Annapurna Microfinance Pvt Ltd (AMPL), India

SOCIAL RATING ^{S} A

Good social performance management and client protection systems. Social mission likely to be achieved.

Social Rating Committee Jul-17 Previous SR: 2015, A-

SOCIAL RATING RATIONALE

SOCIAL PERFORMANCE MANAGEMENT SYSTEM

Strong capacity to monitor client characteristics relevant to the mission and the alignment of outreach results to the target population. The social strategy includes relevant social goals and indicators, even if the indicators/targets could be more comprehensive. The system to monitor the change in clients' lives is acceptable. The risk of mission drift linked to the changes in the legal form is moderate. The product strategy is well aligned to the mission.

CLIENT PROTECTION AND SOCIAL RESPONSIBILITY

Social responsibility towards staff is good. HR policies are complete and formal staff satisfaction studies are conducted every two years. Staff evaluation and staff training/development is good. The staff turn-over rate is above benchmarks but is well-managed and concentrated in only new staff. Overall alignment to client protection practices is excellent. Transparency is good, and over-indebtedness prevention, collection practices, and loan price levels are excellent.

OUTREACH

Breadth of outreach is very good reaching nearly one million active borrowers. Growth is on a downward trend mainly due to the impact of the 2016 banknote demonetization. Coverage of rural areas is excellent and coverage of areas poorer than the national average is good.

QUALITY OF THE SERVICES

Good variety of types of services provided. Credit services are good in terms of accessibility and flexibility. The client drop-out rate is low and reasons are investigated and tracked.

Institutional data	Mar-17
Active borrowers	899,743
Active savers	-
Gross portfolio, USD	191,029,228
Total active savings, USD	-
Branches	246
Total staff	2,333

Legal form	NBFC-MFI
Year of inception	2005 NGO, 2013 NBFC-MFI
Network	MFIN
Area	Rural
Credit methodology	Indiv., Group
Financial services	Credit, insurance
Non financial services	Trainings, capacity building
Coverage	Western, Central, Eastern India

Social indicators	Mar-17
Rural coverage, loans	88.6%
Female clients	100.0%
Female staff	11.9%
Female staff in management	0.0%
Average disbursed loan amount, USD	441
Loans in first cycle	70.6%
Loans in >1 cycle	29.4%
Average loan balance / GNI pc	13.1%
Solidarity group methodology, clients	99.0%
Client drop-out ratio	3.1%
PAR30	7.7%
Staff turn-over ratio	24.1%
Average annual percentage rate (APR)	26.2%
Average transparency index	90.8
Growth in active borrowers	43.8%

See annex 2 and 4 for more details. 1 USD = 64.84 INR as of Mar-17.

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Area	Factor	Assessment		Results
Social Performance Management system	Social mission	Adequate	+	The mission complemented by the vision is complete, including some of the institution's key social goals, clear target population, and clients' needs met. The expected change in clients' lives contains some generic phrasing, however a social strategy document defines key terms.
			-	Given that the mission statement includes specific targets, they should be revised more frequently to remain relevant or be removed from the mission statement altogether.
	Social governance	Good	+	The BoD provides good strategic direction to guide the management in defining the strategy.
			+	Relevant social performance information informs BoD decision making. An SPM Officer position is in place who reports to the SPM and CSR Committee at BoD level.
				The risk of mission drift linked to the changes in the legal form is moderate. AMPL is considering transformation into a universal bank in the coming estimated 3 years.
	Social Strategy	Adequate	+	The strategy formalized in a social strategy document includes clear social goals and targets in terms of target client, clients' needs to meet, and desired outcome, even if they could be more comprehensive.
			+	The product strategy is well aligned to the mission.
			+	The BoD and top management regularly assesses social performance related risks using internal management reports. The type of social risks assessed could be expanded.
	Social and financial balance	Adequate	+	Growth has been sustainable in the past 3 years, both at the aggregate level and in each area of operations. Market saturation is closely assessed on a quarterly basis using updated data in all regions.
			+	The average ROA of the past three years falls in a normal range varying from 0.9%-2.4%, indicating a responsible profitability towards clients.
			-	The top management compensation is transparent, being accessible to raters upon request. The management/field staff compensation gap is above the main peer groups.
	Social monitoring and reporting	Good	+	Excellent capacity to monitor the client characteristics relevant to its mission and the alignment of the outreach results to the target population. The system to monitor the change in clients' lives is acceptable.
			+	The quality and reliability of the information currently collected on the clients' profile, their satisfaction, and change in their lives is overall adequate.
	HR alignment to the mission	Good	+	The staff training effectively contributes to the dissemination of the mission to the personnel.
			+	The staff appraisal is well aligned to the mission. The staff incentive, while sales-based, is designed to contribute to the achievement of some of the institutions' social goals.

Area	Factor	Assessment		Results
Client protection and social responsibility	Product design and delivery	Excellent	+	Information is regularly collected to monitor in a detailed way the use of products and services by the target population. Results could be better segregated into relevant categories. The information gathered from the comprehensive client satisfaction study is formally analyzed annually.
	Prevention of over indebtedness	Excellent	+	The context risk factor for client over-indebtedness is low: penetration in the areas of operation is moderate and branch expansion and growth is informed by a detailed analysis of market saturation. The analysis of the group members' capacity to repay is very good.
	Transparency	Good	+	Clients receive a contract and repayment schedule (at group-level, one per group) that includes all the relevant loan conditions: loan amount, nominal interest rate, interest amount, processing fee (amount), and insurance fee (amount). The transparency index is very high (>90).
	Responsible pricing	Excellent	+	The price of all the main loan products is in-line with the peer group of the market for similar loan sizes.
	Fair and respectful treatment	Excellent	+	The collection practices document formalizes the specific steps to follow in case of default and the acceptable and unacceptable collection strategies. A loan restructuring policy exists and it is applied in exceptional cases for late clients with willingness but no capacity to repay.
	Privacy of client data	Excellent	+	The contract includes a privacy clause indicating that client information cannot be shared without the prior consent of the client.
	Mechanisms for complaint resolution	Excellent	+	The complaint channels are easily accessible and well-suited to clients' preferences, notably including a toll-free phone number handled by independent staff. The clients are effectively informed on how to submit a complaint through the available channels.
	Social responsibility towards the staff	Good	-	The gender balance is moderate, with females under represented in the organization overall. The staff turn-over rate is higher than the regional benchmark, however it is almost fully concentrated in staff with only 1-6 months employment at AMPL.
			+	The HR policies are overall complete. The institution conducts formal staff satisfaction surveys at least every couple of years, collecting relevant staff feedback.
			+	The staff training is good and a formal staff performance appraisal is conducted for all employees annually.

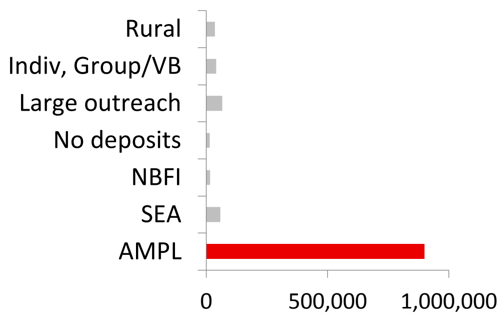
	Green index	Adequate	+	The environmental risk is a factor considered in the loan approval decision. The institution provides a specific green loan product dedicated to promoting environmentally-friendly technologies and activities (the SWASTH Safe Water and Sanitation Loan). However, the current green product represents a marginal share of the portfolio at 1.0%.
	Social responsibility - community	Excellent	+	An exclusion list formalizes activities which are harmful for the community and cannot be financed. The institution engages in socially responsible projects that benefit significantly the community and the budgeted amount is determined as a share of the previous year profit.

