



BASIX - BSFL		INDIA (mainly South)																														
<i>Non-Banking Finance Company</i>		Rating Visit: May 2007																														
PERFORMANCE RATING		SYNOPSIS																														
<table border="1"> <tr> <td>SOCIAL RATING</td> <td>$\Sigma \alpha-$</td> </tr> <tr> <td>CREDIT RATING (M-CRIL)#</td> <td>$\alpha+$</td> </tr> </table> <p># Credit Rating March 2007</p> <p>Mission Statement: To promote a large number of sustainable livelihoods, including for the rural poor and women, through the provision of financial services and technical assistance in an integrated manner.</p> <p>BASIX will strive to yield a competitive rate of return to its investors so as to be able to access mainstream capital and human resources on a continuous basis.</p> <table border="1"> <thead> <tr> <th>Social Rating dimensions</th> <th>Rating</th> </tr> </thead> <tbody> <tr> <td colspan="2">Process/organisational systems</td> </tr> <tr> <td>Mission and Systems</td> <td>$\Sigma \alpha-$</td> </tr> <tr> <td>Responsibility to members</td> <td>$\Sigma \alpha-$</td> </tr> <tr> <td>Other Social Responsibility</td> <td>$\Sigma \alpha-$</td> </tr> <tr> <td colspan="2">Results/outputs – client level information*</td> </tr> <tr> <td>Depth of outreach</td> <td>$\Sigma \alpha-$</td> </tr> <tr> <td>Quality/Appropriate services</td> <td>$\Sigma \beta+$</td> </tr> </tbody> </table> <p>*Includes data from rating survey, undertaken by BASIX team</p> <p>“Financial inclusion for livelihood promotion”</p> <table border="1"> <tr> <td>Model:</td> <td>Joint Liability Group; some individual; some SHGs</td> </tr> <tr> <td>Services:</td> <td></td> </tr> <tr> <td>Financial</td> <td> <ul style="list-style-type: none"> • Credit for farm, non farm and general consumption • Insurance for life (group-based), health (group-based), livestock, rainfall and micro-enterprise assets </td> </tr> <tr> <td>Non-financial ‘Ag/BDS’</td> <td> <ul style="list-style-type: none"> • Livelihood promotion (integrated with operations): technical support services to enhance productivity and market options (mainly agriculture and dairying) </td> </tr> <tr> <td>Institutional Development Services (IDS)</td> <td> <ul style="list-style-type: none"> • Institutional capacity building for producer groups, cooperatives, SHGs </td> </tr> </table> <p>1 US\$ = Rs45</p>		SOCIAL RATING	$\Sigma \alpha-$	CREDIT RATING (M-CRIL)#	$\alpha+$	Social Rating dimensions	Rating	Process/organisational systems		Mission and Systems	$\Sigma \alpha-$	Responsibility to members	$\Sigma \alpha-$	Other Social Responsibility	$\Sigma \alpha-$	Results/outputs – client level information*		Depth of outreach	$\Sigma \alpha-$	Quality/Appropriate services	$\Sigma \beta+$	Model:	Joint Liability Group; some individual; some SHGs	Services:		Financial	<ul style="list-style-type: none"> • Credit for farm, non farm and general consumption • Insurance for life (group-based), health (group-based), livestock, rainfall and micro-enterprise assets 	Non-financial ‘Ag/BDS’	<ul style="list-style-type: none"> • Livelihood promotion (integrated with operations): technical support services to enhance productivity and market options (mainly agriculture and dairying) 	Institutional Development Services (IDS)	<ul style="list-style-type: none"> • Institutional capacity building for producer groups, cooperatives, SHGs 	<p>BASIX, headquartered in the capital city of the south Indian state of Andhra Pradesh, is the identity and brand name of a group of companies providing financial and livelihood promotion services. BASIX is an innovative group, which, since it was established in 1996, has worked to develop financial services that are viable and responsive to varying client capacities and financial needs, particularly in rural and under-developed regions. Since 2003, BASIX has adopted the Livelihood Triad strategy to develop livelihood promotion services as a necessary support to make financial services effective for poorer households in backward regions.</p> <p>Whilst there is reference to the BASIX group, the focus of this rating is Bharatiya Samruddhi Finance Ltd (BSFL) which provides varied credit products, a range of insurance linkages, agriculture/business development services and institutional development services for producer groups and associations. BSFL has expanded operations both in the south, and more recently to the north of the country. As of end March 2007, working in seven States, with 198,300 clients, BSFL is among the ten largest MFIs in India.</p> <p>Strengths</p> <ul style="list-style-type: none"> ⇒ Strong spirit of mission across the organisation, and good understanding of the integrated service approach (Livelihood Triad strategy); ⇒ Operations primarily in economically backward districts; ⇒ Wide range of financial products and services designed to cater to different market segments; regular mechanisms for product testing and market feedback; ⇒ Culture of learning and experimentation for both financial and livelihood promotion services and issues, combined with practical and sustainable systems; ⇒ Synergies for experimentation in new initiatives and transfer within the BASIX group. <p>Issues</p> <ul style="list-style-type: none"> ⇒ Within an approach which has the broad aim of contributing to development, BSFL may consider more specifically (“SMARTLY”) how inclusive of the poor and of women it aims to be, and who it means by ‘poor’; ⇒ No tracking or analysis of exit/dropout; ⇒ Ag/BDS services appear supply driven in some areas: how to cater specifically to poorer clients; and focus on areas with greater need (without existing services – as in dairying); ⇒ MIS to enable portfolio analysis from social perspective – need to analyse data based on client ID; ⇒ Despite fairly transparent systems and written communication, client awareness appears low; ⇒ Internal research needs better coordination and focus.
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Part of Pilot supported by Ford Foundation		Micro-Credit Ratings International Limited, India Grading symbols described on last page																														

