment of systems

← **Process** → ← **Results** →

**Operations
& systems**

Model/market strategy
Products & services
Nonfinancial Services and Linkages
HR, MIS, Internal Audit

Market strategy

▶ **Areas**

- Clear focus on poorer states of India, and poorer districts of Eastern UP and Bihar; contiguous districts chosen with reference to higher number of scheduled caste/tribe households, (identified socially marginalised communities)
- Main focus on rural areas; some branches located in semi-urban and urban areas with client outreach up to 15 km radius. Urban outreach also serves to diversify risk and support regular liquidity. Guideline for rural outreach: 80%
- Centre Manager (CM) selects villages having min. 40 target households (see below), motivates women to form joint liability groups of 15-25 members (CMC assumes 50% of village target households may become clients)

▶ **Clients**

- Poverty focused target strategy, systematically applied ; initial focus on SC/ST hamlets
- Clients selected using [Cashpor Housing Index](#) (CHI score < 4)
- If CHI score is less than 4, and for occupants of government allotted houses, a [set of criteria](#) based on income source and ownership assets have to be satisfied
- Some discretionary selection (by Branch Managers) in urban areas, or special cases (such as houses built through government programmes) where CHI scores are not applicable.
- CMC is beginning to introduce the PPI to benchmark the poverty level of entry level clients; may use for targeting where CHI is not applicable, with cut-off PPI score of 34 (aiming at 71% below \$1.25)
- Internal Audit checks selection of clients at 2 centres/branch (annually)

Model & processes

- CMC follows the Grameen group model for lending to women clients
- Form 1, which has information on various economic and social parameters (including CHI), is filled for potential clients.
- 5 hours (1 hour/day over 5 days) Compulsory Group Training (CGT) of new groups is conducted by the CM, covering loan terms and conditions, paper work and group mechanism.
- Branch Manager(BM) conducts Group Recognition Test (GRT) and physically verifies Form 1 information for all clients at their home . The loan application is rejected if information is not found to be correct.
- Loans are disbursed at the Branch Office by BM, with the concerned CM as witness. Collections are weekly, and group members, by turn, deposit the total weekly collection at the nearest branch. This might increase the cost incurred by clients to avail CMC's services
- Loan Utilization is checked by the CM (100% cases), BM (50%) and Area Managers (20%) to ensure that loan has been used for enterprise investment.

Current focus on credit (with insurance); future plans to link clients to savings through Banking Correspondent model (supported by Grameen Foundation)

Financial products

▶ Credit

- Main product is a loan for income generation, starting at Rs2,000 up to a maximum of Rs14,000
- A Bada loan from Rs15,000 onward introduced this year, for clients with at least 4 loans
- Emergency loan re-introduced this year (for second cycle clients onwards), with modifications based on client demand
- As on March 31 2010, 94% of portfolio is in income generation loan product, and only 6% in Bada loan. CMC disbursed only one emergency loan in the FY
- Clients can foreclose the loan after 35 weeks, without penalty

Product	Income Generation	Emergency Loan
Latest modification	1 July 2010	3 May 2010
Method of lending	Group	Group
Loan size (Rs)	2,000-14,000 (+ this year up to 25,000)	1,000
Guarantor	Joint Liability	Joint Liability
Processing fee	2% of loan	2% of loan
Annual declining interest rate	25.76%	27%
Loan Term	52 weeks	25 weeks
Repayment	Weekly	Weekly
Security Deposit	-	-
Insurance charge	1% loan amount	1% loan amount

▶ Insurance

- Tie-up with Bajaj Alliance, ICICI Prudential and LIC India
- Compulsory with loan: 1% upfront fee to provide life cover for client and husband. For widows the charge is 0.5%
- Coverage: entire loan amount. CMC recovers the outstanding loan amount, and pays the rest (of the full loan amount) to the family.

Non financial services and linkages

- Up till last year, CASHPOR provided limited non-financial services to clients in one district (Mirzapur), including education scholarships (Rs500–Rs1,000 to 1,064 clients' children) and linkage to sericulture development (State Govt. programme) in a few tribal villages
- In August, the vision and mission statements were rephrased to include credit plus activities, and specify family health and children's schooling as a social goal
- From 2009-10, 5% of the annual surplus is allocated for Credit Plus activities, included in the current 5-year Business Plan
- Integrating health with education:
 - Training of CMs by the Micro Credit Summit campaign, applying tools developed by Freedom from Hunger.
 - Pilot in 15 branches/15 CMs: 15 minutes of the 30 minutes centre meeting is used for health education
 - 1st module (3 months): how to deal with common child diseases (diarrhoea, coughs, fever). Next (FFH) modules: female health and family planning. (Challenge – whether to discuss sensitive issues only through women CMs. Also need to find out what is relevant to women clients, depending on their age/family status)
 - Training clients as community health leaders – 1 branch in Bihar, tie-up with Healing Fields Foundation. Aim to train 80 women clients by March 2012. It is intended in future that they will take-over the responsibility from CM, and be paid for it.
- Health and education now taken up as critical poverty related issues.
- Scope to consider interventions to support different livelihoods

HR systems - aligned with mission & values

- Recruitment: Shortlisted applicants oriented about CMC and sent for field training for 2 days to orient them on the nature of work. Preference for candidates from socio-economically backward sections - 13% staff belong to SC/ST, 38% OBC, 7% from Minorities.

Recruitment	Aligned
Training	Aligned
Appraisal	Aligned
Incentives	?