Area	Factor	Assessment		Results
Outreach	Breadth of outreach	Good	+	The breadth of outreach in terms of number of borrowers is very good compared to regional and country benchmarks.
			+	The average growth of borrowers has been good, however growth is on a significant downward trend in the latest period, mainly due to demonetization.
	Geographical outreach alignment	Excellent	+	The coverage of rural areas is excellent and coverage of areas poorer than the national average is good.
	Alignment to the mission of clients vulnerability and financed activities	Excellent	+	The outreach to women is very good, with >99.9% women clients. Based on data and proxies available the outreach to vulnerable households with low education is good.
			+	The alignment between the type of financed activities and the income generation mission is very good: 99% of the portfolio finances income-generating purposes, and a high proportion of clients are self-employed.
	Alignment to the mission of client poverty and financial exclusion	Good	+	The poverty outreach is very good: the poverty rate among clients is significantly higher than the national average.
			+	The outreach to the financially excluded is expected to be good.
Quality of the services	Variety of financial services	Adequate	+	The overall variety of the types of services provided is good: credit, insurance (mandatory credit life insurance), and non-financial services are provided to clients.
			+	The need for clients to invest in economic opportunities and address household needs is adequately met by the products and meeting the needs for emergencies is partly met.
	Accessibility of credit services	Good	+	The financial products do not present barriers to the access of the main target population, thanks to the accessible loan size, guarantee requirements (e.g. no physical collateral required), and delivery models.
			+	The service delivery channels are convenient and reliable for clients thanks to the widespread coverage of the branch network and the proximity of branches to clients.
	Flexibility of credit services	Excellent	+	Loan terms are adequately tailored to client needs and the loan amounts and repayment frequency are well tailored.
			+	The customer service is very good as demonstrated by the very high client satisfaction with the field staff relationship.
	Client drop-out rate	Good	+	The client drop-out rate is below the majority of peer groups considered. Drop out reasons are formally investigated and tracked for a representative share of exiting clients.
	Quality of other financial services	Good	+	The insurance offering is limited to mandatory credit life insurance, which itself is designed well for the target households' needs to protect from business and household shocks related to death or permanent disability of the client.
	Quality of non-financial services	Good	+	The quality and relevance for the target population segments of the non-financial services is good.

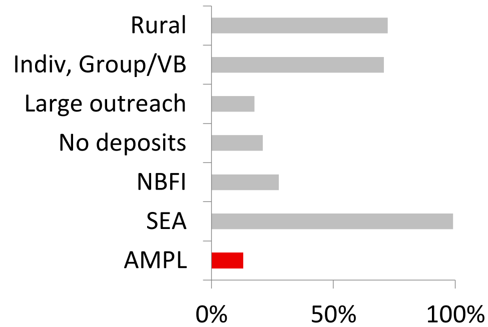
+ indicates an adequate, good or excellent score; - indicates a moderate, weak or poor score.

Benchmark

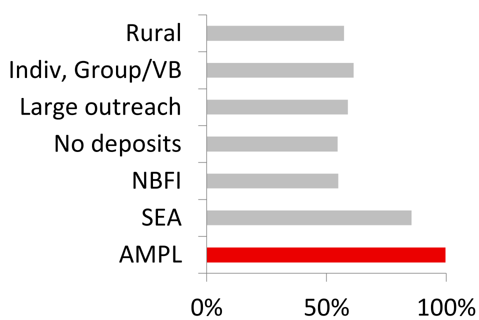
Active borrowers



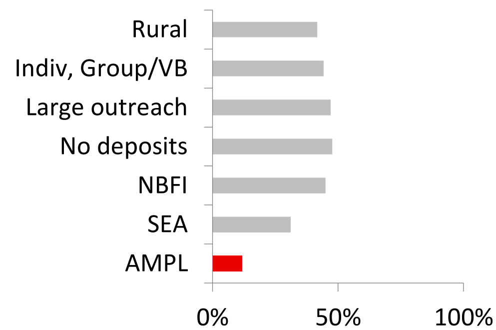
Average balance/borrower/GNI pc



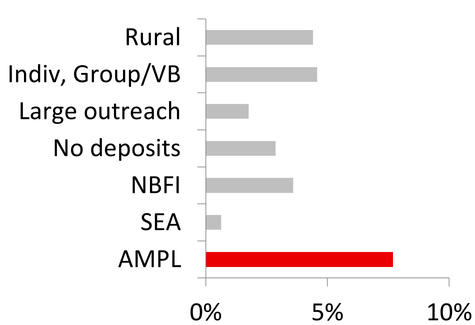
Female clients



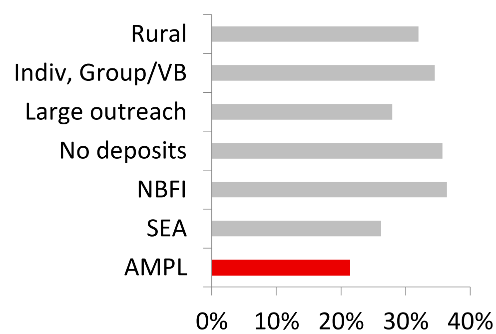
Female staff



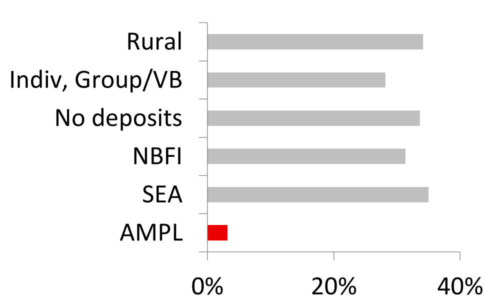
PAR30



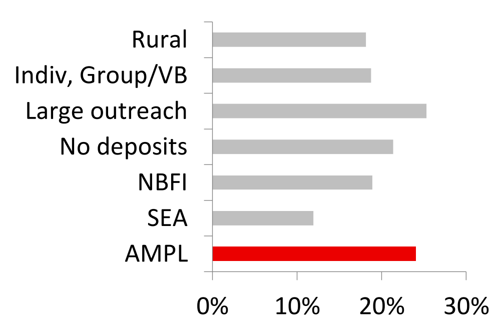
Portfolio yield



Client drop-out ratio



Staff turn-over ratio



1. Social Performance Management system

1.1 Mission, governance and strategy

Social mission: Adequate
Social governance: Good
Social Strategy: Adequate

MISSION STATEMENT
Empowerment of 1,000,000 poor women and households for their economic security by 2018. Bring recognition, legitimacy, respect, and opportunity for 250,000 micro-entrepreneurs by 2018.

Social mission

+ The mission complemented by the vision is complete, including some of the institution's key social goals. The target population is clearly identified in the mission. While the mission alone does not indicate any client needs met, the vision indicates that a wide range of microfinance services is provided. The expected change in clients' lives contains some generic phrasing, however there is a separate social strategy document which defines key terms (e.g. economic security = a stable source of income, increased individual and household saving through formal channels, increased family asset holding, and creating additional sources of income generation). The target client is also further defined (e.g. poor: daily individual income <100 INR = 1.54 USD; micro-entrepreneur: clients opting for income generation through self employment after getting micro-credit assistance from AMPL).

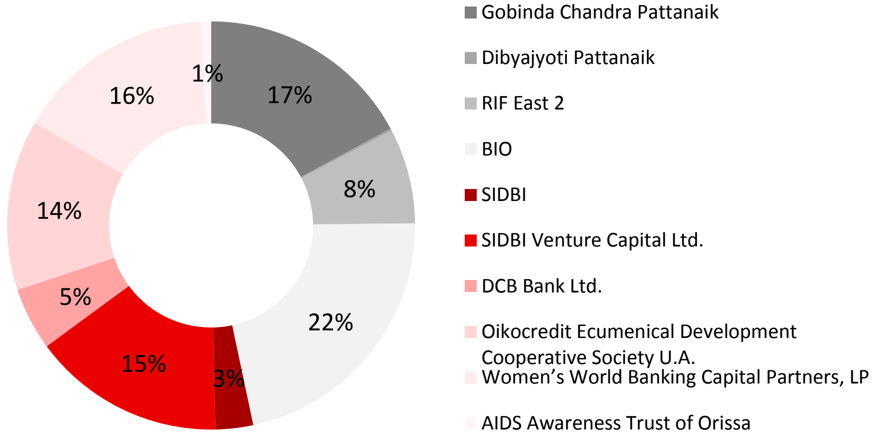
Social Goals	Key words in mission statement
Reaching target clients	Poor women, micro-entrepreneurs
Meeting client needs	Wide range of microfinance services (vision statement)
Creating change	Economic security, recognition, legitimacy, respect, opportunity, empowerment

+ The mission statement complemented by the vision statement overall reflects the institutional intentions shared at governance and top management level in terms of reaching a specific target population. A social strategy document further explains terms from the mission and vision.
- The mission has not been modified in the past 3 years. Given that the mission statement includes specific targets, these targets should be adjusted over time in cases the targets are already met which is the case as of March 2017 (roughly ~365,000 active micro-entrepreneurs, with the target in the mission statement of 250,000 micro-entrepreneurs by 2018). Furthermore, specific targets in the mission statement are not necessary.

Governance good practices

+ The BoD provides good strategic direction to guide the management in defining the strategy. The BoD members participate in setting the long-term objectives and approve the business plan, demonstrating an adequate level of ownership of the key strategic goals.

Mar-17 Equity



+ The BoD performs a good supervision and control of the activities carried out by the management, covering the achievement of the plans and providing relevant feedback to the management.