Organisational data as of 31 March 2007

SOCIAL PROFILE	
Systems and MIS	
Mission orientation:	Financial inclusion in less developed regions; support to livelihoods; including the poor and women.
Clients	198,282
Rural	~96%
In 2 least developed district quintiles	53%
Scheduled Castes/Tribes	24% ^[24]
Women - clients	47%
Women – staff	11%
Clients with Ag/BDS services	26%
Clients with insurance	
- Life/health (compulsory)	90%
- Livestock/crop (voluntary for clients with livestock/crop loans)	18-34%
Client protection: issues included in operations manual in 2006; partially covered in internal audit	
EIR to clients (incl cash security deposit)	30.6%
Drop-out rate * rough estimate '10-15%' (or more?)	
Client information	In percent
From rating sample of recent clients ^a	
[comparative national data - 2005]	
Depth of outreach: ^b	
Below \$1/day at PPP	22 [34]
Below \$2/day at PPP	80 [80]
Net primary school enrolment - girls	91 [87]
- boys	95 [90]
Secondary school enrolment - girls	85 [49]
- boys	86 [59]
Clients completed primary schooling+	48 [48]
Client awareness of BSFL services (average)	46
- Credit products and terms	59
- Ag/BDS terms	56
- Insurance terms	30
Borrowed from moneylender (prev yr)	9
Household – client of another MFI	7
Women headed households	8 [10]
Women clients involved in enterprise	90

* No data available to calculate this

^a The rating survey of recent clients (up to two years with BSFL) was undertaken by BASIX field staff, under guidance of the M-CRIL team. The sample was randomly selected in 6 districts of AP, Maharashtra and Jharkhand and the findings are weighted proportionate to regional outreach. The sample size of 184, at 95% confidence, gives a precision of +/- 10%.

^b The India poverty scorecard (PPI) was used for poverty assessment.

Financial performance	Mar 07
Operational Self Sufficiency	110%
Clients/Livelihood Service Agent	319
Operating Expense Ratio	18%
Portfolio at Risk (>60 days)	1.4%
Annualised Percentage Rate	27.5%
Portfolio yield	24.3%
Average cost of funds	8.4%
Return on Assets	2.1%

M-CRIL Rating

Rating Rationale

Governance: BASIX/BSFL has an effective Board with a good mix of social expertise and financial acumen. The mission is well communicated throughout the organisation, with focus on providing financial services as a means to promote sustainable livelihoods, though buy-in at the field level is not fully consistent. Within its broad development approach, BASIX needs to consider being clearer ('SMARTER') in its social objectives, for example, in poverty outreach (direct and indirect), different areas of operation (rural, market centres), and extent of focus on women – for financial and livelihood promotion services.

Strategy for livelihood promotion: the Livelihood Triad strategy entails integration of livelihood promotion services with financial services. The BASIX structure has supported considerable experimentation and innovation – both in the design of financial services (credit and insurance) and in identifying opportunities and solutions for Ag/BDS. As Ag/BDS becomes more integrated with financial service delivery, a challenge will be to ensure livelihood promotion services are effective for different market segments. Currently services are packaged with the financial product and are assumed to be required, which is not necessarily the case (e.g. where there is access to NGO dairying support). Reaching services to more remote areas (more difficult, but probably more necessary) will also require a specific strategy.

Staff: Strong systems for staff training and development. Staff are proud to be a part of BASIX, and see themselves as leaders in livelihood finance. Turnover is nevertheless high, as in other MFIs facing competition for employment largely from the formal banking sector – ‘staffing the sector’ as BASIX sees it.

MIS: BSFL has a strong computerised MIS with some social profiling (caste and women) based on loan ID. BSFL needs to use a unique client ID for social analysis, (tracking over time, client retention). Analysis of exit or rate of dropout is a gap which BSFL needs to address, allowing for expected periods between loans, especially for seasonal agricultural loans. BSFL may consider including in its MIS other client profile indicators from the loan application form, which are used for credit appraisal but not collated.

There is a regular practice of undertaking and commissioning research on services and monitoring client feedback. This information is used to review and improve operations – but is not collated and shared across the organisation.

