

**SOCIAL PERFORMANCE ASSESSMENT**

# Social Performance Assessment: WSDS-Initiate

Imphal, India

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**Lead Analyst:**

**NEW YORK**

Alan Bonilla  
*Assistant Vice President, Moody's Analytics*

**Analysts:**

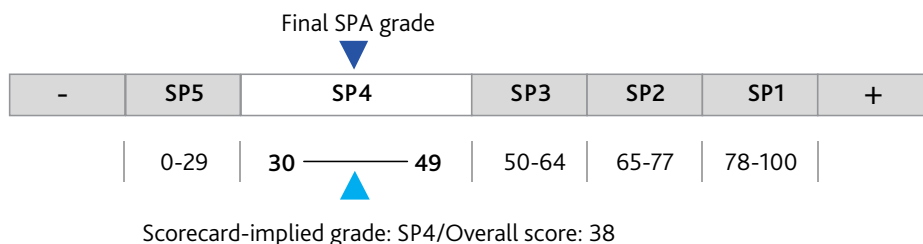
**INDIA**

Ritabrata Roy  
*Deputy Senior Associate, Copal Partners*  
Rajalakshmi Srinivasan  
*Senior Associate Analyst, ICRA Online (ICRON)*

**Contact Information:**

+1-415-874-6286  
alan.bonilla@moody.com

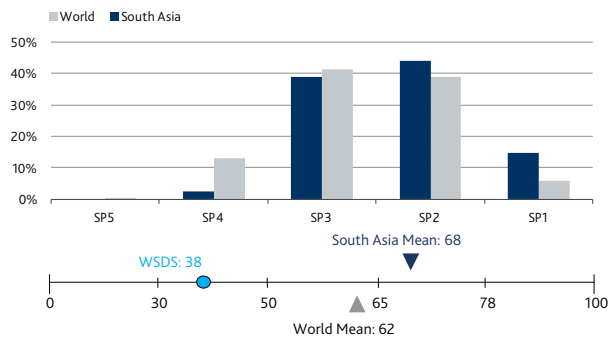
FIGURE 1  
**SPA Grade Snapshot**



**WSDS SNAPSHOT**

Year established	2007
Entity type	NGO
Gross loan portfolio	US\$611,030
Active borrowers	2,913
Average loan size	US\$210

FIGURE 2  
**Global Benchmarking**



Sources: 2009 and 2010 MIX data and Moody's Analytics' SPA Scorecard

This report provides in-depth analysis of the social performance of WSDS-Initiate and should be read in conjunction with Moody's Analytics' [Global Methodology - Social Performance Assessment](#). The methodology is also available at [moodyanalytics.com/microfinance](http://moodyanalytics.com/microfinance). This report is not a credit rating or other opinion on creditworthiness.

## Summary of Assessment Rationale

- » The mission statement of Weaker Section Development Society - Institute of Innovative Technology Transfer and Environment (known as WSDS-Initiate, and referred to here as WSDS) was formulated in 2007, when the organization began lending directly to customers. The mission statement focuses on poverty reduction through the provision of financial services to underserved people, but has not been broken down into specific goals and measurable objectives.
- » Diversity of financial products is limited; WSDS offers only one credit product. It does however offer a diverse range of non-financial products.
- » No person external to the organization sits on the board of the microfinance institution (MFI), and discussion of social performance topics during board meetings is limited.
- » WSDS's written policies on customer protection cover a wide range of issues (e.g., prevention of over-indebtedness, transparency on pricing, respectful treatment of customers, privacy of data).
- » Transparency with respect to product pricing and debt-collection practices is good, but monitoring debt collection (by either WSDS's management or its internal auditor) is not part of the MFI's formal process.
- » Customer complaint procedures are weak. There is no dedicated staff to handle complaints and complaint information is not monitored either to track timeliness of resolution or to improve services.
- » WSDS's customer dropout rate is moderately high (~17.4% as of March 2013) due to long waiting time for loans, a situation precipitated by a shortage of funds.
- » Conducting periodic impact studies is not part of WSDS's formal process. Additionally, social data is not analyzed and reported to senior management or the board.
- » WSDS's code of ethics covers a wide range of topics (e.g., anti-corruption, customer protection, proper collection techniques) and is adequately communicated to staff during induction and contract renewals.
- » Incentives and promotions do not depend on social performance indicators and are functions solely of financial and operational parameters.
- » There are no internal or customer-related environmental policies (either informal or written) associated with WSDS's microfinance program. The organization is however engaged in a number of environmental initiatives outside of microfinance.

## Institutional Profile

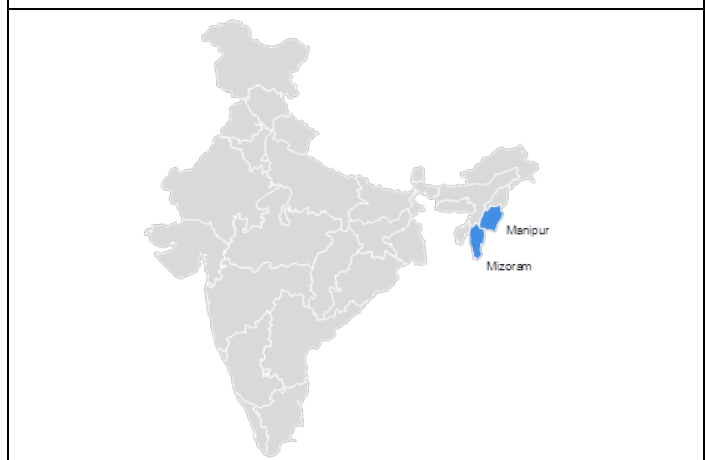
**Mission Statement:** To make a positive impact on the lives of the underserved by providing need based, affordable financial services

KEY DATA (MARCH, 2013 )	
Gross loan portfolio	US\$611,030*
Average loan size	US\$210*
Products	Income generating loans
Number of borrowers	2,913
Number of staff	21
Customers per loan officer	291.3
Number of branches	7
Country of operation	India
Areas of operation	Manipur, Mizoram
Urban/Rural	Rural
Legal status	NGO
Regulator	Registrar of societies, Manipur