+ A code of conduct covering the ethical behavior expected of BoD members is in place, and a conflict of interest policy is outlined in AMPL's Articles of Association at governance-level. The code is seemingly well implemented and there is no evidence of risks of significant conflicts of interest at the BoD or management level.

Social governance

+ The BoD displays specific social performance expertise, even if formal social performance trainings have not been recently undergone by BoD members. A formal dedicated committee at BoD level is in place (the CSR and SPM Committee) which meets twice a year. A SPM Manager position is in place which is responsible for monitoring social performance.

+ The BoD reviews relevant information on the outreach to the desired target population, client feedback on needs being met, client feedback on responsible treatment of staff, and other client protection practices. Information related to the desired change in clients' lives is reported on through the Impact Assessment and the percentage of clients living under the poverty line according to PPI results is shared with the BoD. Social performance information informs decision making.

+ The risk of mission drift linked to the changes in the regulation/legal form in the next 2 years is moderate. AMPL is considering options for transformation into a universal bank in the coming estimated 3 years. The risk that the new legal form would have a negative impact on the capacity to serve the target client and pursue the social goals is moderate. The potential risk has been somewhat discussed by the Board so far. A formal feasibility study and review of the impact of the new legal form on the capacity to serve the target clients and achieve social goals has not been conducted yet, however it is only necessary when the potential transformation is more imminent.

Social Strategy

+ The strategy formalized in a social strategy document contains clear social goals and targets in terms of target population (e.g. clients who are women, rural-based, having below 100 INR per day income, branch district with poverty rate above average, minority ethnic groups, low-caste members), clients' needs to meet (e.g. provision of financial services, skills development and capacity building trainings), and outcome (e.g. sustained income, clients moving above the base poverty line, clients having access to proper sanitation facilities, children of clients attending secondary school). The strategy document does not completely address all the aspects of the mission and could be more comprehensive. In some cases the formulation of targets is not sufficiently specific, measurable, and time-bound. The social strategy document should be approved by the BoD and integrated into the overall strategy in a more clear way, for example added to the business plan.

+ The product strategy is well aligned to the mission. The financial products, services, delivery models and channels are well tailored to the target clients, meet their needs, and help to achieve the desired change in their lives (see adequacy of services). The product strategy includes that any product introduced must meet a specific identified client need and to have an anticipated positive effect on the clients. A "theory of change" could be formalized to map which social goals/targets a new product helps achieve.

+ The BoD and top management regularly assesses social performance related risks (e.g. reputational risk, incidents resulting in harm to staff/clients, drop-out rate) using internal management and internal audit reports, and appropriate actions are taken to avoid them. External assessments providing the BoD and top management with an independent opinion of the social risks are routinely conducted with the last Social Rating conducted in 2015.

1.2 Social and financial balance

Responsible growth: Good
Investors' alignment to the double bottom line: Adequate
Responsible pricing: Excellent
Management compensation alignment to the double bottom line: Moderate

Responsible growth

+ The management team reviews the total growth rates on a monthly basis comparing actual performance to budgeted performance, and growth at the regional and branch level is also monitored on a monthly basis.

+ Market saturation is closely assessed on a quarterly basis using updated data in all regions. Risk reports produced by the risk management team are highly sophisticated, mapping market saturation at the regional and district level using detailed information from the credit bureaus. The reports are used for branch opening purposes, utilizing data on population density, prosperity index (as defined by the Census Bureau of India), and penetration of microfinance services in terms of number of MFIs operating and number of active loans with other MFIs at the village-level.

+ Growth has been sustainable in the past 3 years, both at the aggregate level and in each area of operations, considering the good internal capacity to manage such growth in terms of internal control, MIS, operational processes, and the credit policy. The penetration of microfinance providers in the segment served by the organization does not exceed moderate levels due to the good market infrastructure (e.g. NBFC-MFIs required to report to all 4 local credit bureaus) and RBI regulations on NBFC-MFIs in India allowing limits on the number of institutions financing one client (2 total) and the maximum allowed outstanding debt from all sources (100,000 INR = 1,541 USD). Beyond this, AMPL purchases a complete set of data from credit bureaus containing market saturation data at the institutional and village level, to influence growth strategies in different areas.

Financial performance	Mar-15	Mar-16	Mar-17
Growth in active borrowers	111.4%	86.5%	43.8%
Growth in outstanding portfolio	133.7%	132.3%	33.9%
Growth in number of staff	117.1%	85.4%	38.0%
Growth in number of branches	114.8%	51.7%	39.8%
PAR 30	0.1%	0.1%	7.7%
Write-off ratio	0.0%	0.1%	0.0%
Restructured portfolio	na	na	0.0%
Credit risk ratio	na	na	7.7%
Return on Equity (ROE)	6.2%	19.8%	12.3%
Return on Assets (ROA)	0.9%	2.4%	1.5%
Adjusted Return on Equity (AROE)	na	na	na
Adjusted Return on Assets (AROA)	na	na	na
Oper. Self-sufficiency (OSS)	108.1%	123.2%	113.2%
Portfolio to assets ratio	82.4%	90.5%	80.5%
Equity to assets ratio	13.2%	11.7%	12.2%
Debt/Equity ratio	4.2	6.8	7.1
Staff productivity (borrow.)	368	370	386
LO productivity (borrow.)	609	524	572
Operating expense ratio	7.0%	6.5%	6.6%
Funding expense ratio	11.7%	11.2%	12.8%
Provision expense ratio	0.8%	0.7%	0.9%
Portfolio yield	19.2%	21.6%	21.4%
Risk coverage ratio (PAR30)	92.4%	64.7%	2.4%
Management/field staff compensation			18

Source: AMPL, adapted by MicroFinanza Rating

Investors' alignment to the double bottom line

+ The average ROA of the past three years falls in a normal range varying from 0.9%-2.4%, indicating a responsible profitability towards clients.

- Social expectations are informally considered and the exit timelines of shareholders are formalized and transparently known from the beginning of the investment, however the shareholder's agreement does not specify the upfront social requirements of shareholders themselves, which could entail some risk of mission drift. However the shareholder's agreement does specify that AMPL complies with environment/social governance principles, objectives, policies, exclusion lists, and management systems. There is reportedly a clear informal understanding of shareholders of the importance of the social mission and that sustainability should be expected but not excessive profitability.

+ The financing structure is transparent as the reported leverage ratios incorporate all funding sources, including any off-balance sheet ones. Audited financial statement are available publicly or upon request.

  The institution protects the liabilities towards the customers, which are limited to insurance claims handled entirely by the insurance company.

Responsible pricing

Please refer to section 2.2 for the responsible pricing analysis.

Management compensation alignment to the double bottom line

- The top management compensation is transparent, being accessible to raters upon request. The gap between the top three management compensation and the bottom three field staff compensation is above the main peer groups considered. AMPL compares the top management compensation to other NBFC-MFIs in India.

+ The BoD informally considers the overall adherence to institutional values while evaluating the CEO performance.

1.3 Social performance measurement

Measurement of the target client: Good
Measurement of the quality of the services: Excellent
Measurement of the change/impact: Adequate
Social information consolidation, analysis and reporting: Good

Target client

+ AMPL demonstrates an excellent capacity to monitor the client characteristics relevant to its mission and the alignment of the outreach results to the target population. A set of relevant data is captured electronically in the MIS, including urban vs. rural location, household income, household assets (land ownership), and relevant demographic characteristics including age, education level achieved, financial exclusion (clients with no additional loans from other financial institutions), clients belonging to a marginalized group (caste identity and disability status), client gender, and financed business sector. This data is collected for all clients during the loan application stage. Additional relevant data is collected for a sample of clients through the PPI, including household size and indicators estimating the poverty level of the client. The PPI data is not yet integrated into the main client database.

+ A good system is in place to measure the poverty level of clients and the alignment of the poverty outreach results to the social goal of the mission. The poverty assessment tool used is the Progress out of Poverty Index (PPI). Historically, PPI data was collected for all new clients. Beginning in 2017, the data is collected and estimated poverty level measured for a sample of new clients. The sample selection criteria is good, representing roughly a ~10% sample (1 client per each group for the SHG product, the largest product with 97.5% of active loans). Procedures could be formalized to ensure that the sample clients are randomly selected within the group. The most recent version of the PPI tool (2016) is being used currently.

+ The MIS has the capacity to disaggregate client data by all relevant characteristics including branch, region, product type, urban vs. rural location, gender, and business sector. The disaggregated data reliability is adequate. The PPI data and estimated poverty level is not yet disaggregated even if the MIS has the capacity to do so.