- Staff are posted in branches keeping in mind a good mix of experience, home district, caste, etc - aim is for good integration, without familiarity
- Training: Induction training orients the new staff to mission, vision and values of the organisation. The staff's fit to the nature of work is assessed during the probation period.
- Mission and vision of Cashpor is emphasised during induction training, re-emphasised during transition trainings and refresher trainings.
- Appraisal: Appraisal process consists of written test and interview. Audit score of the branch is considered for each staff. Aspects of mission and values covered.
- Staff incentives: previously rewarded outreach to very poor; this was dropped when the internal audit check found that 'VP' was the default value in the MIS. The current system (since 2008) is a fixed proportion of interest earned. This is easy to track, and allows for retaining clients and maintaining portfolio quality, though might reduce likelihood of smaller loans. Area Managers are incentivised on the number of visits they make to the branch offices, performance on specific monitoring duties and detecting lack of compliance with the Operations manual by BM and CM.



Information and reporting - on mission

MIS	
Client profile at entry	Form 1, CHI
Loan tracking over time	x
Client retention/exit	x

- Fully computerised; data entered by Branch managers each week
 - Weekly company reports cover details of centres, staff, clients, repayments and arrears
 - Reports on outreach to new 'very poor' and 'medium poor'
 - Other client profile data (caste) also reported - not verified
 - Loan use reports are monitored
 - Lack of unique client ID means that loan analysis over time/cycle is inaccurate: cannot track 'new clients' - some of whom are rejoiners; unique registration number (URN), introduced recently, will help to address this issue
 - 'Rural' profile based on branch location - understates rural outreach; data being corrected, needs to be systematised
 - Beginning to apply the Progress out of poverty index (PPI) to benchmark poverty level of entry level clients: 3,185 'new' clients randomly selected this year; issue in translation; data used for this rating to profile depth of outreach.
 - Reasons for exit documented in dropout register at branch - not compiled into any report
- Reported this year on Social Performance Standards to the MiX
 - Limited social reporting from the MIS; used by the MD, not reported to the Board
 - In future, should aim to track access to non-financial services

Information and reporting – on mission

Market intelligence/client feedback	
Market research	x
Client satisfaction	Partial
Exit reasons	x
Change/profile of mature clients	✓

- Efforts to track change over time
- Currently involving the internal audit team – to cover PPI profile and client feedback (latter needs analysis)
- Lack clear baseline information; future application of PPI for (actual) new clients will provide a clear baseline
- [Data from 2009 and 2008 studies used as part of this rating (slide 43)]
- Market research through Focus Groups in initial years
- Ongoing informal client feedback (chairman field visits)
- Small, systematic sample studies on change conducted externally by ABN Amro/RBS (shareholder) in 2004, 2008
- 2008 study covered 320 clients who had completed at least 5 loans, over 4 years; PPI used to benchmark and compare poverty levels; but not clear which should be the appropriate poverty line
- Careful attempt to identify factors that may reduce poverty
- 2009, chairman involved the internal audit team to survey 150 mature clients including PPI and client feedback - planned as a yearly activity. However, quality and depth of analysis is an issue. An error in calculation of PPI scores.
- In future – should aim to track effectiveness of non-financial services

Internal audit

- Headed by retired banker, team of 33 staff includes well qualified people with prior experience in operations
- Surprise audits of each branch twice a year. A team of 2 auditors visits the branches for 3 days.
- 20% of new advances are physically verified by the audit team – this includes verifying poverty targeting, asset ownership and loan utilization
- Audit includes process checks. Surprise visit of 2 centres at each branch, to interact with clients. Audit reports cover meeting discipline and timing, attendance of members, client awareness, staff behaviour, incidences of multiple borrowing by clients, pipelining etc. are reported
- Visit some dropouts – though focus is to ensure non-borrowers do not stay in the system, rather than to find out reasons for exit
- The findings are sent to branches and compliance report from BMs is required within 1 month. Follow-up visit to check the compliance of the branches are conducted before the audit file is closed. Summary sent to the Chairman and MD

Social responsibility to clients

← **Process** → ← **Results** →

**Operations
& systems**

Compliance to social
responsibility – client
protection

Client Protection

- ▶ CMC has endorsed the SMART campaign for client protection
- ▶ Assessment of the six principles are covered below
- ▶ Client protection issues are covered partially in the process design and operational manual; and are part of scrutiny in supervision and internal audit
- ▶ **1. Avoidance of over indebtedness:**

Reasonable level of checks for small loan size; but lack guidelines to assess loan amount and repayment capacity

- Loan application form aims to capture family's outstanding loans from MFIs, banks, informal lenders and relatives - cross-checked with her family members during house visit by CM and BM. Information based on the responses of the applicant and family members may not capture full extent of debt. Also, CMC lacks guidelines (cut-off limits, debt service ratios) to enable decision making on the basis of indebtedness information captured.
- Any loan >Rs14,000 has to be approved by the District Manager
- Operations manual does not give guidelines on deciding the loan amount for a client or repayment capacity. Loan sizes are limited to 8,000 – 10,000 for 1st cycle, and are gradually increased per cycle by Rs. 2,000 only

Client Protection

▶ 2. *Transparent pricing*

Very transparent pricing and communication – [awareness results](#) indicate good knowledge of processes, but gaps in certainty about interest rate

- Clients are provided a loan card with repayment schedule which is used to record all financial transactions with CMC.
- Loan terms and conditions including fees are explained verbally during the CGT by the Cos, and at time of disbursement
- Interest rate is communicated as a declining annual rate
- All charges and details of repayment (principle + interest) are printed in the local language in the loan card for each client
- Centre meeting records are maintained at group level and clients have their individual loan cards as a record of their repayments.
- Internal audit team checks client awareness and accuracy of information through surprise visits to centre meetings
- Centre Leader workshops conducted every year to educate clients on the existing basket of products regarding its actual cost & pricing. This year focus was on awareness & need for insurance.