Social responsibility to clients: Some aspects covered in a code of conduct emphasising ethical behaviour by staff and monitored by Risk Management team. Client feed back on staff from FGDs during the rating visit is positive. Client awareness of details of products and costs, particularly of insurance, appears low despite efforts by BASIX including written documentation. Certificates in legalistic English are not possible for clients to understand.

Depth of outreach: 1 in 5 clients below \$1/day is quite substantial outreach to the poor, with significant numbers covered, for an organisation not specifically targeting the poor.

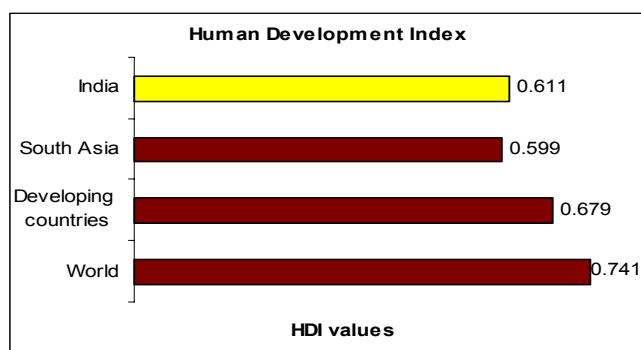
CONTEXT

India – development indicators



BASIX, headquartered in Hyderabad, the capital city of Andhra Pradesh (AP), operates primarily in the two southern states of AP and Maharashtra, but since 2001 has expanded into 5 additional states, mainly in the north. India has 28 States, and a population of over 1 billion, of which 72% is rural.

Out of 177 countries in the world, India ranks 126 on the Human Development Index (which reflects life expectancy, literacy/education and per capita GDP). Its Gender Development Index (at 0.591) is 96.7% of HDI.



UN Human Development Report, 2006

India's growth rate is currently more than 9% a year with per capita GNI at \$820 in 2006. About 22-28% of the population was estimated in to be living below the national poverty line in 2004. This line is derived from minimum calorie requirements, reflecting a food basket dating back to the 1970s. At 2006 prices, this is estimated at Rs470 per person/month (or \$10.30). The international poverty line \$1/day at purchasing power parity is above this level at \$0.44/day (Rs528 or \$11.70 per person/month)

	Population < India poverty line	22%
	Population < \$1/day at PPP	34%
	Population < \$2/day at PPP	80%
Education	Net primary enrolment	88%
	Gross secondary enrolment	54%
Gender equality	Female ratio	
	- primary school enrolment	0.97
	- secondary school enrolment	0.83
	Women in the labour force	44%

NSSO, UNESCO

There are huge development differences between the more developed south and western regions of India, and the less developed north and east; differences that are reflected in all economic and social indicators.

Vulnerable communities in India include those at the bottom of the social hierarchy, the Scheduled Castes and Scheduled Tribes, who are 16% and 8% of the population, respectively. HIV/AIDS is estimated to affect around 0.4% of the population, or 2.5 million people.

India – microfinance

India has a diverse range of institutions linked to microfinance. There is substantial investment in a dynamic microfinance sector (Microfinance Institutions/NGOs, Non-Banking Finance Companies registered with the Reserve Bank of India). There are also Bank Linkages (savings and credit) directly to Self Help Groups (SHG), promoted by NGOs, under the national SHG linkage programme supported by the National Bank for Agriculture and Rural Development (NABARD) and some State Governments. By March 2007, MFI clients in the country totalled 10.5 million. Members in SHGs linked to banks were an estimated 26 million.

Microfinance provision reflects the development skew with the majority of clients (around 70% of MFI clients and 52% of SHG members) in the four southern states. BASIX, operating mainly in the south, is among the top ten MFIs in India in terms of outreach.

Top Indian MFIs (2006/2007)

Organisation	Region	Clients	Portfolio (\$ million)	Av loan o/s (\$)	As % p.c. GNI
Spandana	South	817,366	33.6	41	5
SHARE Microfin	South	796,401	48.0	60	7
Madura Microfinance	South	344,863	4.7	14	2
SKS	South	332,663	28.5	86	10
SKDRDP	South	285,496	32.9	115	13
BASIX - BSFL	South	198,282	26.9	136	15
Bandhan	North	149,886	8.2	55	6
Mahasamam Trust	South	143,926	5.8	40	5
Cashpor MicroCredit	North	123,359	6.0	49	6
Evangelical Social Action Forum	South	110,122	10.2	92	10

M-CRIL review, March 2007

INTENT & DESIGN

MISSION

Clarity and communication

The BASIX motto “Equity for Equity” reflects the aim to use capital (financial, human social and natural) to work towards equality of opportunity. The organisation defines itself as a Livelihood Promotion Institution, rather than as a microfinance institution. The mission reflects a fundamental belief and principle that financial services may be necessary but are not a sufficient condition to promote livelihoods, particularly for poorer (less enterprising) people in more backward regions (with under-developed markets).