+ The PPI used by AMPL to monitor the client poverty profile broadly complies with the majority of the PPI certification standards. The SPM Officer responsible for the PPI implementation understands and is familiar with why the organization implements PPI. The manager in charge of the PPI implementation, the surveying staff, the data entry staff, and the data analysis and reporting staff have been trained on proper PPI use. The PPI data are collected on a representative sample of the population. The PPI survey and look-up tables used do not deviate from the original PPI and the latest available version of the PPI (2016) is in use. A random sample of PPI scorecards are checked by internal audit for whether or not the information was collected, however internal audit does not yet verify the accuracy of the PPI data collected. All collected PPI data are centrally stored in an electronic manner that permits analysis. Computation of the percentage of clients or customers below a given poverty line is accurately calculated. The poverty data are benchmarked using a 1.90 USD (PPP) poverty line. The poverty lines used for analysis align with the objectives of the organization. The PPI results are reported to the BoD and senior management.

Quality of the services

Please refer to section 2.2.1 for the monitoring of the quality of the service.

Outcome

+ The system to monitor the change in clients' lives is acceptable. Progress is monitored with indicators which address in part the social mission. The system provides a broad indication and may not be a fully accurate measure of change in clients' lives. The change is broadly estimated through an Impact Assessment study adopting a cross-sectional method approach which compares the characteristics of clients with different length of use of the services (e.g. comparing clients with AMPL for 6 months to clients with AMPL for 30 months), less accurate than the longitudinal method. The sample size adequately ensures representativeness of the population and the sampling is appropriately random, while the sampling method could be improved to cover all regions. The study is performed annually and in-house with AMPL training interns who collect the survey data. The tool used to measure the change in the poverty level of clients is a questionnaire about many aspects including individual income, household income, household size, expenditure, investment amounts, asset ownership, response to financial emergencies, housing facility type, and the degree of women decision-making in the household. The PPI is not yet utilized to observe change over time.

+ The change monitoring is integrated into the operations. Results are produced and analyzed consistently on an annual basis. The comprehensive set of impact variables investigated is relevant for the types of change in clients' lives set as goals by the organization.

- PPI data has not yet been collected on the same client over two different time periods in order to monitor the change in clients' lives. However, AMPL possesses an adequate understanding of the standards needed to make a proper comparison over time.

Social information reliability and reporting

+ The quality and reliability of the information currently collected on the clients' profile, their satisfaction and change in their lives is overall adequate. The key aspects of the information management process (personnel responsibilities, methods for the collection, storage, analysis) are overall clear, while others (quality control and reporting) have not been sufficiently defined and implemented yet. The internal audit preform valuable interviews and checks with clients, however not specifically for the client satisfaction and impact studies. The staff training for those involved with social data entry is adequate, with basic checks on data quality performed especially for client profile data.
+ Some of the information collected on the client profile and on client satisfaction is periodically consolidated and analyzed. The majority of the social performance information is reported at least on an annual basis.
+ The institution discloses social performance data in a transparent manner through the current social rating. In addition AMPL includes social information in its annual report, in reporting to the MIX Market, and in reporting to MFIN. The independent validation of the social information is updated with an appropriate frequency, having the previous social rating been carried out in 2015. The information is updated at least on an annual basis.

1.4 HR alignment to the mission

Staff recruitment and training alignment to the mission: Excellent
Staff evaluation and incentive alignment to the mission: Good

Staff training alignment to the mission

+ The staff training effectively contributes to the dissemination of the mission to the personnel. The induction and the ongoing trainings provided to the staff include an overview of the mission, vision, social performance management (including the specific role each staff plays in the overall SPM strategy), PPI measurement, the code of conduct, and client protection principles. The trainings include some practical simulations of how the social topics translate into the daily work of the staff. The frequency and coverage of the social performance training is appropriate considering the branch network and employee turnover. The mission dissemination among the staff is good. The staff recruitment process is well aligned to the mission especially in the screening of the candidate during CV reviews and interviews (e.g. applicants are evaluated on their social work experience, empathy towards the poor, respect towards women, and willingness to work to rural areas).

Staff evaluation and incentive alignment to the mission

+ The staff appraisal is well aligned to the mission. The evaluation structure formally includes the employee contribution to the institutional social goals, reviewing social performance factors such as the quality of building/maintaining relationships with clients, addressing client needs, and customer service. The employee performance in key personal attributes is assessed (e.g. integrity, interpersonal/communication skills, organizational awareness, and productivity / cost consciousness / focus on deliverables).
+ The staff incentive is designed to contribute to the achievement of some of the institutions' goals. The incentive system is sales-based but has particular incentives for attracting SWASTH (Safe Water and Sanitation Loan) clients. The field staff incentive scheme and the productivity targets do not contribute to the risk of mission drift, thanks to number of clients being used as the incentive parameter. Portfolio quality and compliance with internal audit findings are also taken into consideration in the incentive determinations.

2. Client protection and social responsibility

2.1 Social responsibility towards the staff

Labor climate: Adequate
Staff compensation: Excellent
Professional development: Good

Personnel gender balance

- The gender balance is moderate, with females under represented in the organization overall and at the management and BoD level. However, taking into account local realities in India, AMPL is making appropriate efforts to improve the gender balance including making exceptions to the internal HR rule that staff must work more than 100km away from their hometown and making branch infrastructure accessible to women (e.g. separate facilities). Furthermore, AMPL is currently undergoing a gender assessment from an external independent company to identify areas for improvement.

Staff turn-over

- The staff turn-over rate is higher than the regional benchmark. Notably according to AMPL's internal reporting on staff turnover, 85% of the turnover in the last fiscal year was staff with only 1-6 months of employment with AMPL and 94% with 1-12 months. For staff with AMPL for at least one year, turnover is low.
- The overall trend in staff turnover in recent years is negative, with the staff turnover ratio increasing from 2015 to 2017.

+ Staff leaving for better working conditions or higher salaries in the microfinance sector do not seem to be the main reasons of turn-over.
+ The HR function calculates the staff turn-over rate and monitors its level over time, including segmentation of turnover by time of employment (1-6 months, 7-12 months, and 12+ months) and department (Operations, Credit, Audit, and Other). The employees leaving the organization go through an exit interview and an analysis of the reasons for staff turn-over is conducted. The main reason for turnover identified so far is the requirement of staff to work at least 100km from their hometown, which is done for operational reasons (e.g. fraud risk mitigation).

Staff	Mar-15	Mar-16	Mar-17
Total staff	**912**	**1,691**	**2,333**
Female staff	19.5%	10.1%	11.9%
Female staff in management	0.0%	0.0%	0.0%
Female members of the BoD		11.1%	18.2%
Staff turn-over ratio	**16.4%**	**23.6%**	**24.1%**
Management	0.0%	0.0%	0.0%
Loan officers	20.6%	26.5%	28.1%
Other staff	9.1%	18.0%	15.4%

Human resource policies and occupational safety

+ The HR policies are overall complete and cover wages, benefits, working conditions, safety at work, disciplinary procedures, and possible sanctions. A complete salary scale is not yet shared with staff. The HR policies are generally available to the staff.
+ The existing HR policy complies with the national labor laws. The institution does not use forced or child labor (under 14 years of age) and 18 is the minimum age for any employee.

+ A non-discrimination policy for the staff is formalized and covers gender, race, disability, national origin, ancestry, marital status, and sexual orientation. The policy does not yet cover religion or HIV status. The policy should extend to the code of conduct and highlight that the non-discrimination policy applies explicitly to clients as well. The risk of staff discrimination or favoritism due to gender, religion, family, or other factors is limited.

- The practice of cash handling in the field increases the field staff safety risk. AMPL is piloting cashless recovery in several branches of Odisha province and plans to rollout to other branches, to reduce cash handling risk.

Labor climate monitoring

+ The institution conducts formal staff satisfaction surveys at least every couple of years, collecting staff feedback on the following aspects: workload, communication, participation, and leadership from supervisors. The employee satisfaction surveys are conducted anonymously. The surveys are gathered with branch-level segmentation and results are shared with the management. The survey was historically carried out internally and in 2016 was conducted by an external independent company, India-based Think Talent Services. There is evidence of corrective actions taken to improve staff satisfaction, including improvement to staff appraisal formats.

+ A formal grievance mechanism is in place to allow employees to raise concerns in a confidential/anonymous manner if needed and it is sufficiently used by staff. Employees can also use informal channels to present their complaints.

Contractual conditions and benefits

+ All employees have a formal employment contract. Salaries are in line with or above the microfinance labor market for all employee categories and the salary levels respect local minimum wage regulation.