\*Exchange rate: US\$1 to INR54.355

FIGURE 3

### Geographic Footprint



SOCIAL INDICATORS	2010	2011	2012
% of rural customers	100	100	100
% of female customers	100	100	100
% of female active savers	-	-	-
% customers below \$1.25 per day	-	-	-
% customers below \$2.00 per day	-	-	-
% customers below poverty line	100	100	100
% customers with no formal education	-	-	-
Customer dropout rate	0.0	5.5	60.6
Average loan balance/GNI per capita	3.6	3.4	-
% female employees	-	30.6	40.0

FINANCIAL INDICATORS (%)	2010	2011	2012
Portfolio yield	15.9	29.0	31.5
Operating expense ratio	8.2	14.5	16.8
Financial expense ratio	11.2	14.4	16.9
Provision and write-offs	0.0	0.4	0.3
Operational self-sufficiency	92.9	105.1	96.8
Capital/Asset ratio	1.5	3.0	5.3
Debt to equity ratio (x times)	-	-	-
Return on assets	0.1	1.7	0.2
Return on equity	-	-	-

WSDS is a non-governmental organization (NGO) MFI based in Imphal, Manipur in northeast India. It was founded in 1989 as a youth club, and in 2000 evolved into a self-help group (SHG) promoting organization, mobilizing women into SHGs and facilitating external borrowing by linking the groups to banks. It also developed the groups' capabilities in terms of managing credit and micro-enterprises.

In 2007, WSDS began to lend directly to beneficiaries. Its microfinance operations currently comprise six branches in Manipur and one in the neighboring state of Mizoram. As of March 2012, WSDS had 2,913 active customers and its outstanding gross loan portfolio totaled approximately US\$611,030. The MFI has 21 staff members.

## SPA Factors – Scorecard-Implied Grades

### Scorecard Snapshot

FIGURE 4  
SPA Factor Table

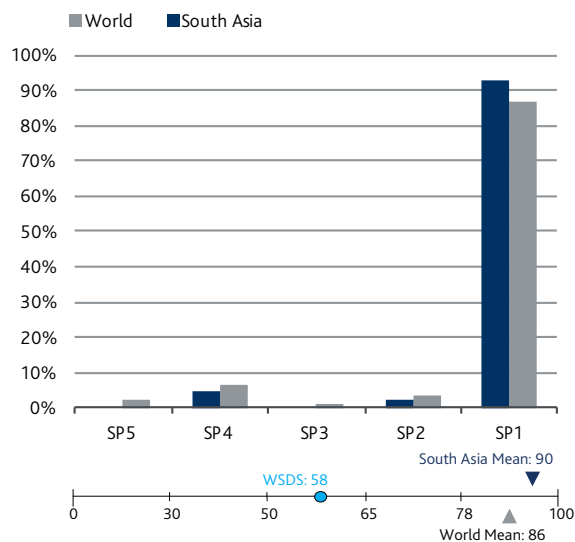
Factor	SP5	SP4	SP3	SP2	SP1
Social Mission			58		
Strategy and Leadership		45			
Customer Relationship			51		
Measurement of Social Outcome or Impact	16				
Human Resources		32			
Environmental Performance	4				

FIGURE 5  
Relative Contribution



### Global and Regional Comparison

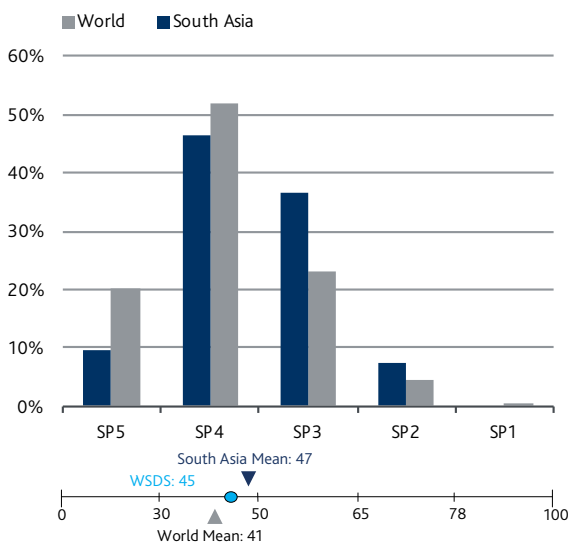
FIGURE 6  
Social Mission



Sources: 2009 and 2010 MIX data and Moody's Analytics' SPA Scorecard

- » Social mission has been in place since the MFI's inception, in 2007; focuses on poverty reduction by providing financial services to underserved people.
- » Social mission has not been broken down into goals with measurable objectives for the purposes of tracking progress toward achievement.

FIGURE 7  
Strategy and Leadership

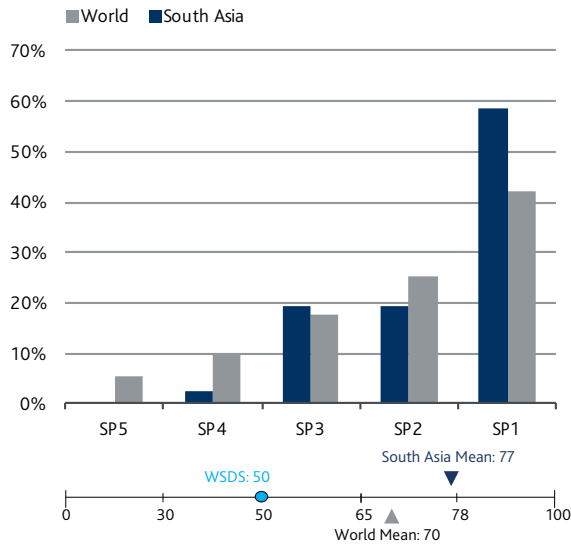


Sources: 2009 and 2010 MIX data and Moody's Analytics' SPA Scorecard

- » Senior managers have high levels of experience with the target market. Their experience in microfinance operations and social performance, however, is limited.
- » Staff turnover during fiscal year 2012-13 was zero. However, a pay cut effected in late 2012, due to a shortage of funds, has raised the risk of staff attrition in the near future.
- » Discussion of social performance issues during board meetings is limited. The board does not review social performance data to compare actual performance with the MFI's strategic plans.
- » No analysis or reporting of social performance data is undertaken for either internal or external stakeholders.