Accordingly the mission statement emphasises promoting large numbers of sustainable livelihoods through the integrated delivery of both financial and technical services.

For BASIX, the focus is promoting livelihoods and employment in rural and under-developed regions, not necessarily through targeting the poor directly. This is because BASIX believes that not all poor want to be self-employed and most prefer steady wage-employment, which can be generated by commercial farmers and micro-entrepreneurs, who are also credit constrained. Accordingly, BASIX refers to its target group in broad terms as ‘including... the rural poor and women’ – though it has not defined ‘the poor’, nor specifically targeted the extent of outreach to the poor, or to women.

BASIX has defined the services it aims to provide in terms of the “Livelihood Triad”. Financial services are one point of the triad - short and long-term credit, and insurance, (and savings in three districts where BASIX has a banking licence). The other two points are Agricultural/Business Development Services (Ag/BDS) and Institutional Development Services (IDS).



The triad was formulated in 2003, in direct response to an impact study. A key finding of the study (of a sample of 281 clients, 4 years with BASIX) was that around half reported an income increase, half did not. BASIX found that those whose incomes did not increase suffered from:

(i) unmanaged risk (ii) low productivity and (iii) adverse terms in the market. These findings spurred Senior Management and the Board to reflect on the additional services that are likely to be necessary to ensure the promotion of sustainable livelihoods. These were formulated as Ag/BDS: technical development services to support productivity enhancement, reduced costs, local value addition, alternative market linkages, diversification; and IDS: the formation and development of effective groups, associations or cooperatives to build collecting strength in marketing and to make the implementation of the other services more cost-effective.

The Triad strategy is well disseminated throughout the organisation, displayed in unit offices, and emphasised in staff training and meetings. Though some field staff are yet to develop consistent buy-in to the strategy.

Governance and structure

BASIX corporate structure consists of four companies:

Bhartiya Samruddhi Investment & Consulting Services [BASICS] – holding company of BASIX group
* raises equity funds for BASIX; consultancies

Bhartiya Samruddhi Finance Limited [BSFL]
- NBFC
* credit, insurance; and livelihood promotion services

Krishna Bhima Samruddhi Local Area Bank Ltd [KBSLAB]
* full financial services; 2 districts-Karnataka, 1 district-AP

Indian Grameen Services [IGS] – not for profit company (Section 25 of Companies Act)
* action research for livelihood promotion, institutional development services

BSFL and KBSLAB were established to provide financial services. BSFL spearheads BASIX activities in terms of outreach and revenue generation. KBSLAB is licensed to operate in three districts, but enables BASIX to offer deposit services. IGS, as a not for profit company, is able to raise grants to fund its action research for development of services to supplement financial service delivery. IGS initiates the Ag/BDS and IDS services which are transferred to BSFL and KBSLAB when a critical mass of activities develops in a given area.

Each company has a separate Board, with substantial overlapping membership, under the overall leadership of the Founder Chairman Mr Vijay Mahajan. Board members all have strong professional backgrounds, representing expertise in finance and rural development. BSFL’s board of 10 includes 7 independent directors. The Board meets regularly, follows good practice in reporting, committees (Audit, HR) and rotation, and has supported the management in establishing sound systems whilst innovating with ideas for developing new channels for service delivery as well as more diverse services.

ALIGNMENT OF SYSTEMS

Model for service delivery

BSFL uses a wide variety of delivery models, including SHGs, SHG Federations, MACS, ROSCAs, JLGs, and individual lending. It has developed Joint Liability Groups (JLG) as its main model for intermediation. A JLG is five persons, grouped on the basis of economic sector – agriculture, dairying or non-farm. The sector based approach supports similar cash flows at the same time, as a basis for building trust and a realistic check on the credit amount.

Grouping by sector also enables the provision of Ag/BDS services in some areas by BSFL field staff, trained to be Livelihood Service Advisors (LSAs) in addition to handling financial intermediation.

BSFL also lends to individual clients – for larger loan products, and to other groups (including women’s Self Help Group (SHGs), Federations of SHGs, and in the past to primary cooperative societies (MACS) and to informal ROSCAs).

Model of service delivery	
Total borrowers ^a	166,796
Joint Liability Groups (JLG)	94.0%
SHGs	3.2%
Individual	2.8%

^a Excluding BSFL staff (56 vehicle loans). Total loans disbursed are 161,982,

Market strategy

Areas: BASIX aims to work in less developed districts. It started in less developed districts of the southern state of AP, (including 3 districts under KBSLAB), and is expanding into districts of adjacent states in the south (Maharashtra and Karnataka) and Orissa in the east as well as into less developed northern states.