Evaluation, training and development

+ The staff training is good: the majority of the staff receive effective trainings as appropriate to their functions at least annually, according to a formal training plan and a dedicated budget. The access to external trainings, besides internal training, is reasonable but improvable for some functions. The induction of new staff covers the essential skills for each position.

+ A formal staff performance appraisal is conducted for all employees annually. Historically some staff have not fully understood the performance appraisal criteria but an updated format (including tailored KPIs) has likely improved staff understanding. The performance results are used for promotions and raises. Individual development and training needs are identified for each employee as part of the appraisal process. Career opportunities are provided with transparent criteria.

2.2 Client protection

Appropriate product design and delivery: Excellent
Prevention of over indebtedness: Excellent
Transparency: Good
Responsible pricing: Excellent
Fair and respectful treatment: Excellent
Privacy of client data: Excellent
Mechanisms for complaint resolution: Excellent

Appropriate product design and delivery	+ Information is regularly collected to monitor in a detailed way the use of products and services by the target population. The institution has conducted multiple formal analysis on how its products, services and delivery models help clients to: reduce risks and cope with common emergencies (and according to the latest Impact Assessment, 36% of multiple-cycle AMPL clients could handle financial emergencies through savings vs. 19% first cycle), invest in economic opportunities and address anticipated household needs (e.g. 54% of multiple-cycle clients had an increase in income >20% over the 2 year evaluation period, vs. 43% first cycle). These results could be better segregated into relevant categories (e.g. by gender, income level, business type, caste status). + The information gathered from the client satisfaction is formally analyzed annually, through an independent study by an external company. The study covers a comprehensive list of aspects including the overall experience, loan processing time, staff behavior, product terms/conditions (e.g. amount, term, interest rate, and frequency), and the location of the branch. The findings are analyzed and segmented at branch-level. Representative client surveys and focus group discussions with clients are regularly used to collect the client feedback on the satisfaction with the financial services. There is slight room for improvement in the way some of the questions are phrased in the study to be more specific. Please refer to section 4.2 for the client drop-out analysis.
Prevention of over indebtedness	+ The context risk factor for client over-indebtedness is low: the penetration of microfinance services in the areas of operation and the growth rates of competitors in the past years is moderate and branch expansion and growth is informed by a detailed analysis of market saturation (see section: responsible growth under 1.2 Social and Financial Balance for more details). The level of multiple borrowing is quite low, with regulation allowing only one additional loan with another NBFC-MFI and the information available from the credit bureau is adequate. + A prudential debt threshold of 30% is considered in determining the loan size and term. + The individual cash-flow analysis is good: a reasonable estimate of the client repayment capacity is calculated through a detailed analysis of the client income, the business and family expenses as well as liabilities from other sources. The analysis considers loans of other family members to the extent that information is available. The analysis could be enhanced to apply conservative criteria to volatile income sources or to particularly risky clients. + The analysis of the group members' capacity to repay is very good. The loan officer performs a good cash-flow analysis for each group member, considering client income, business expenses, family expenses, liabilities from other sources and loans of other family members. The group liability mechanism is sufficiently covered during group orientation meetings. + The quality and quantity of the initial and refresher trainings provided to the loan officers on client repayment analysis are good. While they could be enhanced, the staff responsible for the appraisal itself (Appraisal Officers) are trained to a very good level. + The system to review and report client data through the credit bureau is very good: the consultation and sharing of client data is formalized in the credit policy and covers all loans in all cycles. The credit bureau covers all NBFC-MFIs which are relevant for the target market of the organization and the information is updated with an appropriate monthly frequency.

- The portfolio quality is adequate. Client over-indebtedness is among the factors contributing to late payments, however the main reason was the government's banknote demonetization in November 2016, which especially impacted rural areas with cash shortages which led to repayment issues. However, corrective measures taken to improve the portfolio quality are appropriate and along with the stabilized monetary environment credit risk is expected by AMPL to return to historical levels (PAR 30 <1%) by 2018.
- The staff incentive scheme and productivity targets value portfolio quality in a direct way, such that if PAR 30 exceeds 1% there is no incentive provided. However, this requirement is not formalized. Thanks to a healthy market functioning and policies, over- and cross-indebtedness risk is mitigated well.

Transparency

- Clients receive a contract and repayment schedule (at group-level, one per group) that includes all the loan conditions: loan amount, nominal interest rate, interest amount, processing fee (amount), and insurance fee (amount). All the relevant price components are clearly listed which together add to the Total Cost of Credit (TCC) even if the TCC and the APR are not explicitly shown. The contract also includes the disbursement date, loan term, and penalties for arrears. A Loan Card (also functioning as a passbook) is received which contains key facts including complete pricing information (interest rate/amount, processing fee, insurance fee), other relevant product characteristics, and the toll-free complaints number.
- The institutional transparency index (weighted average of different loan products) is very high (>90), indicating a marginal difference on average between the nominal interest rate disclosed to the clients and the Annual Percentage Rate (APR) calculated according to international standards (MFT methodology). The excellent transparency is due to utilization of a declining balance interest rate, limited fees (1% of the loan amount upfront), and a low insurance fee (5.6 INR = <1 USD per 1,000 of disbursed loan size per annum, charged on an upfront basis).

Responsible pricing

- The price of all the main loan product (comprising 97.5% of the portfolio) is in-line with the peer group of the market: the APR is in-line with the average APR of the loan products with a similar loan size. The Reserve Bank of India (RBI) establishes a cap on the margin between the cost of funding and the nominal interest rate charged (which must be a declining balance rate), currently set at 10%. For AMPL, given current levels of funding cost, the maximum nominal interest rate that can be charged is 25%. The regulation also caps loan processing fees and insurance fees.

Please refer to section 1.2 for the analysis of profitability alignment to the social mission.

Credit products	Avg. annual percentage rate (APR) [1]	Average transparency index [1]	Active loans	Portfolio	Average loan balance, USD [2]	Average loan balance / GNI pc [2]
SHG	26%	91	98%	99%	210	13%
AMPL	**26.2%**	**90.8**	**98.3%**	**98.7%**	**132**	**13.1%**

[1] Main loan products. [2] Annapurna Microfinance Pvt Ltd (AMPL) line data refer to the total portfolio.

Fair and respectful treatment	+ The collection practices document formalizes the specific steps to follow in case of default and the acceptable and unacceptable collection strategies (e.g. calling client before 6am or after 7pm, excessive calling, forcing client to speak English, discussing debt obligation details with unauthorized people, misleading statements, threatening language, asking for gifts/bribes). The collection practices further describe the expected behavior from staff towards clients. The group liability mechanism is utilized for the main loan product with collection/recovery handled by groups, and a group code of conduct is trained on during the group orientation meetings during a session on group responsibility. + A loan restructuring policy exists and it is applied in exceptional cases for late clients with willingness but no capacity to repay. The policy formalizes the cases of specific distress under which clients can be eligible, namely in case of a significant external event beyond the control of the client, such as natural disaster or man-made disaster, and other events affecting the client's livelihood such as death or major illness. Reaching informal repayment agreement (i.e. without changing the loan contract) is possible in practice, and a loan write-off policy is in place. + Considering the sample size of clients visited (35-70% of first cycle groups and 4-10% of existing groups) and the scope of the client interview (e.g. confirm loan characteristics, staff treatment, knowledge of complaints channels), the internal audit is a strong mitigation factor for the risk of abusive collection practices and fraud against the clients. There is evidence of sanctions applied in case of inappropriate staff behavior.
Privacy of client data	+ The contract includes a privacy clause indicating that client information cannot be shared without the prior consent of the client. Clients provide explicit written consent to share their information with the credit bureau and insurance company. Staff further explain the privacy clause during group orientation trainings.
Mechanisms for complaint resolution	+ The complaint channels are easily accessible and well-suited to clients' preferences, notably including a toll-free phone number in addition to suggestion boxes, email, and in-person written/verbal complaints in the branches. Clients can also submit a complaint to someone different that their main point of contact through the independent head office staff handling the toll-free number. Complaints may also be submitted to the regulator and network. + The clients are effectively informed on how to submit a complaint through a variety of channels: orientation provided by the staff before loan disbursement, loan documentation (Loan Card, contract, repayment schedule), communication materials visible in the branches, and product marketing material. Internal consolidation and reporting of complaints for the main channels (toll-free number and in-person branch complaints) is overall good, with an improvement area to consolidate complaints from all channels together into one report.