FIGURE 8

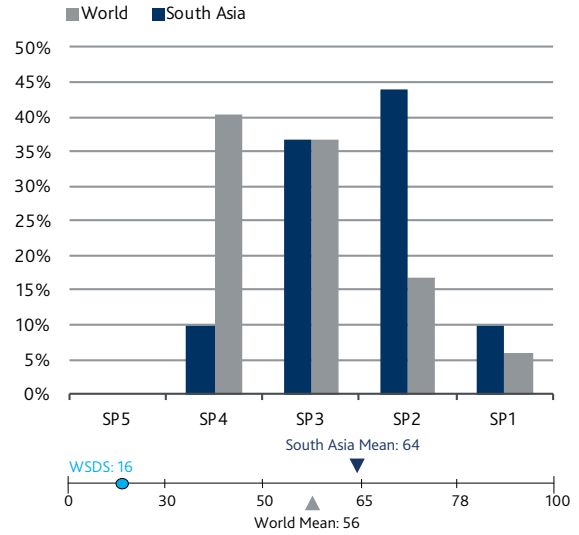
Customer Relationship



Sources: 2009 and 2010 MIX data and Moody's Analytics' SPA Scorecard

FIGURE 9

Measurement of Social Outcome or Impact



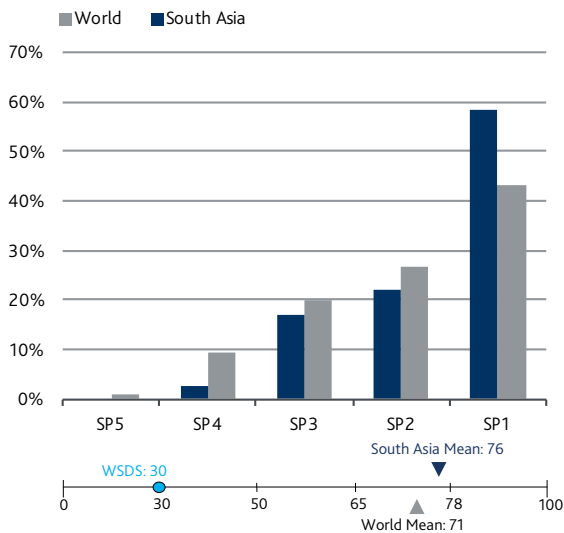
Sources: 2009 and 2010 MIX data and Moody's Analytics' SPA Scorecard

- » Good level of transparency with regard to pricing, with interest and fees communicated both verbally and in writing. However, the effective interest rate is not communicated to customers.
- » Customers are informed of debt-collection methods, but actual collection practices are not formally monitored.
- » Customer debt levels are checked informally by asking neighbors and loan applicants themselves due to the absence of formal methods of doing so (e.g., credit bureau, shared MFI credit registry).
- » Complaint data is not tracked for timeliness of resolutions, and is used only in a minimal way to improve the MFI's service.

- » No recognized outcome or impact assessment tool (e.g., Progress out of Poverty Index, means test, housing index) has been used to understand outcomes at the customer level. Additionally, WSDS has conducted only one outcome/impact study; such studies are not part of any formal process to assess outcomes.
- » Social performance data captured in WSDS's management information system (MIS) is not tracked or reported to stakeholders.

FIGURE 10

## Human Resources

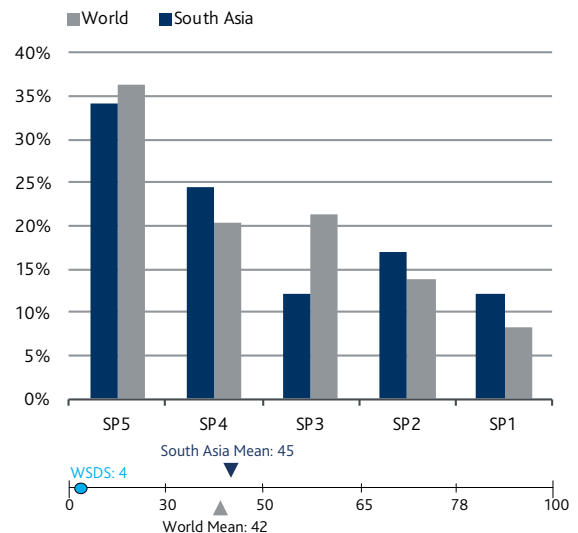


Sources: 2009 and 2010 MIX data and Moody's Analytics' SPA Scorecard

- » WSDS does not survey employees or conduct exit interviews to measure staff satisfaction. Although it has no formal staff feedback mechanism, it does have a detailed grievance redressal mechanism.
- » The MFI's code of ethics touches on some aspects of customer protection and debt-collection techniques, and is communicated to staff during induction.
- » Staff salaries have been reduced by 30%-35% due to a shortage of funds, raising the risk of staff attrition in the near term.
- » Several elements of social performance (e.g., prevention of over-indebtedness, communications on pricing, appropriate debt-collection practices, handling complaints) are covered during induction, but there is no refresher training.
- » Promotion and retention are based mainly on operational and financial parameters rather than social performance indicators. An incentive scheme, though documented, has not yet been rolled out due to a shortage of funds.

FIGURE 11

## Environmental Performance



Sources: 2009 and 2010 MIX data and Moody's Analytics' SPA Scorecard

- » WSDS has no internal or customer-related standards (either written or informal) regarding the environment.
- » The MFI is however involved in various environmental initiatives, such as the management of forests and other natural resources, to aid the tribes in the region. These activities, however, are independent of its microfinance program.