BSFL Loan products

Type of loan	Farm and allied	Non farm	General Purpose Loan
Clientele	JLGs/Individuals	JLGs/Individuals	Women JLGs/ SHGs/Federations
Description	Crop, agri-allied, agri investment, agri-allied non dairy loans	Micro-enterprise Growth enterprise loan	
Loan Amount (Maximum)	Crop loan - Rs25,000 Agri-allied - Rs50,000 Other - Rs50,000+	Micro enterprise - Rs50,000 Other loans: Rs50,000+	Women JLGs - Rs10,000 Other loans - Rs50,000+
Term (months)	11 – 36	24 – 36	18-36
Repayment	Cash flow based monthly, quarterly, six monthly	Cash flow based monthly	Cash flow based monthly
Interest rate	21%	24%	12% - 24%
Interest type	Annual, declining		
Other fees	2% Loan Processing Fees (LPF) + 12.36% (of LPF) service tax		
Cash security	10% of loan amount (except for women’s JLG GPL)		

Unit (branch) offices are located in district towns. Main operations start at 3-4 kilometres from the unit office, up to a 30 km radius, though some urban lending to women’s groups has started within the district towns. Lending to a new village is approved by the Unit Loan Committee chaired by the Unit Head. Once the village is approved, village meetings are organised to explain the mission of BASIX, work done by BASIX in nearby villages, and introduce the different services offered by BASIX. These meetings facilitate interaction of the unit staff with villagers and help to assess the needs of potential clients and explore possible interventions.

Clients: Clients self select into groups based on economic sector. BASIX ensures that clients have an existing business (except for women clients accessing a General Purpose Loan - GPL described below). Outreach to women has increased gradually in recent years (accompanied by the introduction of the GPL). Client outreach is based on low loan size which BASIX targets as below Rs10,000 on average. Accordingly, operational targets are set both in terms of number of loan accounts and total loan disbursement. Though the latter is more closely achieved than the former.

Products: BASIX offers ‘livelihood financial services’ (with credit and insurance) through BSFL and, in three districts of AP, through KBSLAB. KBSLAB also offers savings. The strategy for product development has been very innovative, reflecting the concern to match services to customer needs, and to seek ways to mitigate enterprise risk and personal vulnerability (through livelihood support services as well as new insurance products). Ag/BDS services for livelihoods support are described under non-financial services on page 9.

BSFL credit covers all sectors: farm and allied loans, non-farm loans and general purpose loans (GPL). Farm, allied and non-farm loans are primarily to JLGs (both men and women). GPLs are for women’s groups – JLGs and SHGs.

BSFL portfolio – credit products

Credit Products	Total	Agri and allied			Non farm		GPL		Others
		Crop	Agri Invest.	Agri Allied	Micro	Small	Women JLGs	SHGs/Federations	Housing/Infrastructure
Loans disbursed (No.)	161,926	23,675	2,011	46,093	70,092	3	14,057	3,309	2,686
%	100%	14%	1%	28%	42%		9%	2%	2%
Av loan disbursed Rs	10,501	10,896	15,044	11,472	10,487	83,333	5,000	13,667	12,155
\$	233	242	334	255	233	1,852	111	304	270

Data for 1 Apr 06 - 31 Jan 07; excl. 56 vehicle loans to staff – average Rs30,446. Total loans disbursed = 161,982

Loan amounts start at around Rs8-10,000 (\$200) and are mostly up to a maximum of Rs50,000 (\$1,110), with terms from 1 year up to 3 years for longer term, larger investment loans. Repayments are geared to cash flows and seasonality in agriculture, in consultation with each client. Credit for agricultural investment is repayable in 2-3 instalments in a year. Repayment of other loans is in monthly instalments, (or quarterly for goat/sheep rearing).

Interest charged is 21% declining on farm and allied loans, 24% on non-farm loans. Clients pay a 2% loan processing fee and a 10% cash security on all loans except general purpose loans to women JLGs. Clients who take Ag/BDS services (mainly linked to loans for dairy animals or crop) pay Rs300 for a year.

BSFL policy is that not more than 50% of portfolio should be Agri/allied loans. BASIX says this is to promote diversification of the rural economy into the non-farm sector and to diversify portfolio risk. In March 2007, 47% of portfolio outstanding was in Agri/allied. During 2006-7, 43% of loans disbursed were Agri/allied (15% agri), 42% were non-farm, and 11% were GPL to women JLGs and SHGs (see Table).

BASIX has placed considerable emphasis on developing insurance linkages that cater to clients' main areas of vulnerability, provide simple procedures with low-cost premium, and systems for careful screening of claims and quick payouts. With links to three different insurance companies for different policies, BASIX carries out all the intermediation tasks (including screening of claims and transferring the payouts). Insurance services cover risk to lives and health of clients and spouse, and the more challenging area of livelihoods (not only livestock, but agriculture – based on a rainfall index, and micro-enterprise – including assets in semi-permanent premises common in rural areas).

Loan/Life and health insurance is mainly through group policies that cover client and spouse, aged 18-55. This insurance is compulsory and loan linked for group clients (JLGs and SHGs). Clients pay the life (Rs4/loan amount of Rs1,000/year) and health insurance premium

(Rs77/person/year) in instalments along with their monthly interest payments. In case of client death, the life insurance (1.5 times the loan amount) is first used to clear outstanding loan amount, and the balance paid to the nominee. Health insurance covers critical illness (fixed benefit of Rs1,000 permanent total disability up to Rs25,000) and hospital cash benefit (upto Rs1,500). Livestock insurance covers the value of the animal (upto a maximum of Rs20,000 for a “productive animal” and Rs5,000 for “other animals”). Weather index insurance is designed to extend cover to at least the input costs of the crop insured.