2.3 Green index and social responsibility community

Environmental risk management: Adequate
Environmental products: Good
Community protection policies: Excellent
Community projects: Excellent

Green index

- The environmental strategy is moderate. One person in the organization is appointed to manage environmental issues, the SPM Officer. The institution's environmental practices are described in the annual report to a moderate extent. However, the environmental protection goal is not formalized in the vision/mission or among formalized institutional values/goals/objectives. An environmental strategy document is in place, but it should be supplemented with environmental indicators and targets to be reported to the management team and BoD.

+ The internal ecological footprint of the organization is well managed. The internal environmental risk is reduced thanks to specific mechanisms to reduce paper, reduce carbon emissions, and energy consumption. Specific activities are also conducted to raise employees' awareness of good practices, even if staff awareness could be enhanced with more initiatives. Staff participate in occasional green initiatives (e.g. cleanliness drives to dispose of waste in public park areas).

+ The environmental risk is a factor considered in the loan approval decision: the activities with a high environmental risk are not financed, in compliance with the detailed list mirroring the IFC list of environmentally risky activities defined in internal policies. The excluded types of business is not formalized in loan appraisal forms themselves, however the appraisal officers tend to be uniform in the approach to excluded businesses. The loan contracts do not include clauses requiring clients to improve environmental practices or mitigate environmental risks.

+ The institution provides a specific green loan product dedicated to promoting environmentally-friendly technologies and activities (the SWASTH Safe Water and Sanitation Loan). However, the current green product represents a marginal share of the portfolio at 1.0%. There are early-stage plans to introduce a renewable energy product to finance solar panels.

+ The institution or a partner organization provides green non-financial services to clients in the form of awareness raising training on the importance of safe water and sanitation, as part of marketing efforts of the SWASTH Loan. However, these trainings are not carried out systematically or with formalized training material.

Social responsibility towards the community

+ An exclusion list in the credit manual formalizes activities which are harmful for the community and cannot be financed such as illegal activities, forced labor, child labor, and production/trade of tobacco, alcohol, and weapons. The excluded types of business is not formalized in loan appraisal forms themselves, however the appraisal officers tend to be uniform in the approach to excluded businesses. Furthermore, the capacity to verify the compliance to the exclusion list is adequate, since the type of activity the clients engage in are generally verified by the internal auditor during frequent client visits.

+ The institution engages in socially responsible projects that benefit significantly the community, related to education, child welfare, rehabilitation of the disabled, gender equality, women empowerment, and health and sanitation. The funds redistributed to the community are identified as a separate item in the budget development process; the amount is determined as a share of the previous year profit or with a specific criterion: 2% of profits are allocated towards funding of CSR activities, which amounted to 2,602,000 INR (40,090 USD) in 2016 alone.

3. Outreach

3.1 Area of operation

Geographical coverage: Adequate
Alignment of the geographical outreach to the mission: Excellent

Regions of operation	Poverty	AMPL Active loans	AMPL Outstanding portfolio
Tripura	14.1%	0.2%	0.2%
Maharashtra	17.4%	9.8%	9.3%
Chhattisgarh	39.9%	14.3%	13.3%
Odisha	32.6%	54.5%	54.9%
Madhya Pradesh	31.7%	11.3%	11.4%
Bihar	33.7%	4.1%	4.6%
Assam	32.0%	1.8%	2.4%
Rajasthan	14.7%	1.5%	2.1%
Jharkhand	37.0%	2.4%	1.7%
Meghalaya	11.9%	0.0%	0.1%
Total, AMPL		**100%**	**100%**
Urban operations		11.4%	15.6%
Rural operations		88.6%	84.4%
Total, India	**21.9%**	**India, population**	
Urban	13.7%	32%	
Rural	25.7%	68%	

Source: Government of India Planning Commission

+ 34.4% of India's provinces (10 of 29) are covered by AMPL's operations.

+ The outreach to areas poorer than the national average is good: the share of operations located in areas with a higher poverty rate than the national average is large.

+ The coverage of rural areas, with a concentration of financially excluded population, is very large. The share of rural clients is significantly higher than the national average.

3.2 Clients reached

Breadth of outreach: Excellent
Alignment of the depth of outreach to the mission: Good

AMPL	Apr-14 Mar-15	Apr-15 Mar-16	Apr-16 Mar-17
Active borrowers	335,449	625,480	899,743
Gross outstanding portfolio, USD	63,623,056	139,487,505	191,029,228
Branches	116	176	246
Growth in outstanding portfolio	134%	132%	34%
Growth in active borrowers	111%	86%	44%

+ The breadth of outreach indicated by the number of borrowers compared to the regional benchmark is very large.

+ The number of borrowers is very large compared to the peer group of institutions in the country.

+ The average growth of borrowers in the last 3 years has been good compared to the benchmark (country).

- The growth of borrowers shows a negative trend, especially in the last period of analysis. The decline in the growth is mainly due to demonetization in 2016, during which RBI established limits to cash disbursements.

Social vulnerability and household profile

+ The outreach to households with a relatively low education level is good based on the data available. The share of clients without completed primary education stood at 51% according to the latest Impact Assessment performed in 2016. Only 21% of clients have completed education above a primary level. The share of household members between age 6 and 13 attending school is not yet calculated.

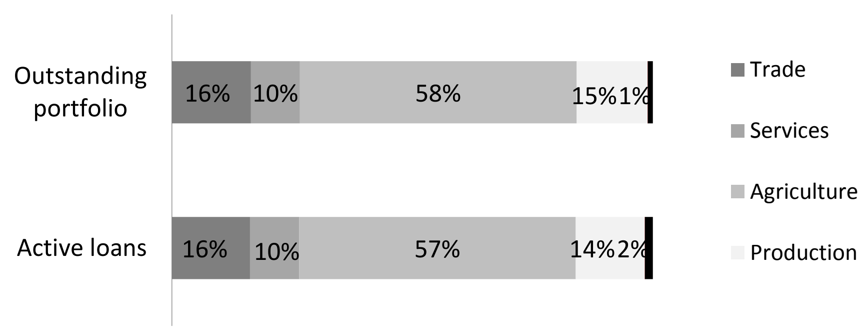
+ The outreach to households with vulnerable demographic characteristics is good based on the data and proxies available. 83% of clients belong to lower castes, including the Scheduled Caste, Scheduled Tribe, Minority, and Other Backward Classes. Other Backward Classes accounts for 49% of clients. Only 20% of households claim the primary source of income as a fixed salary. The share of clients belonging to the vulnerable youth and senior categories (<24 and >60 years) is only moderate given that the age eligibility is 21-58 years for the main loan product. The average household size is 4-5, above the country average.

+ The outreach to women is very good based on the data available. The share of female clients (>99.9%) is significantly higher than the regional benchmark.

Financed activities

+ The alignment between the type of financed activities and the income generation mission is very good: 99% of the portfolio finances income-generating purposes.

Mar-17 Financed activities



+ The share of self-employed clients and informal microenterprises financed is high, with 67% identifying as self-employed and another 14% as informal workers according to an Impact Assessment study.

Economic poverty

+ The poverty outreach is very good: the poverty rate among clients is significantly higher than the national average, showing an excellent alignment with the mission. The poverty incidence at $1.90 USD PPP is 72.6% (as of August 2016), which compares to India countrywide at 21.2% (as of 2012).

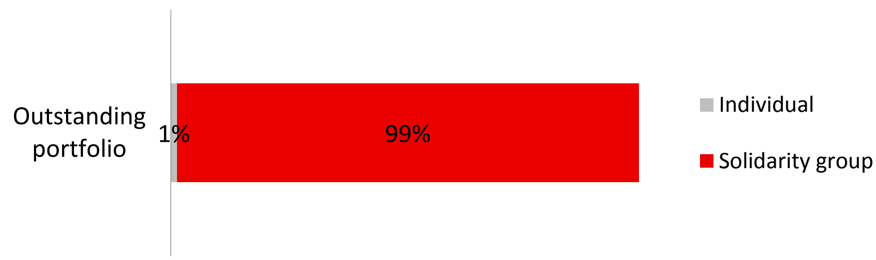
Dwelling and assets

+ Consolidated and representative data on outreach to households with no house and land ownership is not available, however proxies suggest an adequate outreach.

+ Consolidated and representative data on outreach to households with restricted access to basic services is not available, however proxies suggest an adequate outreach. The Impact Assessment study tracks the difference between first cycle and multiple cycle clients in terms of the percentage of clients that since joining AMPL switched from a community to independent source of water, and from traditional healthcare methods to public healthcare.

+ The bulk of loans backed by soft guarantee (100% of the portfolio) suggests that the majority of clients may not necessarily own a large amount of assets. The Impact Assessment study tracks the difference between first cycle and multiple cycle clients in terms of the percentage of clients that since joining AMPL now own a washing machine, water purifier, and television.