Client Protection

2a Fair pricing - credit

- Profitable since the last financial year, the Board reduced the interest rate to clients in April 2010 from 30% p.a. to 26% p.a. (declining)
- Including the 2% monitoring charge and insurance premium, the effective interest rate is now 27.9%.
- This compares with effective interest rates ranging from 28% - 34%
- It represents a spread within 15% of the cost of funds.
- In comparison with other MFIs in India and S Asia (see Table), CMC's portfolio cost structure is relatively efficient.
- The management aims to improve efficiency by increasing the Centre size from the current average of 18.5 to 22 clients, thereby increasing staff productivity (clients/field staff) – though this should not increase beyond 25 (maximum centre size)
- The Board plans to review and reduce costs to clients again by March 2012

Cost structure as % of average portfolio

	CMC	India	South Asia
Av outstanding loan \$	133	141	147
Clients/field staff	371	414	308
Operating expense ratio	12.6%	13.5%	16.2%
Financial expense ratio	10.3%	10.9%	8.8%
Loan provisioning	0.05%	0.7%	1.0%
Total costs	22.95%	25.1%	26.0%
Yield	25.6%	27.7%	24.8%
Surplus	2.7%	2.6%	(1.2%)
PAR (30 days)	0.28%	0.83%	1.77%
Write-off	0.24%	0.14%	0.30%

Fair and responsible pricing is particularly relevant, since CMC is also covering relatively higher costs associated with small loan size and rural operations in underdeveloped districts

Client Protection

2b Fair pricing - insurance

- In this financial year, CMC completed a careful process of negotiations to engage in the end with three insurance companies for the provision of loan/life insurance. CMC is implementing a package which covers both client and husband (which is an important provision) and pays out the full amount of the disbursed loan
- of the 1% loan amount paid by clients as premium, CMC retains just 0.1% for administration costs; the rest has been passed on to the insurance providers to increase the coverage amount (over and above the loan amount).
- In case of payout, CMC adjusts the outstanding loan amount and pays out the rest of the claim to the client
- This replaces the earlier scheme of CMC with Birla Sun Life, which included a return of premium to clients with interest, in case of no claim. However, the benefits of this scheme were limited, as clients got only a fixed payout, which was less than their loan amount.

Quite unique and responsible pricing for insurance: benefits specifically passed to clients, rather than being used as an additional source of revenue for the MFI

Client Protection

▶ 3. *Appropriate Collection Practices*

- Staff forbidden to collect cash – clients deposit centre collection at branches turn by turn
- CMC has a “No Tolerance of Arrears Policy” – its operations manual details guidelines focusing on staff behaviour while dealing with clients. Aggression and coercion are forbidden, persuasion is advised. The manual distinguishes ‘willful’ and ‘non willful’ defaulters – willful defaulters would be those who have not had any health crisis or death in the family, and who have adequate ability to pay. Follow up at the house of the client is advised in such cases.
- Non-willful defaulters are motivated to resume attendance at Centre meetings, and then a plan is developed with them for their rehabilitation (refinance or lengthening loan term or both) – there was no evidence of this being practiced at all, though.
- Role of centre is not to repay for the defaulting member, but to ensure that she repays - Staff members rely on group responsibility to ensure repayment and collect arrears – in the past, this has occasionally led to over-aggressiveness by group members
- A sharp reduction in PAR60 to 0.3% in 2009-2010 from 0.7% in 2008-09 has been achieved - staff cited that this was mostly through revival of defunct centers by hiving off good clients to form new centers – internal audit visits default centers to verify if methods to collect were appropriate and not coercive
- Staff earn bonus of 20% of written off portfolio collected –resulted in high collection of written off dues – given this, it is imperative to ensure that coercion is not being resorted to

Client Protection

▶ 4. *Mechanisms for complaints and redress*

- The head office phone number is printed on the loan cards and clients are informed about it during CGT and disbursement. Complaints are received by the reception officer who answers some questions, or passes complaints on to the appropriate staff members. All calls are recorded in a complaint register and subsequent follow up – by the respective BM/DM.
- There are around 10 calls a month - around one third are enquiries about pending insurance payouts- Specific complaints have related to delay in loan disbursement or rejection of a client's higher loan demand – a small percentage of complaints have cited staff misbehaviour
- Other mechanisms – direct interaction with BM is also a route used by clients, mostly if the complaint is about a Centre Manager

▶ 5. *Ethical staff behaviour*

- Code of conduct for staff emphasised in the Operations Manual and trainings
- Staff are not permitted to accept anything personally from clients , not even water - clients must be treated with respect, politeness and honesty
- Staff are not permitted to enter into any personal, social or business relations with clients
- Disciplinary actions are taken against staff who violate the code of conduct. Staff are suspended or even dismissed in case of financial misappropriations

▶ 6. *Privacy of client data*

- CMC has moved to an SQL database to ensure data security – data access is password protected and data sharing/alterations can only be done after adequate authorization
- CMC does not share client information with any third party – while extending a large loan, branch managers sometimes make informal inquiries with staff from other MFIs , to ensure that the applicant has not taken multiple loans beyond her capacity

Other social responsibility

← **Process** → ← **Results** →

**Operations
& systems**

Gender approach,
Responsibility to staff,
community and
environment

Gender approach

► *Clients*

- Uttar Pradesh and Bihar have lower rates of women's literacy and female participation in the workforce than the national average - reasons include low emphasis on girls' education, caste issues which prevent women from working, and safety issues.
- 100% of CMC's clients are women – this is because CMC sees women to be more financially responsible as well as key change makers in family's development
- By targeting women, CMC ensures that only the poorest get selected into the program – women from well off and upper caste households would generally not like to be seen at an open centre meeting
- Strategy of targeting women has its own problems – men (especially in new areas) object to their wives (particularly new brides) moving out of the house for meetings, transacting with money, and interacting with CMC's (mostly male) field staff.
- Challenges include the low level of literacy of clients – training sometimes takes far longer than the stipulated number of days – clients need to be taught to sign their names

	Female Work Participation Rate *	Women literacy **
Uttar Pradesh	16.8%	42.9%
Bihar	20.7%	33.5%
Rural India	31.0%	
India	25.7%.	54.2%

* Census 2001, **Economic Census 2001

CMC is making efforts to improve the lives of its women clients, rather than just extend credit – main focus is on women's health.