Ninety percent of BSFL clients have life and health coverage. We estimate around one third of clients with crop loans have rainfall insurance, and 18% of clients with ‘allied’ loans have livestock insurance. In 2006-7, over 5,600 claims were settled (mainly for health and crop insurance) for over Rs2 crore (\$483,000).

Type of Insurance	No of policies	Coverage (%) ^a	Claims settled 2006-7
Life-group	359,365	91	1,314
Health	356,545	90	3,085
Life-retail	12,979	7	868
Crop - rainfall	10,239	34	2,379
Livestock	10,098	18	395
Total claims			5,664

^a % of BSFL borrowers. Life/health covers client + spouse. Crop and livestock estimated for those with crop and livestock loans

BASIX offers a similar package of products and services through KBSLAB with the addition of different savings products as part of normal banking services, including the Samruddhi Daily Deposit scheme in which street vendors can deposit as little as Rs20 (under \$0.50) daily. KBSLAB has 7,500 borrowers (average loan outstanding just under Rs11,000 - \$240) and 62,000 savings accounts (average Rs4,400 - \$100).

HR

BSFL designates field staff as Livelihood Service Advisors (LSAs); (before the introduction of the livelihood triad strategy they were called Customer Service Agents). The term reflects their role as being more than ‘credit agents’, in line with BASIX mission as a livelihoods finance agency.

LSAs have a high school or college degree. In some units, there are also local technical staff (dairying and agriculture) designated as Livelihood Service Providers (LSPs) to provide technical assistance to clients with livestock and crop loans. Field staff, including LSPs, are supervised by the Field Executive (FX) who reports to the Unit head.

For all staff, the recruitment process includes a field visit to test ability to interact with clients and enable ‘mutual appraisal’. There is a systematic induction training, starting with 3 months introduction at a Unit, learning on the job. For FX and above, this is followed by structured sessions at BASIX HO which take staff through BASIX mission, strategy, customer profile, monitoring system and other organisational aspects. All members of the senior management team of BASIX conduct at least one session each in the induction.

The borrower/field staff ratio is 245 or around 50 JLGs. This compares with the median of 227 for ‘Individual/Solidarity’ MFIs reporting to the MiX. Each LSP is serving 370 registered clients – which is a high number, but becomes feasible through organising farmer JLGs into larger ‘producer groups’ of 4-5 JLGs at the village level.

Staff performance appraisal and incentives (up to 25% of salary, reviewed every six months) are based primarily on business indicators: credit (disbursement, recoveries, profitability) and number of customers for insurance and Ag/BDS; as well as compliance with operations and HR guidelines, including staff behaviour and effective communication with clients.

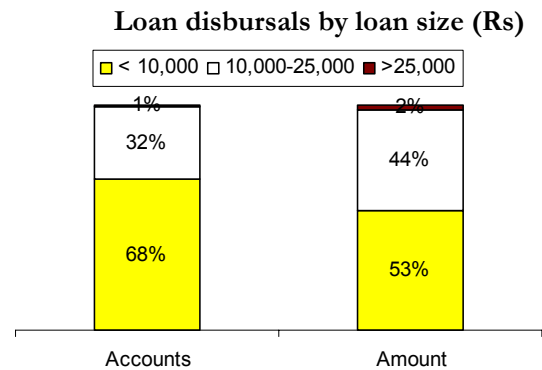
Information and reporting

BSFL has a strong MIS which, apart from standard financial tracking, includes:

- number of customers for livelihood promotion services - registered for Ag/BDS services and for IDS,
- some portfolio tracking separately for loans provided to men and women
- credit access by different social communities (castes/tribes) with some separate portfolio tracking.

BSFL tracks loan disbursements by size, keeping in view the number of loans below Rs10,000 (\$220). Over two-thirds of loans disbursed are below Rs10,000, accounting for just over half of total credit disbursed.

The MIS has the option of tracking both loans and clients. However client IDs are not being used consistently across different Units. Portfolio tracking is based on loan ID, tracking loans outstanding. Both repeat loans and new loans are entered with new loan IDs.



Data: 1 Apr 2006 – 31 Jan 2007

So it is not possible to track clients over time, nor even to monitor number of new clients in a year, or dropouts. Consistent use of client household ID is necessary to undertake this type of analysis.

The software also has additional fields for client information which BASIX could take advantage of. Client forms for registration and loan application contain some indicators that are relevant for socio-economic profiling, and could also be a baseline of information to track change at the household level. BASIX should consider reviewing the information collected, and adding selected indicators from the client forms into the MIS.