Mar-17 Lending methodology



Access to financial services

+ The outreach to the financially excluded is expected to be good. The financially excluded percentage of clients is reportedly tracked.

+ Consolidated and complete data on the client access to the lending services of banks and regulated financial institutions are not available. However, proxies suggest an adequate outreach to clients excluded from banks and regulated financial institutions.

Credit and saving size

+ The average loan balance per borrower on GNIpc is below 20%, probably indicating a low-end type of segment reached.

Loan size	Mar-15	Mar-16	Mar-17
Average loan balance, USD	190	221	209
Average disbursed loan amount, USD	260	314	441
Average loan disbursed ($PPP)	751	939	1,318
Growth in average loan balance[1]			8.8%

[1] Annual average growth in the last three periods.

- The growth in the average loan balance in the last three periods of analysis has been above the country inflation level, but is below the main peer group considered (by region), indicating a possible shift towards a mix of a segment of the population overall slightly better off. Two states recently expanded to (Madhya Pradesh and Maharashtra) have an average demand size higher than other states with existing operations. Still, the impact could be attributed to higher cycle clients becoming eligible for higher loan sizes.

Loan size by product	Average loan balance, USD	Loan balance[1] / GNI pc	Growth in portfolio [2]
SHG	210	13.1%	33.6%
SWASTH	132	8.3%	31.1%
MEL	1,039	64.9%	205.6%
Dairy	525	32.8%	594.1%
Micro Housing	637	39.8%	574.4%
Total	**209**	**13.1%**	**33.9%**

[1] Per loan. [2] Last period.

+ The analysis of the average loan size by cycle shows a gradual increase along with subsequent cycles, adequately reflecting the increasing financial needs of repeat clients.

4. Quality of the services

4.1 Variety of services

Variety of types of services: Good
Service variety to meet diverse client financial needs: Adequate

Variety of types of services:

+ The overall variety of the types of services provided is good: credit, insurance (mandatory credit life insurance), and non-financial services are provided to clients. Other financial services (savings, leasing, factoring, money transfer, payment services) are not available.

+ Saving services are not currently offered. However, the institution promotes the saving activity of the borrowers and encourages them to save in other financial institutions.

+ The only insurance service currently offered by the institution is the mandatory life insurance covering the loan balance.

Service variety to meet diverse client financial needs

+ The need for clients to invest in economic opportunities and address life cycle household needs is adequately met by the products and services of the institution. The flexible product characteristics match well the need to finance business working capital, finance business investments, and finance agriculture working capital loans.

- The need for clients to cope with common emergencies is partly met by the products and services of the institution. Clients have access to loan restructuring when appropriate and insurance (compulsory credit life insurance). Savings within groups is encouraged to help cope with emergencies. However, other options to manage the shocks in the clients' cash flow such as emergency loans, accessible funds or reserves in case of emergency, and health services are not available.

4.2 Adequacy of services

Adequacy of credit services: Good
Adequacy of other financial services: Good
Adequacy of non-financial services: Good

Accessibility: service delivery, time, procedure, guarantee

+ The financial products do not present barriers to the access of the main target population, thanks to the accessible loan size (e.g. small minimum amount), guarantee requirements (e.g. no physical collateral required), and delivery models (e.g. adaptation to local language and illiteracy), and accessible insurance eligibility criteria.

+ The service delivery channels are convenient and reliable for the clients thanks to the widespread coverage of the branch network, the proximity of branches to the areas where the target population lives (by design clients should not live more than 30km from a branch) and the "doorstep service" (field staff travelling to client residences and places of business to collect repayments).

+ The loan disbursement procedure is quite fast and reasonably simple for the clients: disbursing a loan typically takes 5-10 days for new clients and slightly fewer days for repeated clients. The process of filling-up the application form is supported by the filed staff when needed. The documents required are easy to collect for clients. There is evidence from the client satisfaction studies conducted by the institution that the share of clients satisfied with the disbursement procedure is high, with >99% either satisfied or very satisfied with the disbursement process in general.

+ The types of guarantees required (social collateral and spouse co-sign) do not cause major barriers to access.

Flexibility: term, frequency, amount and service

+ The loan terms are overall adequately tailored to the main financial needs of the target population segments. There is evidence from the client satisfaction studies conducted by the institution that the majority of clients are satisfied with the loan term. However, a significant share (around two-fifths) of clients interviewed claimed to be dissatisfied with the loan term, with requests for longer loan terms (the currently offering is 12-36 months).
+ The loan repayment frequency is very well tailored to the most frequent business and household cash-flow patterns of the target population segments. The frequency is monthly but can include grace periods when appropriate, for example up to a 3-month grace period is available for agriculture loans. There is evidence from the client satisfaction studies conducted by the institution that >99% of clients are satisfied with the loan repayment frequency.
+ The majority of the target clients' financial needs are well matched by the diverse range of loan size options available among the different credit products. There is evidence from the client satisfaction studies conducted by the institution that the large majority of clients (around three-fourths) are satisfied with the loan amount.
+ The customer service is very good as demonstrated by the very high client satisfaction with the field staff relationship resulting from the client satisfaction study conducted by the institution.

Client drop-out rate

+ The drop-out rate is monitored on a quarterly basis using a reliable formula, the CGAP definition which classifies drop-out as a client that voluntarily did not take a follow up loan within the next 6 months. The calculation allows for a general review of the client drop-out rate and its trend. The trend and concentration at branch-level is also calculated an reviewed. However, the drop-out rate is not yet available by different client segments.
+ The client drop-out rate (calculated with MFR formula) is below the majority of the peer groups considered (region, charter type, lending methodology). The trend in the client drop-out rate is positive in the last period of analysis. The drop-out rate calculated with the formula used by the institution in-line with the MFR calculation.
+ The clients' drop out reasons are formally investigated and tracked for a representative share of exiting clients. Besides managing individual exit cases, a consolidated analysis is conducted to identify the main reasons of client drop-out. The analysis is conducted on a quarterly basis. Overall, the method used to categorize the exit reasons is appropriate to the aim of the analysis.
+ Target clients leaving for other financial institutions with more diverse and appropriate products and services do not seem to be the main reasons of client drop-out. Clients may join another financial institution that offers savings products, but retain credit activity with AMPL.

Client drop-out	**Apr-14 Mar-15**	**Apr-15 Mar-16**	**Apr-16 Mar-17**
Client drop-out ratio	20%	24%	3.1%
Client exit rate (AMPL)			3.3%

Appropriateness of financial services other than credit	Savings services are not currently offered due to regulatory permissions.
	+ The insurance offering is limited to mandatory credit life insurance, which itself is designed well for the target households' needs to protect from business and household shocks related to death or permanent disability of the client. The insurance premium is a reasonable cost for the coverage provided which is paid in convenient monthly installments along with loan repayment. The client satisfaction survey results show that >99% of clients are satisfied with the insurance process, even if there are isolated cases of delayed claim settlement.
Variety and appropriateness of non financial services	+ The quality and relevance for the target population segments of the non-financial services is good. The services are well designed to increase their capability to take advantage of economic opportunities (e.g. financial literacy training and technical business skills training), to empower clients (e.g. women empowerment training), and to improve clients households' living conditions (e.g. health and sanitation training). + The offer of non-financial services is adequate, covering between 5-10% of clients. The non-financial services business model is adequate: the funding sources are budgeted, even if the service costs are not covered directly by clients. + The alignment of the strategy to the mission is well reinforced by the involvement in additional projects and activities with a relevant social benefit to clients, related to education, child welfare, rehabilitation of the disabled, gender equality, women empowerment, and health and sanitation.

Annex 1 - Universal Standards and Client Protection Certification

Social rating

- ✓ Social performance management
- ✓ Client protection
- ✓ Outreach
- ✓ Quality of the services

Universal Standards of Social Performance management

✓ Social Rating demonstrates the implementation to the USSPM*.

Client Protection Certification

✓ Social Rating gives an indicator of the efforts required to achieve certification.

✓ Social Rating is not a certification, but it can be combined with a certification with MicroFinanza Rating, a licensed certifier.