Health education modules are being run by staff to facilitate better health awareness and practices.

Gender approach

▶ *Staff*

- Relatively low ratio of women staff; but difficult operating area – very few women apply for jobs
- CMCs position offered to women who are 10th pass compared to 12th pass requirement for men
- Women staff are posted near their home, and posted together in a branch for their safety. If working after 6pm they are dropped to the branch/residence by a male staff
- 4 widows of staff who died during service have been given jobs with CMC
- Sexual harassment policy adopted– Vishakha guidelines of the Supreme Court of India
- CMC provides 2 months maternity leave – plus time off to feed infants for the first 6-8 months. (no paternity leave)
- Women Staff Welfare Committee (WSWC) set up in Nov2009 to take care of women’s issues in CMC. It consists of four women staff; the Vice Chairperson of the Board, Moumita Sensarma, is advisor to the committee.
- Separate mail-Id created for grievance redressal of women staff. Every case is immediately responded to within 24 hours, and resolved within a week.
- Till now 4 cases handled – related to verbal abuse and sexual innuendos in BM’s humour

Composition of women staff

Staff level	Number of women	% women
Management (HO/branches)	3	0.8
Field staff	152	13.5
Office/technical staff	11	13.1
Total CMC	166	10.5
MiX SPS – SE Asia	250	25

Responsibility to staff

- Staff become permanent after 3 months training, 7 months as probationers.
- Historically, issues on (low) salary levels and (intensive) field schedules
- Staff salaries were raised in April to a level seen as adequate - closer to, though still lower than competitor MFIs; incentives are paid monthly and can add 10-15% to basic pay.
- CMC's adoption in 2007 of the ASA branch model has helped to streamline field schedules; staff now live at the branch and food is arranged by CMC, with staff contributing to the meal costs.
- CMC's understanding of field risks has prompted investment in a group life insurance policy for supervisory staff who don't have Employees State Insurance Act benefits - most field staff are covered by the ESI.
- Adequate leave provision at 2.5 days per completed month; staff are encouraged to use their leave, and earned leaves are not encashed.
- CMC provides loans to confirmed employees up to 2/3 of Basic salary (also serves to limit staff fraud)

Responsibility to staff

- Grievance procedure is well formulated and has been adequately circulated to staff. (Can be filed with the immediate supervisor, HRD and MD in that order of appeal).
- Management development programme recently introduced for internal training of senior management staff (to improve communication skills) and skill enhancement planned for all levels.
- Cashpor India Employees Welfare Trust provides loans at 11% interest in case medical emergency. Staff contribute Rs50 a month, and the total is matched by CASHPOR. The total fund is now nearly Rs46 lakh, with Rs10.5 lakhs invested in mutual funds, Rs1.28 lakh is outstanding to seven employees. Their deposited amount is returned (without interest) to staff when they leave.
- Staff turnover was 6%(not including probationers) – a reasonably low level, but included 3 members of the senior management team.
- High dropout amongst field officers under probation (overall staff exit climbs to 16.5% including them), reflects challenging conditions of work
- Staff satisfaction studies are not conducted
- Exit interview has been introduced recently
- Staff may be attracted by promotion opportunities with other MFIs expanding in the area.

Responsibility to Community & Environment

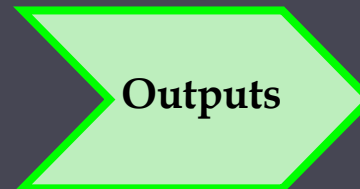
▶ ***Community***

- CMC prefers to recruit from the under-privileged sections of society (57% staff represent SC, ST, OBC and minorities) and from local rural pockets
- Clients with requisite educational qualifications are encouraged to apply – 4 of the field staff are ex clients
- No discrimination against employees or clients is permitted as per CMC's written policy, based on race, religion, color, age, sex and origin - audit/ supervisory officers check for any signs during visits
- The benefits of the CHL programme is expected to reach out to non-clients' households also. Health camps have been organised for the general community in Mirzapur district – free diagnosis and distribution of medicines was undertaken through tie ups with providers
- One health camp was conducted in Mirzapur district last year

▶ ***Environment***

- CMC mentions in its operational policy that it will not lend to any business which damages the environment; in practice, since most loans are used for rural micro enterprises at household level, the potential for environmental risk is negligible – there is no list of potentially harmful enterprises , neither does this criterion form a part of audit or loan utilisation checks

Results: outputs



- Client household profile
- Client awareness
- Client feedback on services
- Client retention

Outreach

Area: *rural, less developed regions in line with mission*

- Eastern Uttar Pradesh (UP) and Bihar in north India – states with lowest HDI score (2006) of Indian states
- 15 districts – 6 are amongst the poorest 100 districts in India, with 39% of CMC clients; 12 districts above average national poverty rates
- 82% clients in UP, 18% in Bihar,
- 85% of clients are in rural areas, including some in more remote areas; 33% clients come under urban branches

Clients: *servicing excluded communities – adjusting poverty benchmark to \$1.25 (new national poverty line)*

- Significant outreach to scheduled castes, tribes and minority communities – though CMC data not entirely reliable: shows 95%; (rating sample data shows 59% clients from these communities).
- No bank loans in the past one year (rating sample)
- 18% loans from other MFIs

Poverty Outreach

	<NPL	<\$1.25	\$1.25-\$2	>\$2
Poverty rates – secondary data				
UP (Rural)	20%	45%	40%	15%
Bihar (Rural)	28%	69%	26%	5%
India (Overall)	17%	43%	32%	25%
CASHPOR new clients - PPI survey				
Unadjusted Bihar	34%	71%	23%	7%
Adjusted U.P.	26%	59%	29%	12%
Overall	27%	61%	28%	11%

[PPI data – CASHPOR 2.703 new clients.]