## SPA Factor and Sub-Factor Analysis

Social Mission	Strategy and Leadership	Customer Relationship	Measurement of Social Outcome or Impact	Human Resources	Environmental Performance
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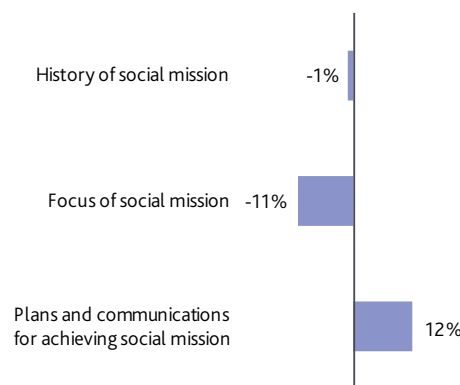
History of the social mission, goals and objectives | Focus of the social mission | Plans and communications for achieving social mission, goals and objectives

### Scorecard-implied grade – SP3

FIGURE 12  
SPA Sub-Factor Table

Sub-Factor	SP5	SP4	SP3	SP2	SP1
History of social mission			55		
Focus of social mission		40			
Plans and communications for achieving social mission				72	

FIGURE 13  
Relative Contribution



### Key Indicators

- » WSDS's social mission was formulated in 2007. However, it has not been translated into specific goals and measurable objectives and is not internally reviewed at specified times to analyze its impact or relevance, or to make adjustments.
- » The mission statement includes poverty reduction by providing financial services to underserved populations.
- » WSDS has identified certain broad goals as critical to achieving its social mission. These are monitoring, human resources, product design, managing expansion and maintenance of good portfolio quality. Each includes one or more social goals pertaining to delinquency management, staff retention, staff training, designing products to meet customers' needs and customer retention. WSDS has no measureable objectives, however.
- » Social goals and objectives are communicated to external stakeholders by means of an annual report and manuals. Employees are made aware of the same through training (during induction) and internal documents.

Social Mission	Strategy and Leadership	Customer Relationship	Measurement of Social Outcome or Impact	Human Resources	Environmental Performance
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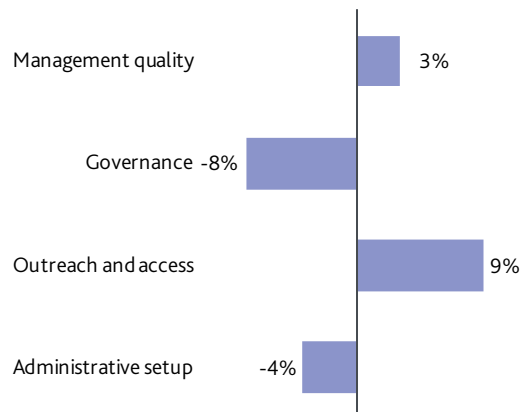
Management quality | Governance | Outreach and access | Administrative setup

Scorecard-implied grade – SP4

FIGURE 14  
SPA Sub-Factor Table

Sub-Factor	SP5	SP4	SP3	SP2	SP1
Management quality		49			
Governance		31			
Outreach and access			62		
Administrative setup		34			

FIGURE 15  
Relative Contribution



Key Indicators

- » Senior staff have limited experience in microfinance operations and social performance management, albeit good experience working with the target market on various other development initiatives.
- » WSDS does not have any succession plan to replace key staff. This may pose a key worker threat in the aftermath of pay cuts implemented in 2012 due to a shortage of funds.
- » A shortage of funds also limits WSDS’s ability to implement social performance systems such as upgrades of its MIS, set up formal customer redressal mechanisms and invest in staff training.
- » Discussion of social performance at board meetings is limited.
- » WSDS captures only limited social performance data, and this information is not analyzed or reported to senior management or the board.



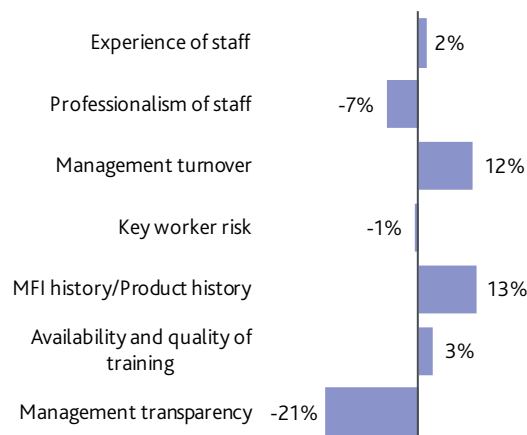
Social Mission	Strategy and Leadership	Customer Relationship	Measurement of Social Outcome or Impact	Human Resources	Environmental Performance
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Management quality | Governance | Outreach and access | Administrative setup

FIGURE 16  
SPA Sub-Factor Table

Sub-Factor	SP5	SP4	SP3	SP2	SP1
Experience of staff			56		
Professionalism of staff	25				
Management turnover					100
Key worker risk		44			
MFI history/Product history					100
Availability and quality of training			59		
Management transparency	0				

FIGURE 17  
Relative Contribution



Key Indicators

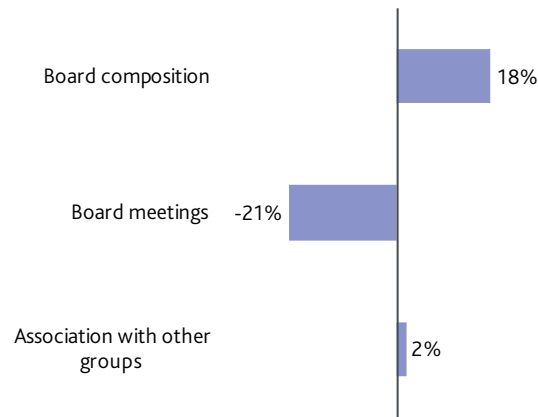
- » Senior management has limited experience in microfinance operations. It does, however, have a good level of experience working with the target market on various other development initiatives.
- » Staff turnover was zero percent in 2012-13 but was more than 40% in 2011-12, when many staff members were asked to leave due to a shortage of funds. For the same reason, salaries were cut by 30%-35% in September 2012, increasing the risk of staff attrition in the near term.
- » The MFI has no succession plan to replace key staff members.
- » Staff at all levels undergoes six days of classroom training during induction. About one day is dedicated to discussing various social performance topics (e.g., customer selection, communicating pricing and debt-collection practices). Following the classroom training, field staff undergoes a further two weeks of training on the ground to learn about the MFI's operations. Training on how to handle complaints is imparted only to staff ranked branch manager or above. Board members are not required to attend social performance training sessions.
- » Transparency in communicating social performance data, both internally and to external stakeholders, is low. This is because such data, although captured to a limited extent, is not reported.