BASIX has an established practice of undertaking and commissioning research on its services and monitoring client feedback. These include a series of three customer satisfaction audits done every 3-4 years from 1998, and an impact study in 2000/2001 – carried out by a local market research firm. Since 2002, different divisions of BASIX have done market research for product development (including insurance, savings products for KBSLAB) and the Risk Management Team has covered two client satisfaction audits of Ag/BDS services (one in process during 2007). However, different research and audits undertaken are not collated centrally. The rating team was not able to obtain copies of reports, but those available demonstrate good quality research, and the findings have been used to improve operations – as noted earlier on the impact study findings.

BASIX is developing its approach to external reporting on social aspects. BASIX is part of the global Social Indicators Project to develop reporting on microfinance's contribution to the Millennium Development Goals; and in its latest Annual Report BASIX has included up front a section to contribute to the Global Reporting Initiative (GRI – promoted by Triodos, one of BASIX's investors), covering 'People, Planet, Profits'. These reports involve a designated research team employed by IGS. Field data collection is done by Field Executives.

SOCIAL RESPONSIBILITY

CLIENT PROTECTION

BASIX's induction programme includes guidelines for transparency and communication and staff behaviour with clients. These have become especially important for the organisation since 2005/6 when AP district officials raised questions on these issues for microfinance. In case of any complaint, clients are informed that they can contact the Unit office. The Unit office phone numbers are printed on client pass books along with the phone number of BASIX HO.

Management must maintain contact with the field. Unit Heads are supposed to visit each month 10% of clients with loans sanctioned by the FX. Senior management and Board members visit the field through Quarterly Review visits.

Staff behaviour and client relations are covered to some extent under Risk Management. The Risk Management team (19 staff) visits the field and interacts with clients, undertaking sample based audits in all 45 units. This is separate from internal audit which is primarily a monthly desk based review of documentation and procedures, carried out by local Chartered Accountants (as independent local auditors).

Transparency

BASIX places strong emphasis on providing full information and details about its products and services to its clients. Clients are informed about the details of products and services on several occasions before the loan is disbursed. The Unit head provides information about BASIX, its approach, details of products and services at the time of entry into a village; the LSA goes through the details at the time of group formation and loan application; and this is repeated by the FX and Unit head at the time of loan verification and disbursement. At the time of disbursement of loan, clients are provided with the repayment schedule in English along with insurance documents.

In some units, clients are shown a 15 minute video film about BASIX and its approach (this is currently mandatory for clients to attend when they come for loan disbursement).

The information provided to groups includes the interest rate charged, the repayment schedule, Ag/BDS service fee if applicable, benefits of life/health insurance. The repayment schedule gives details of principal and interest repayments, which also includes the life/health insurance premium. Clients are provided receipts for instalment and interest payments.

Loan appraisal includes a brief assessment of household indebtedness (in terms of present sources and amount of credit) as well as an estimate of household income from different sources. The decision on loan amount is guided by the Unit Manager as part of the monthly credit committee meeting and repayment is geared to harvest season for agricultural loans. This appears to be quite a robust system, although its monitoring and follow-up should also be systematically included as part of the work of the risk management team.

Cost to clients

BSFL effective interest rate to JLGs and individual clients works out to 30.6% on average, including loan processing fee and the effects of a 10% cash deposit. With some variation depending on the loan term and amount, the standard rate is 27.3% on GPL, 28.6% on crop loans, 28.5-31.1% on allied loans and 32.2% on non-farm loans.

Interest on loans to larger group intermediaries (SHGs, cooperatives, federations) is 12% declining.

BASIX benchmarks its interest rates with other service providers and its cost of operations. Its approach is to charge a 'fair rate', whilst providing a 'competitive rate of return' to investors. So far, just last year, BSFL has paid a 0.5% dividend. In 2006, BSFL reduced its interest on crop loans (from 24% to 21%). BASIX has also achieved a reduction in insurance premia paid: for life insurance (premium per individual reduced from Rs8.61 in 2002 to Rs3.98 in 2005), facilitating extension of cover to spouse as well at an affordable premium; for livestock (from 4.5% during 2006-7 to 3.9% in the next financial year) – since effective screening of claims has served to reduce the moral hazard which traditionally affects this insurance segment.

Analysis of BSFL financial ratios indicates reasonable efficiency, with BSFL expenses including insurance, Ag/BDS and IDS services; relatively low cost of funds and loan loss provisioning and write off, with good portfolio quality (low PAR) – Table next page.

BSFL generates a surplus both through the yield on portfolio (interest and fees on credit) and through ‘other financial income’ which refers primarily to revenue from servicing insurance as well as fees charged on Ag/BDS services.