Note: % below international \$ lines add to 100%
Data adjusted for UP to account for a gap in the PPI survey. Adjusted estimate reduces poverty % (<NPL and <\$1.25) by 4 percentage points

- Very significant poverty outreach to households below the national poverty line and below \$1.25 compared to state poverty rates; over one-third above this level

Client household profile (at entry)

[CMC client survey of 2,703 new clients]

- 64% of clients' houses are *kuchha*. It is noteworthy that CHI scoring would not have been applicable for the rest 36% of the new clients.
- 71% have labour as their main source of income. 27% depend on salaried employment
- 31% of the clients have TV at their home, and 43% have electric fans.
- 85% of the clients use firewood for cooking, Only 8% use LPG.
- 60% of the clients have cycle or motor cycle, 15% have an *almirahs*, 18% have a sewing machine
- 36% have a mobile phone

No of electric fans in clients household

No of electric fans	%
None	58%
1	34%
>1	9%

No of children in clients' household

No of Children	Percentage
>4	17%
3-4	41%
1-2	33%
None	9%

Products - analysis

[CASHPOR MIS]

- Main loan use reported is trade (44%) and livestock (33%) by amount of portfolio
- Two thirds of loans disbursed were between Rs5,000 and Rs10,000; very small number of 'bada' loans - above Rs30,000.
- 39% of clients were '1st loan cycle' (including some rejoiners) with average loan size of Rs9000
- Almost one in four clients have taken 4 loans or more, continuously

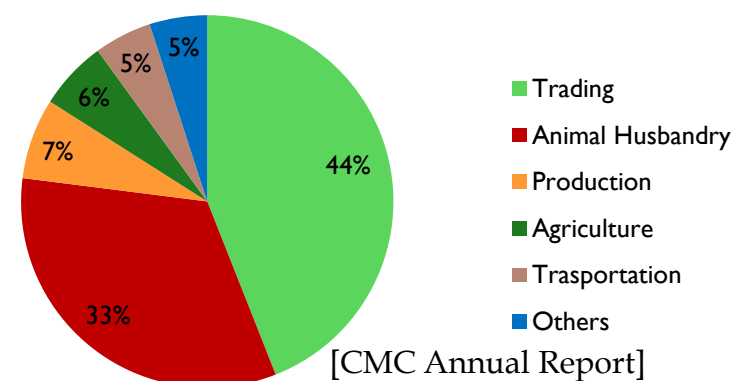
Clients by loan cycle

Loan cycle	% of clients (March 2010)
1 loan	39%
2 loans	19%
3 loans	17%
4 loans +	24%

Loan disbursement by size (FY 2009-10)

Loan size	No of loans	% of total loan
<Rs5,000	21,039	4%
Rs5,001-Rs10,000	2,99,225	63%
Rs10,001-Rs20,000	1,54,920	33%
Rs20,001-Rs30,000	405	0.09%
>Rs30,000	65	0.01%

Purpose wise portfolio break-up, Mar2010

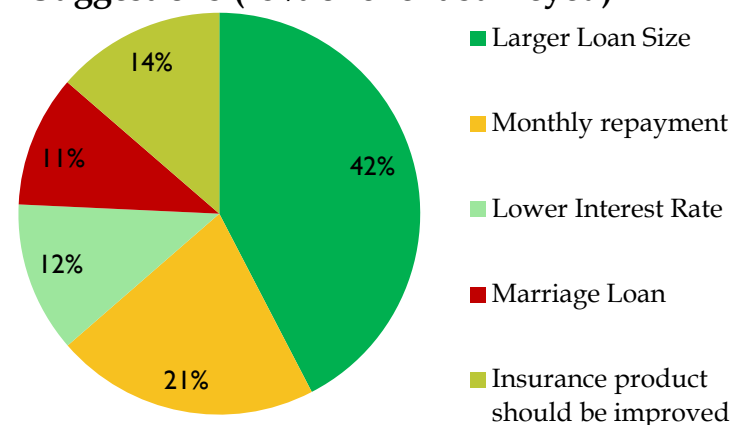


Products and client feedback

[social rating survey, n=158 mature clients, [Annex](#)]

- 57% of the clients surveyed as part of the social rating were satisfied with CASHPOR product and processes - they did not have any suggestions to improve
- Suggestions of the other clients are given in the adjoining pie chart.
- Some are asking for larger loans. Analysis of estimated household income shows CASHPOR loan size is relatively low for clients above \$1.25 poverty line (refer [Annex](#))
- Similar feedback comes from the IAD survey (December 2009)
- Feedback on insurance reflects relatively low understanding of the concept and the scope of the loan insurance product
- 75% clients repay through earnings from their loan activity.
- 10% use part of their loan to pay 1-2 installments before their enterprises generate returns.