Social Mission	Strategy and Leadership	Customer Relationship	Measurement of Social Outcome or Impact	Human Resources	Environmental Performance
Management quality   Governance   Outreach and access   Administrative setup					

FIGURE 18  
SPA Sub-Factor Table

Sub-Factor	SP5	SP4	SP3	SP2	SP1
Board composition		43			
Board meetings	10				
Association with other groups		34			

FIGURE 19  
Relative Contribution



**Key Indicators**

- » No person external to WSDS sits on the board. Board members represent NGOs, staff and the target market, and have prior work experience in the development sector, public service and microfinance. Board members receive no payment other than reimbursement of travel expenses.
- » The board meets twice a year. The agenda and discussions focus mainly on operational and funding issues. A social performance committee was set up in 2010, but is currently non-functional, thus social performance topics are discussed more as one-off items rather than as part of a formal, regular agenda. Further, the board does not review social performance data to gain an understanding of the MFI's actual performance vis-à-vis its strategic plans.

Social Mission	Strategy and Leadership	Customer Relationship	Measurement of Social Outcome or Impact	Human Resources	Environmental Performance
Management quality	Governance	<b>Outreach and access</b>	Administrative setup		

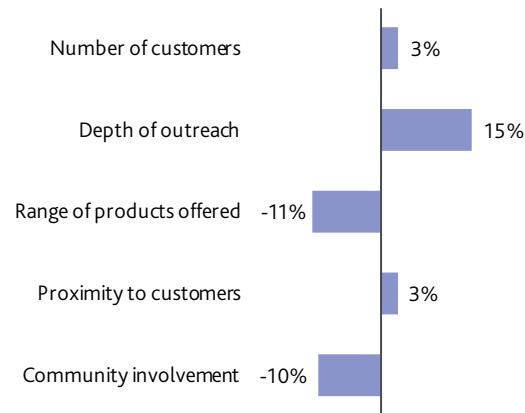
FIGURE 20

SPA Sub-Factor Table

Sub-Factor	SP5	SP4	SP3	SP2	SP1
Number of customers				73	
Depth of outreach					100
Range of products offered		30			
Proximity to customers				72	
Community involvement	21				

FIGURE 21

Relative Contribution



### Key Indicators

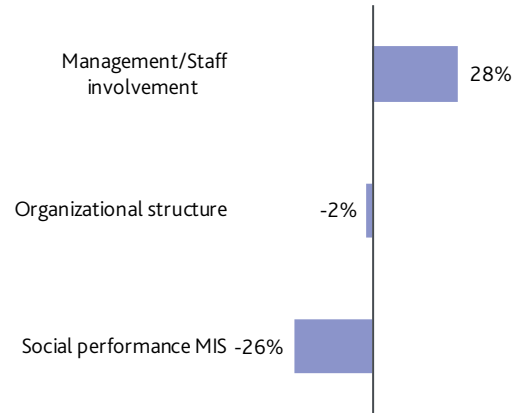
- » WSDS has a very limited portfolio of financial product offerings; only one loan product is offered through the solidarity group lending model. The same loan product is offered to customers irrespective of the purpose of the loan (e.g., trade, animal husbandry, micro-enterprise). Thus, despite WSDS's policy that products must be designed to suit customers' needs, implementation is limited. There is a need to introduce credit products tailored to various business purposes.
- » WSDS offers various non-financial services. These include business development services (e.g., development and promotion of handlooms and handicrafts, agro processing and marketing support), financial literacy training, community health and education assistance, leadership training and youth employment training.
- » The MFI does attempt to provide doorstep services. Product promotion and customer evaluation is carried out at borrowers' homes and repayments are collected during center meetings, which are held near customers' homes. Loans are disbursed at WSDS's branch offices.

<b>Social Mission</b>	<b>Strategy and Leadership</b>	<b>Customer Relationship</b>	<b>Measurement of Social Outcome or Impact</b>	<b>Human Resources</b>	<b>Environmental Performance</b>
Management quality	Governance	Outreach and access	<b>Administrative setup</b>		

FIGURE 22  
SPA Sub-Factor Table

Sub-Factor	SP5	SP4	SP3	SP2	SP1
Management/Staff involvement			50		
Organizational structure		31			
Social performance MIS	0				

FIGURE 23  
Relative Contribution



**Key Indicators**

- » Although there is no dedicated social performance department, related responsibilities are split among staff members at various levels.
- » The MIS gathers some social performance data, such as the financial situation, educational status and socio-economic grouping of its customers. However, such information is neither analyzed nor reported to senior management or the board.