Universal Standards of Social Performance management validated by Social Rating	Implementation
1 Define and Monitor Social Goals	**Intermediate**
1a The institution has a strategy to achieve its social goals	●●
1b The MFI collects, reports, and ensures the accuracy of client-level social data	●●
2 Ensure Board, Management, Employee Commitment to Social Goals	**Intermediate**
2a Members of the Board of Directors are committed to the mission	●●
2b Board of Directors holds the institution accountable to its mission	●●
2c Senior management sets and oversees the strategy for achieving its social goals.	●●
3 Design Services and Channels That Meet Clients' Needs	**Good**
3a The MFI understands the needs and preferences of different types of clients.	●●●
3b The products and delivery channels are designed to benefit clients	●●●
4 Treat Clients Responsibly	**Good**
4a The MFI avoids client over-indebtedness.	●●●
4b The MFI communicates clear, sufficient and timely information to the clients.	●●
4c The MFI treats their clients fairly and respectfully.	●●●
4d The institution respects the privacy of client data.	●●●
4e The MFI has timely and responsive mechanisms for complaints resolution.	●●●
5 Treat Employees Responsibly	**Good**
5a The MFI policies protects employees and create a supportive working environment.	●●●
5b Employment terms are transparent and training is provided to the employees	●●●
5c The institution monitors employee satisfaction and turnover.	●●
6 Balance Financial and Social Performance	**Intermediate**
6a Growth is sustainable for market conditions, allowing for high service quality	●●●
6b The financing structure is appropriate to a double bottom line MFI	●●
6c Pursuit of profits does not undermine the sustainability or client well-being	●●●
6d The senior managers compensation is appropriate to a double bottom line MFI	●
7 Green microfinance	**Intermediate**
7a The institution addresses environmental issues through a formalized strategy.	●
7b The institution manages its internal environmental risks.	●●
7c The institution manages its external environmental risks.	●●
7d The institution fosters green opportunities.	●●

Implementation: ●●● high; ●● intermediate; ● low.

*Correspondence map between the USSPM and the Social Rating: annex 1 of the Social Rating Methodology (www.microfinanzarating.com)

Social Rating general opinion on the Client Protection Certification	Status
1 Appropriate product design and delivery	Certified
2 Prevention of over indebtedness	Certified
3 Transparency	Certified
4 Responsible pricing	Certified
5 Fair and respectful treatment	Certified
6 Privacy of client data	Certified
7 Mechanisms for complaint resolution	Certified

Annex 2 – Social Indicators

CLIENT PROTECTION AND SOCIAL RESPONSIBILITY	Mar-17
Female staff	11.9%
Female staff in management	0.0%
Staff turn-over ratio[1]	24.1%
Portfolio yield	21%
Average annual percentage rate (APR)	26.2%
Average transparency index	90.8
Operating expense ratio	6.6%
PAR30	7.7%
Return on Equity (ROE)	12.3%
Return on Assets (ROA)	1.5%
OUTREACH	
Active clients	899,743
Active borrowers	899,743
Active savers	0
Growth in active borrowers	44%
Growth in outstanding portfolio	34%
Individual methodology, portfolio	1%
Individual methodology, loans	1%
Solidarity group methodology, portfolio	99%
Solidarity group methodology, loans	99%
Village banks methodology, portfolio	0%
Village banks methodology, loans	0%
Urban coverage, portfolio	16%
Urban coverage, loans	11%
Rural coverage, portfolio	84%
Rural coverage, loans	89%
Agriculture, portfolio	58%
Agriculture, loans	57%
Female clients, portfolio	100%
Female clients	100%
Average loan balance, USD	209
Average loan balance / GNI pc	13%
Average disbursed loan amount, USD[2]	441
Average loan disbursed ($PPP)	1,318.009
Average saving balance, USD	n/a
QUALITY OF THE SERVICES	
Client drop-out ratio	3%

Sources: MIS.
[1]Calculated with average number of staff. [2]Calculated with average exchange rate

Annex 3 – Financial Products

Credit products, USD /1	SHG	SWASTH	MEL	Dairy	Micro Housing
Lending methodology	Group	Individual	Individual	Individual	Individual
Currency	25,000	15,000-25,000	30,000-300,000	32,000-150,000	20,000-120,000
Type of interest	Declining balance	Declining balance	Declining balance	Declining balance	Declining balance
Min. interest rate	23.0%	22.0%	23.0%	23.0%	22.0%
Max. interest rate	24.0%	22.0%	26.0%	23.0%	23.0%
Commissions	1% Loan Processing Fee, Insurance Fee (5.6 INR per 1,000 of disbursed loan size per annum, charged upfront)				
Min. amount	154	231	463	494	308
Max. amount	1542	386	4627	2313	1851
Min. maturity (months)	12	12	12	12	12
Max. maturity (months)	24	24	36	36	36
Repayment frequency	Monthly	Monthly	Monthly	Monthly	Monthly
Grace period (months)	na	na	na	na	na
Collateral	None	None	None	None	None
Mandatory savings	None	None	None	None	None

Annex 4 - Definition of Indicators and Statistics

Social Performance Management system	
PAR 30	Outstanding balance on loans with arrears > 30 days / Gross outstanding portfolio
Write-off ratio	Value of loans written-off during the period / Average gross outstanding portfolio
Restructured portfolio	Total gross outstanding rescheduled and/or refinanced portfolio / Gross outstanding portfolio
Return on Equity (ROE)	Net income / Average equity
Return on Assets (ROA)	Net income / Average assets
Adjusted Return on Equity (AROE)	Adjusted net income / Average equity
Adjusted Return on Assets (AROA)	Adjusted net income / Average assets
Oper. Self-sufficiency (OSS)	(Financial revenues + Other operating revenues) / (Financial expenses + Provision expenses + Operating expenses)
Fin. Self-sufficiency (FSS)	(Adjusted financial revenues + Other operating revenues) / (Adjusted financial expenses + Adjusted loan loss provision expenses + Adjusted operating expenses)
Staff productivity (borrow.)	Number of active borrowers (clients) / Number of staff
LO productivity (borrow.)	Number of active borrowers / Number of loan officers
LO productivity (groups)	Number of groups / Number of loan officers
Operating expense ratio	Operating expenses / Average gross outstanding portfolio
Funding expense ratio	Interest and fee expenses on funding liabilities / Average gross outstanding portfolio
Provision expense ratio	Loan loss provision expenses / Average gross outstanding portfolio
Portfolio yield	Interest and fee revenues on loan portfolio / Average gross outstanding portfolio
Risk coverage ratio (PAR30)	Loan loss reserve / Portfolio at risk >30 days
Cost of funds ratio	Interest and fee expenses on funding liabilities / Average funding liabilities
Debt/Equity ratio	Total liabilities / Total equity
Management/field staff compensation	Average top 3 management compensations / Average bottom 3 field staff compensations

Client protection and social responsibility	
Staff turn-over ratio	Staff who left during the period / Average staff at in the period
Avg. annual percentage rate (APR)	Includes interest rate, method of interest calculation, commissions, taxes, mandatory savings (see MicroFinance Transparency tool) The annual Percentage Rate (APR) of the institution is the average APR of all the products weighted by the percentage of number of loans by product.
Average transparency index	Nominal interest rate / Annual Percentage Rate The transparency index of the institution is the average transparency index of all the products weighted by the percentage of number of loans by product

Outreach	
Average loan balance	Outstanding portfolio (end of period) / Number of active borrowers (end of period)

Average disbursed loan amount	Amount disbursed during the period / Number of loans disbursed during the period
Average loan disbursed ($PPP)	Amount disbursed in local currency * $PPP conversion factor
Quality of the services	
Client drop-out ratio	(number of active clients at the beginning of the period + number of new (first time) clients entering during the period – clients written-off during the period – number of active clients at the end of the period) / (number of active clients at the beginning of the period)
n/a	Not applicable
na	Data not available

Annex 5 – Social Rating Scale

Grade	Definition
^{S}AA	Excellent social performance management and client protection systems. High likelihood of achieving the social mission.
^{S}A	Good social performance management and client protection systems. Social mission likely to be achieved.
^{S}BB	Adequate social performance management and client protection systems. Satisfactory alignment to the social mission.
^{S}B	Moderate social performance management and client protection systems. Partial alignment to the social mission
^{S}C	Weak social performance management and client protection systems. Medium risk of mission drift
^{S}D	Poor social performance management and client protection systems. Risk of mission drift.

The modifiers “+” and “-” which can be added to the rating grade indicate small relative differences within each rating category.

More information: www.microfinanzarating.com

The information used in the social rating has been partly provided by the evaluated institution and partly collected during the meetings with the head executives, the staff and the clients of the institution. The analysis is based on internal MIS data and other official sources. MicroFinanza Rating cannot guarantee the reliability and integrity of the information, as it does not conduct auditing exercises, and therefore does not bear responsibility for any mistake or omission coming from the use of such information. The social rating has to be considered as an external and independent opinion and it has not to be considered as a recommendation to realize investments in a specific institution.