Suggestions (43% of client surveyed)



Source: Client survey – Social Rating

Feedback from IA survey (clients >5 loans)	
Want a larger loan	63%
Want a change in no. of weeks	31%
Want a change in rate of interest	25%
Willing to deposit in branch	81%
Average amount of larger loan	29,736

[Internal Audit survey – Dec. 2009]

Client feedback: awareness & quality of services

[social rating survey]

Client Awareness

Clients aware of:	Full	Partial
H.O. Location	82%	N.A.
Branch location	99%	N.A.
Interest rate	56%	34%
Insurance premium amount	73%	13%
Insurance coverage/benefits	81%	
Default collection process	90%	
Complaint mechanism	89%	
Overall	81%	

- Most clients are aware of the terms and conditions of CMC's loan. 'Partial' awareness refers to clients who knew the interest amount and premium amounts, but not the rate in %
- Knowledge of default collection and grievance redressal mechanisms was high, given the low education level of the clients, indicating effective training (possibly also because clients were mature, so could remember terms and conditions better)

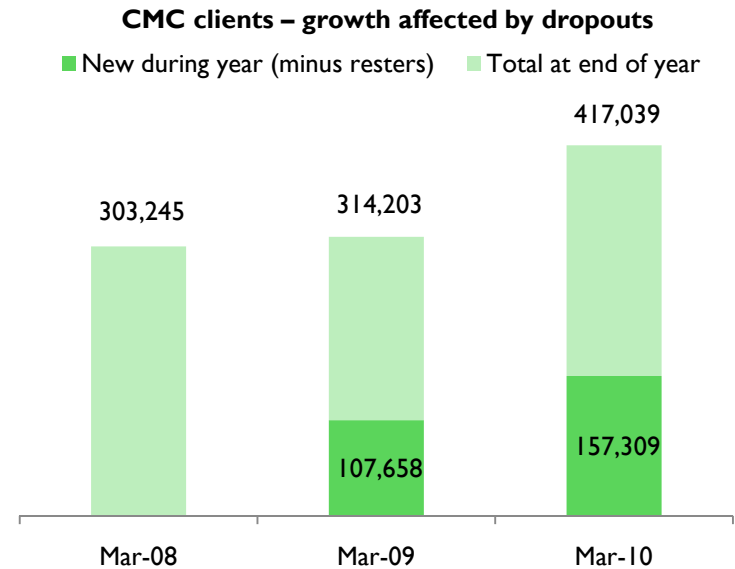
Client Feedback

Feedback on services	Yes	No
Client received loan card?	99%	1%
Coercion never used	88%	12%
Is client comfortable with default collection techniques	88%	12%
Overall	92%	8%

- Clients have their loan cards with them
- Most clients can identify CMC H.O phone number, as well as their current loan outstanding, on the loan card; others referred to literate family members to understand the contents of the card
- Clients are mostly comfortable with default collection policy of CMC

Client “exit” ?

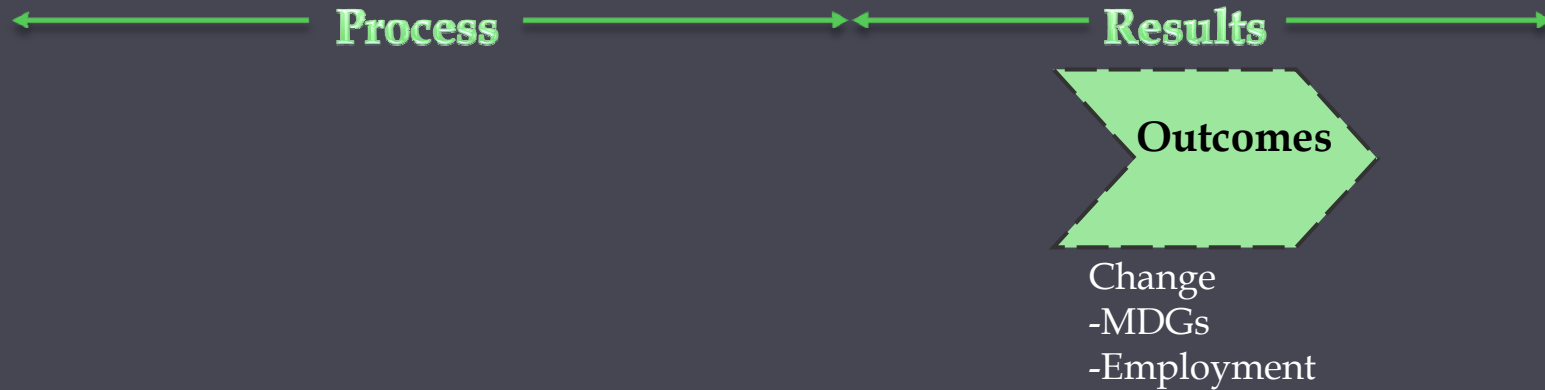
- CMC drops a client if they do not borrow within 5 weeks of repaying a previous loan (to avoid having dormant members who could be a means for disbursing phantom loans)
- Reported over 94,000 dropouts in 08-09, and 86,500 in 09-10 (over one third of client numbers in the previous year).
- Some dropouts are ‘resters’ who rejoin. On rejoining, new IDs are issued and the client restarts at the minimum loan size. (Also noted as a weakness in the previous rating, 2005).
- Recently, Unique Registration Numbers have been issued to track rejoining clients. Clients should be able to quote this if they re-join, to retain their credit history
- 15% of ‘new’ clients estimated to be rejoiners to CMC (as reported in recent CMC survey)
- Very high exit in 08-09, attributed to fund crunch; better in 09-10



Clients:	Mar. 2009	Mar. 2010
a Total at end of year (period)	3,14,203	4,17,039
b New during year/period	1,26,657	1,85,069
c Number of rejoiners (est.)*	18,999	27,760
d At beginning of year	3,03,245	3,14,203
Rate of exit [d+b-c-a]/[(a+d)/2]	31.3%	14.9%
Number leaving in the yr (reported by CMC)	96,700	54,473