<b>Social Mission</b>	<b>Strategy and Leadership</b>	<b>Customer Relationship</b>	<b>Measurement of Social Outcome or Impact</b>	<b>Human Resources</b>	<b>Environmental Performance</b>
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Customer protection | Customer service

### Scorecard-implied grade – SP3

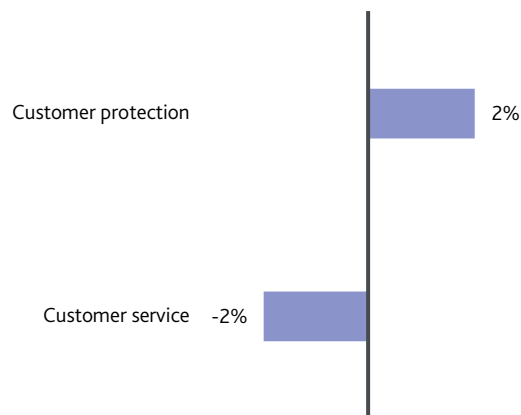
FIGURE 24

SPA Sub-Factor Table

Sub-Factor	SP5	SP4	SP3	SP2	SP1
Customer protection			51		
Customer service		48			

FIGURE 25

Relative Contribution



### Key Indicators

- » Transparency and communication on product pricing are good.
- » The lack of a microfinance credit bureau or shared credit registry poses significant challenges in terms of collecting loan applicants' credit information. Customers' credit absorption capacity is checked by field staff via informal means.
- » WSDS's customer retention rate has improved during the past year, to 82.6% from 39.4%, but is still low because customers drop out due to long waiting times for loans.
- » Customer complaint procedures are weak. Complaint handling is taught only to staff ranked branch manager or above. Moreover, complaint data is not tracked to check resolution times or to improve products and services.

Social Mission	Strategy and Leadership	Customer Relationship	Measurement of Social Outcome or Impact	Human Resources	Environmental Performance
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Customer protection | Customer service

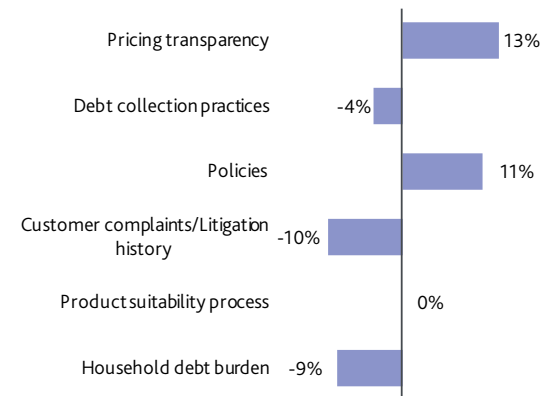
FIGURE 26

## SPA Sub-Factor Table

Sub-Factor	SP5	SP4	SP3	SP2	SP1
Pricing transparency					90
Debt-collection practices		36			
Policies					94
Customer complaints/Litigation history	11				
Product suitability process			51		
Household debt burden		32			

FIGURE 27

## Relative Contribution



## Key Indicators

- » Key terms and conditions (e.g., nominal interest rate, tenure, usage fees, payment schedule) of products are communicated verbally to customers during group training and in writing on customers' passbooks and receipts. Customers are also tested on their awareness of product terms and conditions before they receive a loan. The effective interest rate, however, is not disclosed to customers.
- » Customers are informed of repayment procedures and the concept of "joint liability." WSDS also has written policies on debt-collection practices, which are communicated to staff during training. However, monitoring of debt-collection practices on the ground, by either WSDS's management or the MFI's auditor, is not part of a formal process.
- » WSDS has written policies that discuss designing products to meet customers' needs, the need for transparency on pricing and preventing over-indebtedness.
- » Training on handling customer complaints is communicated only to staff ranked branch head or above, and not to field staff.
- » There is no formal mechanism to either track or analyze complaints for resolution times or improve products and services, and no formal procedures or guidelines to secure complaint information from unauthorized use.
- » Structured customer interviews are not used in product design, although factors such as suitability and affordability are considered.
- » Periodic outcome/impact studies are not conducted. Just one study has been conducted to increase understanding of program suitability and outcomes.
- » There is no microfinance credit bureau or any other MFIs in the area, so WSDS uses an internal database to assess repeat customers' credit absorption capacity. For first-time borrowers, absorption capacity is checked only through informal means, such as asking applicants' neighbors or the applicants themselves.

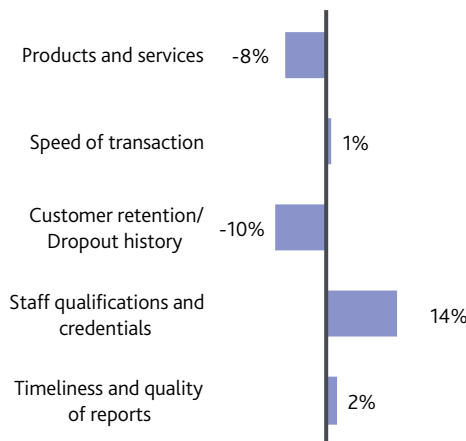
Social Mission	Strategy and Leadership	<b>Customer Relationship</b>	Measurement of Social Outcome or Impact	Human Resources	Environmental Performance
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Customer protection | **Customer service**

FIGURE 28  
SPA Sub-Factor Table

Sub-Factor	SP5	SP4	SP3	SP2	SP1
Products and services		32			
Speed of transaction			51		
Customer retention/Dropout history	29				
Staff qualifications and credentials					85
Timeliness and quality of reports			53		

FIGURE 29  
Relative Contribution



**Key Indicators**

- » WSDS lacks product diversity; it offers only one core loan product, an income-generating loan.
- » Long waiting times (60-90 days) for loan disbursement were observed at several branches as a result of a shortage of funds for on-lending.
- » At 17.4%, WSDS's borrower dropout rate is moderately high. This is believed to be due to long waiting times for loans rather than dissatisfaction with the MFI's service or staff. Customer exit surveys are not conducted to verify this.
- » Customers are provided with payment receipts and a breakdown of the principal and interest components of installments.
- » Customer satisfaction is not monitored via a hotline, standardized surveys or focus groups. Complaint boxes, though part of WSDS's policy, are not used at all branches.

<b>Social Mission</b>	<b>Strategy and Leadership</b>	<b>Customer Relationship</b>	<b>Measurement of Social Outcome or Impact</b>	<b>Human Resources</b>	<b>Environmental Performance</b>
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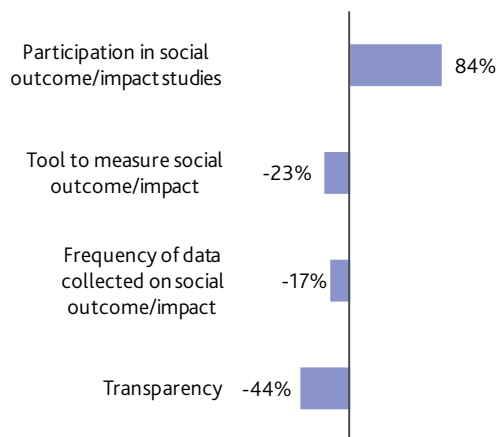
Participation in social outcome or impact studies | Explicit tool to measure social outcome or impact | Frequency of data collected on social outcome or impact | Transparency

Scorecard-implied grade – SP5

FIGURE 30  
SPA Sub-Factor Table

Sub-Factor	SP5	SP4	SP3	SP2	SP1
Participation in social outcome/impact studies					100
Tool to measure social outcome/impact	0				
Frequency of data collected on social outcome/impact	0				
Transparency	0				

FIGURE 31  
Relative Contribution



Key Indicators

- » An outcome/impact study was conducted by independent researchers in 2011. This study was a one-off exercise rather than a periodic one undertaken to track change. Additionally, WSDS has not used recognized tools, such as the Progress out of Poverty Index, means testing or housing indexes, to measure social outcome/impact.
- » Social performance indicators are not communicated to stakeholders.
- » Some social performance data (e.g., socio-economic grouping, poverty status, educational status) is captured in WSDS's MIS, but such information is neither tracked nor reported to the board or other stakeholders.



Social Mission	Strategy and Leadership	Customer Relationship	Measurement of Social Outcome or Impact	Human Resources	Environmental Performance
Organization and facilities   Code of ethics   Hiring policies (gender and anti-discrimination policies)   Culture of delegation   Fair compensation   Staff skills and training   Promotion and retention   Staff incentives and audit					

### Scorecard-implied grade – SP4

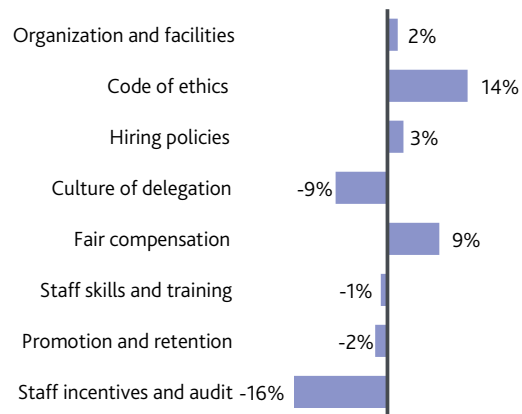
FIGURE 32

SPA Sub-Factor Table

Sub-Factor	SP5	SP4	SP3	SP2	SP1
Organization and facilities		37			
Code of ethics			61		
Hiring policies		39			
Culture of delegation	0				
Fair compensation		48			
Staff skills and training	28				
Promotion and retention	26				
Staff incentives and audit	0				

FIGURE 33

Relative Contribution



### Key Indicators

- » WSDS has no formal system to assess employees' satisfaction or to obtain their feedback, and exit interviews are not conducted. However, a grievance redressal mechanism is well laid out – grievances must be given in writing to a staff member with authority two levels above the concerned employee. If unresolved, grievances are referred to the grievance committee (comprising a member of human resources, a senior manager and an employee representative), which will investigate the matter.
- » WSDS has no formal policy on employee health and safety.
- » A code of ethics outlines policies related to corruption, customer protection and debt collection. These policies are communicated to staff members during induction training and when employment contracts are renewed. The code is approved by the board and enforced by the disciplinary committee, which is comprised of the MFI's management. Certain key policies on conflicts of interest, anti-discrimination and gender find no mention in the code.
- » About a third of the workforce is female. There is no written policy to support women's mobility in the field, although it is informally encouraged. Staff members may take maternity/paternity leave.
- » Responsibility to track and evaluate social performance has not been delegated at any level of staff.
- » Staff salaries have recently been reduced by 30%-35% due to a shortage of funds, raising the risk of further staff attrition after staff cuts in 2011-12. The salary difference between the lowest and highest paid staff, however, is reasonable.
- » Several elements of social performance (e.g., the MFI's mission and code of ethics, prevention of over-indebtedness, transparent communication on prices, proper debt-collection methods, handling of customer complaints) are communicated during induction training. Refresher training, though designed, never began due to a shortage of funds.
- » Promotion and retention are based mainly on financial and operational parameters (e.g., disbursement, collections, repayment rates, customer feedback) and are not a function of social performance indicators.
- » WSDS's incentive scheme, although documented, has not been implemented due to a shortage of funds, and does not include any social performance indicators.

Social Mission	Strategy and Leadership	Customer Relationship	Measurement of Social Outcome or Impact	Human Resources	Environmental Performance
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Customer standards | Internal standards

### Scorecard-implied grade – SP5

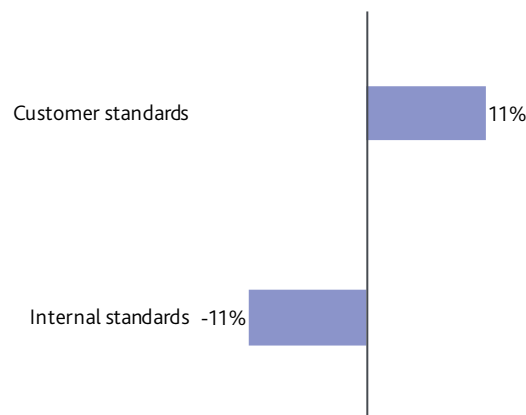
FIGURE 34

SPA Sub-Factor Table

Sub-Factor	SP5	SP4	SP3	SP2	SP1
Customer standards	5				
Internal standards	3				

FIGURE 35

Relative Contribution



### Key Indicators

- » There is no environmental policy, either informal or written, related to WSDS's microfinance program. Thus, there is no policy that advocates screening out loan applicants engaged in or who wish to engage in environmentally unfriendly businesses. Neither are lenders' businesses tracked to estimate the environmental risk associated with the loan portfolio. Similarly, WSDS has no written policy covering the need to encourage eco-friendly micro-enterprises.
- » There is no internal environmental standard, either informal or written, promoting workplace safety and recycling of water and paper, or any policy that advocates the need to adopt good internal practices with regard to the environment.
- » WSDS has undertaken community development programs with Community for Forestry International, an international NGO, to assist communities, particularly tribes, with natural resource management and forestry projects. This has raised awareness of environmental issues among WSDS's staff, but has not specifically affected its microfinance program.