*2010 CMC Survey of 3,185 ‘new’ clients shows 15% are rejoiners

Results: Outcomes

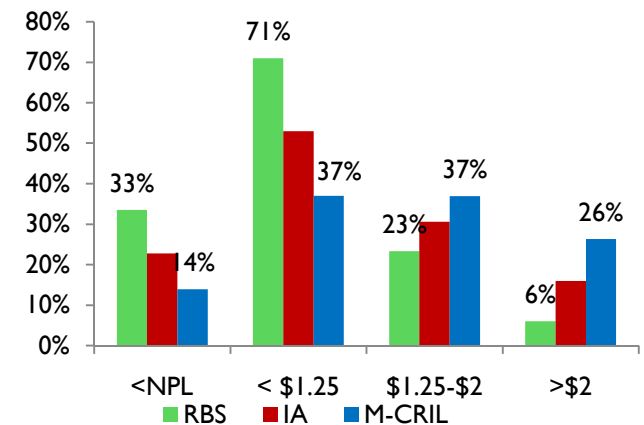


Poverty profile of mature clients - >4 loans

CASHPOR surveys: RBS Dec 2008, random sample 320, IAD Dec 2009, random sample - 150
M-CRIL rating survey, Sep 2010 (cluster sample survey - 158)

- With reference to the National Poverty Line (NPL), the Internal Audit study found 77% of mature clients above this line, the RBS study found 66% above this line.
- CASHPOR's conclusion that this represents movement 'out of poverty' assumes 100% <NPL at entry. This is questionable given the rural UP poverty rates of 20%. And 26% of new clients as currently reported.
- Applying the \$1.25 level which seems more realistic (and reflect the recommendations of the Planning Commission), the IAD data shows 29% of mature clients above this line. The rating sample - which reflects a more semi-urban sample - shows over 60% above this level.
- Analysis of IAD data over time by loan cycle appears positive at NPL level, but not at \$1.25 (table)
- RBS study analysis (2008): 3-4 income generating activities combined with cumulative borrowing > Rs 75,000 over 4+ years is correlated with higher income

Comparison of findings -Poverty level of clients with >4 loans



Poverty rates by loan cycle

Clients with:	>NPL	>\$1.25
5 loans	76%	56%
6-9 loans	77%	52%
>10 loans	79%	52%

Access to financial services

[Rating survey]

- 11% are borrowing from other MFIs – an average amount (for a 1st loan) close to the average borrowed from CASHPOR (5 loans +).
- Clients appear loyal to CASHPOR – and some continue to borrow small amounts; but scope for closer assessment of client loan capacity
- One third have formal savings accounts (this may be related to the National Rural Employment Guarantee Programmes which provides payment through formal savings accounts)
- Very low use of moneylenders (3%) and for very small amounts. The social rating survey of new clients in 2005 showed 27% borrowing from a moneylender

Access to other credit, and to savings

	Sample	Ave Amt.	Max.	Min.
Credit:				
Loan from CMC	100%	13,493	25,000	2,000
Loan from other MFI	11%	13,333	20,000	10,000
Loan from SHG	6%	2,350	3,700	1,000
Loan from Moneylender (5%-10% p.m.)	3%	1,000	5,000	1,000
Savings:				
Savings in Bank account	25%	12,593	1,00,000	250
Savings in post office	8%	15,000	35,000	8,000
Savings in chit fund	12%	1,933	5,000	50

After 4 continuous loans...

Children's education

- Higher proportion of girls in school than boys
- Scope to improve attendance, particularly at secondary level

Clients' children attending school

Children's age group	Girls in school	Boys in school
Primary 5 - 11 yrs	81%	75%
Secondary 12 - 17 yrs	65%	63%

[Rating survey - mature clients]

Enterprises/employment

- Two thirds have used CASHPOR credit for one enterprise; 26% for two enterprises, 6% for three enterprises
- Half of the financed enterprises involve woman client and husband/son; 14% managed by the woman client herself; over one-third are "loan pass" to husband/son
- In addition to self employment, nearly 30% of clients report hiring non-family workers in financed enterprise
- Reflects household involvement in embroidery and weaving (28% enterprises)
- 17% employ 1-2 workers; 8% 3-5 workers, 4% more than 5 workers

Changes - client feedback

[Rating survey, focus group discussions]

Changes reported

... individual level		... household level	
Positive change, cannot articulate	30%		4%
Respect in community		Improved quality of life	32%
Self confidence and independence	19%	Business improved/diversified	19%
Respect in household	7%	Home repair/improvement	21%
Awareness has increased, esp. on insurance	4%	Increased income/savings	15%
		Children in school	4%
No change	17%		4%
	100%		99%

Positive changes associated with CMC loans:

- Diversified income sources
- Creation of income generating asset
- Self-employment
- Improved food security
- 1 client family (0.6%) purchased land
- Business profits helped pay for marriage expenses
- Extra income helped cope with income shock (husband's death)
- Used business profits to install piped water connection
- CMC loan lowered cost of debt compared to informal providers

Investment covenants

CASHPOR's mandate for investors

- [and rating comment]

Mandate	Performance
No mission drift	
Ethical MFI	CMC encourages ethical practices and has strict codes of conduct, especially towards clients, colleagues and the general public.
Poverty Focus - areas	Outreach to poorest states- poorest districts ; selection of SC/ST hamlets
Poverty focus - clients	Client targeting (CHI/ PPI) to screen in the poor; inclusion of SC/ST and minorities; Rs2,000 to remain the minimum loan size
Value - poverty reduction	Two thirds of mature clients above national poverty line after 5 years - <i>needs review</i>
Not for Profit	CMC sustainable after 12 years of operations; not willing to increase costs to clients to meet costs of its expansion. As soon as profits were achieved, interest rate was lowered; now capped at no more than 15% above average cost of funds, and expected to decline

Business plan up to 2015 mentions that CMC will:

- Expand into 9 new very poor districts
- Measure and publish data on Progress out of Poverty (PPI) of clients
- Ensure that 90% of new clients are below poverty line : *[which poverty line?]*
- Ensure that at least 132,000 clients progress out of poverty by 2015. *{which poverty line, again}*
- Increase Credit + services of health awareness & care and education for clients' children: 15% of profits to be allocated each year
- Direct employment to over 4,000 people
- Accomplish outreach of 1.5 mn clients *[implied annual growth rate of 50% - seems high]*

Social Covenants – adjusted, M-CRIL

Dimension	Social goals	Information to monitor
Poverty Outreach	<ul style="list-style-type: none"> ▶ 50% of newly joining client to be below the \$1.25 poverty line (at purchasing power parity) ▶ 90% of newly joining clients each year to be below the \$2 poverty line (at purchasing power parity) 	100% collection of PPI data for all entry level clients; branch-wise analysis; maintain as a baseline for tracking change over time
Rural outreach	Rural* outreach (on the basis of <u>centre</u> location) to be not less than 85% of total outreach.	Centre location to be captured and classified at the time of GRT, verified through internal audit Define and monitor outreach to remote rural, rural, semi urban and urban clients (definitions)
Progress out of Poverty	This will need review depending on revised poverty benchmarking	PPI sample survey of mature clients – and adjusting for dropouts
Client protection	Clear specific guidelines to be formalised	Monitored and reported through internal audit
Quality of processes	Case load (active borrowers per staff) not to exceed 400 per Centre Manager	Regular calculation of active borrowers/ field staff ratio
Responsibility in pricing	Interest rate to clients to be no more than 15% above weighted average cost of funds.	Data on cost of funds
Tracking of dropouts and re-joiners	Dropout percentage per year not to exceed 12%	100% issuance of URN numbers to clients All re-joiners to be tracked separately and included in dropout calculation. Calculation of dropout rate – analysis by branch and by cycle
Other social reporting/ monitoring		Client satisfaction, feedback from Centre Leader workshops, access and relevance of credit + activities



Annexes

Profile of the Board

	Board Member	Position on Board	Experience	Year joined board
1	Mr. David S. Gibbons	Chairman	Microfinance, development	Since Incorporation
2	Ms. Moumita Sensarma	Vice Chairperson (Independent)	Banking, microfinance	2004
3	Mr. Sanjoy Dasgupta	Director (Independent)		Since Incorporation
4	Ms. Vijayalakshmi Das	Nominee Director, GFUSA	Banking, microfinance	2006
5	Mr. J. N. L. Srivastava	Director (Independent)	Administration (Retd IAS)	2007
6	Mr. Christopher R. Murdoch	Nominee Director, Dia Vikas	Microfinance, development	2008
7	Mr. Utpal Isser	Nominee Director, ICICI Bank	Banking	2009
8	Mr. Deep Joshi	Director (Independent)	Development	2008
9	Mr. Mukul Jaiswal	Managing Director	Accountancy, microfinance	2009

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CHI scorecard

1. Height of the walls and material used:		Scores
More than 5 feet and made of brick		4
More than 8 feet and made of mud		2
Less than 8 feet but more than 4 feet mud		1
2. Material of the Roof:		
Concrete/ <i>Pucca</i> /Pattia/New Tiles/GI sheet		2
Old Tiles/GI sheet		1
Thatch/Straw/Plastic/Leaves		0
	Maximum Score:	6
Poverty Status:		
Very Poor (VP)		2 or less
Moderately poor (MP)		3
Non -Poor		4 or more

Asset Criteria

If CHI score <4, and for occupants of government allotted houses, all the following criteria have to be satisfied:

- 1) More than half of the income come from seasonal agricultural labor
- 2) No irrigated agricultural land owned or operated as a small farmer, and
- 3) No large farm animals or any other significant productive assets.

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Estimated household income at different poverty lines - and loan fit

'Poverty Line' - Uttar Pradesh	Monthly income (Rs)	Annual Income(Rs)	Monthly instal @ 30% of income(Rs)	Loan amount 12 months (Rs)	Implied Loan size (25.7% interest) (Rs)
National	3,400	40,800	1,020	12,240	10,700
\$1.25/day	4,200	50,400	1,260	15,120	13,200
\$2/day	7,400	88,800	2,220	26,640	23,300

*Assumption: 30% of existing monthly income available for repayment of loan

Loan size = 26% annual income

Av. loan disbursed
(First year clients) = Rs 9,000

CASHPOR's PPI survey of new clients shows 27% below national poverty line overall. Analysis of the estimated income at different 'poverty lines' indicates that CASHPOR's average loan is appropriate for households living below the NPL, but falls short of what the majority of clients can afford to repay.

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Rating Methodology

Discussions with Senior Management:

The process/systems dimensions were covered through manuals and information available with the MFIs, and through discussions with senior management and staff at all levels.

Survey

Survey was conducted with older clients (>3 loans), as new clients' data was recently collected by CASHPOR. Sample of 158 clients, cluster based selection covering three clusters (rural and semi-urban) in Varanasi, Chandauli and Mirzapur districts.

The questionnaire for data collection was developed by the M-CRIL team, but implemented (after training) mainly by the MFI staff – centre managers and members of internal audit team.

Focus Group Discussions

4FGDs with groups of 5-10 clients were conducted at different locations.

M-CRIL's social rating grades

Grade	Social Rating description
$\Sigma\alpha_{++}$	Excellent systems and evidence for very strong adherence to social mission and values
$\Sigma\alpha_{+}$ $\Sigma\alpha$	Very good systems and evidence for strong adherence to social mission and values
$\Sigma\alpha_{-}$ $\Sigma\beta_{+}$	Good /satisfactory systems and evidence for adherence to social mission and values
$\Sigma\beta$ $\Sigma\beta_{-}$	Weak systems, with evidence of limited adherence to social mission and values
$\Sigma\gamma_{+}$ $\Sigma\gamma$	No systems, no evidence reflecting social mission or values