## The Indian Microfinance Market

Moody's Investors Service's sovereign credit rating for India is Baa3 (as of 19 March 2013).

FIGURE 36

### India: Key Credit Metrics<sup>1</sup>

	2006	2007	2008	2009	2010	2011	2012F	2013F
Real GDP (% change)	9.6	9.3	6.7	8.6	9.3	6.2	5.0	5.7
CPI inflation (% change, end-March)	6.8	5.5	9.6	14.9	9.7	6.3	11.4	8.5
Gen. govt. financial balance/GDP (%)	-5.4	-4.0	-8.3	-9.4	-6.8	-8.1	-8.0	-7.5
Gen. govt. primary balance/GDP (%)	0.0	1.2	-3.3	-4.5	-2.4	-3.6	-3.4	-3.0
Gen. govt. debt/GDP (%)	74.7	71.4	72.2	70.6	65.0	64.7	65.1	66.0
Gen. govt. debt/Revenue (%)	364.9	318.9	359.0	367.6	313.8	324.1	334.2	332.9
Gen. govt. int. payments/Gen. govt. revenue (%)	26.3	23.3	25.0	25.3	21.6	22.6	23.8	22.8
Current account balance/GDP (%)	-1.0	-1.3	-2.3	-2.8	-2.7	-4.2	-4.9	-4.6
External debt/Current account receipts (%)	70.8	71.2	62.9	75.4	68.2	65.4	70.5	73.2
External vulnerability indicator <sup>2</sup>	46.0	41.8	32.2	43.7	45.9	53.4	65.3	74.7

1 – Fiscal years beginning 1 April; 2 – Short-term external debt + Currently maturing long-term debt + Non-resident deposits over one year)/Official foreign-exchange reserves

Source: Moody's Investors Service

### Key Credit and Macroeconomic Factors

India's key strengths include its diversified economic structure, high GDP growth rate compared with peers', high domestic savings rate and adequate international reserves position. A longstanding tradition of checks and balances between the executive, legislature and judiciary and transparent monetary policy and vigilance in financial supervision also provide institutional support. Challenges persist, however, and include slow policy-making and implementation processes.

Government finances are weak, with high debt ratios and deficits. Recent measures to reduce fuel and fertilizer subsidies are inadequate, given global prices and currency depreciation. In addition, social welfare measures, including the Food Security Bill, raise the government's medium-term expenditures. A high private sector savings rate and a banking system mandated to hold a certain proportion of government securities enable the government to meet its domestic borrowing needs. India's total external debt to GDP ratio is relatively low, however, and the government does not have significant external liabilities.

### Current Market

There are two major delivery channels for microfinance in India: SHGs and MFIs. The former are promoted by the apex agricultural credit bank, National Bank for Agriculture and Rural Development (NABARD), under its SHG-bank linkage program. Most MFIs deliver their services via the Grameen model, while some follow the individual lending model and others use a mix of the two.

As of March 2011, the 192 microfinance providers (excluding SHGs) that reported to the MIX Market had outreach and total loans outstanding of 26 million people and US\$4.3 billion, respectively. SHGs' outreach and portfolio outstandings are more than double those of the MFIs.

### Regulatory Environment

Microfinance providers in India take various legal forms, each regulated by a different entity. For the most part, microfinance is provided by commercial banks, regional rural banks, cooperative societies and MFIs. The last take a variety of forms, including NGOs (registered as societies, trusts or Section 25 companies) and non-bank financial companies (NBFCs). Banks and NBFCs are regulated by the central bank, the Reserve Bank of India (RBI). Responsibility for the supervision and inspection of regional rural banks lies with NABARD. Cooperative societies are regulated by the state-appointed Registrar of Cooperative Societies and state government (with NABARD supervision and inspections). Cooperative banks are regulated by RBI and the Registrar of Cooperative Societies.

Since late 2010, RBI has come out with various regulations aimed at promoting fair competition, protecting customers and improving pricing transparency. However, as of May 2013 these are applicable only to NBFC-MFIs, which come under RBI's authority. The Micro Finance Institutions (Development and Regulation) Bill, 2012 is awaiting approval by the national parliament. It proposes RBI as the sole regulator of MFIs. Discussion points include caps on the size of micro-loans, a grievance redressal mechanism, jurisdiction of other laws that affect MFIs and delegation of certain supervisory powers to other bodies.

The first microfinance credit bureau in India, High Mark, was set up in 2011 to help MFIs assess borrowers' repayment capacity, lower credit risk and ensure responsible lending. According to High Mark and Micro Finance Institutions Network (MFIN), more than 120 MFIs accounting for approximately 90% of the country's microfinance sector (excluding SHGs) have enrolled to use the platform. Another credit bureau, Equifax, also set up in 2011, also collects borrower-level data from MFIs. Together, these two credit bureaus hold approximately 75 million customer records (~25 million borrowers).

## Competition

WSDS faces little competition from other MFIs in northeast India, the region in which it operates.

The 50 largest MFIs (mostly NBFC-MFIs) in the country account for about 87% of customer outreach. Apart from regulated MFIs, many small and unregulated entities operate in various parts of the country. Intense competition led to an unsustainable concentration of credit in certain pockets (particularly the southern state of Andhra Pradesh), which triggered the 2010 crisis in microfinance. Questionable debt-collection practices were also said to be a cause. The self-regulating industry associations, Sa-dhan and MFIN, have issued a joint code of conduct aimed at promoting fair competition and improving transparency. RBI's initiatives (discussed above) also aim to better regulate the big MFIs, most of which are NBFCs and so are already subject to its supervision.

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