Cost structure as % of average portfolio	BSFL^a	India Top Ten^b
Costs		
Operating expense ratio*	18.2	11.3
Financial expense ratio	6.2	9.0
Loan provisioning + write off	1.3	2.8
Total costs	25.7	23.1
Yield on portfolio	24.3	22.7
Other financial income	3.6	
Surplus	2.2	-0.4
PAR (>60 days)	1.4%	6.0%

^a M-CRIL rating, March 2007

^b India Microfinance Review 2007, M-CRIL * BSFL's OER includes expenses for livelihood promotion services and insurance

Client interactions

Interactions with clients are primarily through group meetings handled by the LSA – at the village level, usually at the house of one of the group members. Financial procedures and transactions nearly all take place here. The LSAs complete loan applications with each individual client. Within 15 days, applications are processed and disbursements are made by cheque from the Unit office. Clients are informed of the day and time to come to the Unit office to sign for the loan cheque and the process of disbursement is well organised (though with additional waiting time if the BASIX video is being screened in the Unit).

In case of default, there are clear guidelines to staff not to misbehave or force clients to repay loans. LSAs are advised to use peer pressure, and, if this does not work, to inform their supervisor. Follow up of overdue borrowers is done by more senior staff: the FX, and, if necessary by the Unit manager.

Field staff are expected to guide clients on insurance claims. BSFL has put in place a toll-free telephone helpline, and a system for processing claims before forwarding a consolidated list to the insurance company. Claims are verified separately by facilitators paid by the insurance company which then transfers payment to BASIX HO, which transfers electronically to the Units, for payment to clients. This facilitates reasonably speedy pay-outs – aiming to be within 30 days of application.

Livelihood promotion services and linkages

Livelihood promotion services are core elements of BASIX strategy. They represent the other two corners of the triad, backing up financial services with business development services or Ag/BDS (mainly in agriculture and in dairying) and Institutional Development Services (IDS) – for formation of producer groups to facilitate enterprise development, as well as technical support in promotion or revival of SHGs and cooperatives.

Livelihood promotion services are developed and piloted by the BASIX not for profit company - Indian Grameen Services (IGS) – supported by grant funding. Ag/BDS services in agriculture and dairying have been handed over to BSFL for implementation as part of ‘livelihood triad delivery’ – through LSAs and LSPs. BSFL pays IGS for pilot testing.

BSFL charges clients for these services, Rs300 a year, paid up front. For this amount, clients can obtain a range of agricultural services including soil testing, advice on improved seed and agricultural practices and provision of market linkages (selected crops – cotton, potatoes) or veterinary support services for dairy.

During 2006-7, over 50,000 clients were registered for Ag/BDS services in agriculture and dairying. This translates into significant coverage of over 70% of clients with Agri/allied loans.

Ag/BDS coverage (Agriculture and dairying)

2006-7	Ag/BDS
Total registrations	52,208
Loans in Ag/allied	71,779
Coverage	73%

A total 957 groups were registered for IDS (including 280 Producer Groups, 45 dairy cooperatives, 593 SHGs, 39 SHG federations/NGOs). IDS services are currently provided by IGS for an annual fee paid by the groups to IGS.

Continuing IGS action research in different sub-sectors (including lac, pulses, soya, mushroom, handloom, bamboo craft) provide the basis for contribution to future Ag/BDS linkages for BSFL. IGS also encourages BSFL staff to think of ideas for further development and testing. And the Livelihood School, established as an autonomous society in April 2007, will contribute to the training of BSFL staff, including for IDS.

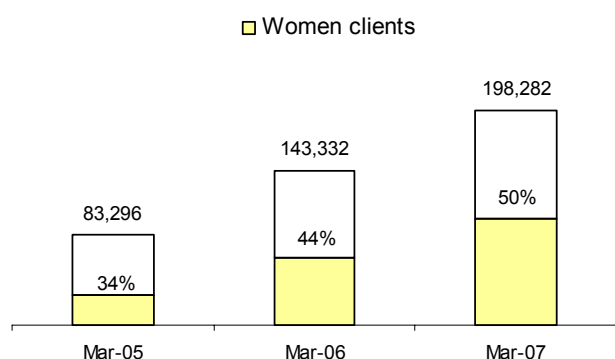
OTHER SOCIAL RESPONSIBILITY

GENDER APPROACH

BASIX includes women as part of its mission statement, and has commissioned independent studies to review the gender aspects of its operations.

Clients: After a review in 2002, when women were 21% of BSFL clients, BSFL decided to focus on having more women clients. The MIS monitors loans to women, which includes loans to SHGs. The number of women clients has increased substantially. By March 2007, (probably) 50% of BSFL clients were women (and 34% of KBSLAB borrowers).

Women clients in BSFL



Increased outreach to women has been mainly through the provision of the General Purpose Loan, as well as through credit to women's SHGs. The urban livelihoods initiative (in Hyderabad, also in Indore in Madhya Pradesh) is a pilot programme catering to women clients (around 3,000) with women staff.

State data shows high proportion of women clients in the southern states of AP and Karnataka, including to members of SHGs.

BSFL Women clients-proportion in each State (est.)

State	Total Clients	% women
Overall	198,282	50
Andhra Pradesh	116,250	61
Karnataka	4,485	47
Madhya Pradesh	7,845	39
Orissa	15,170	38
Maharashtra	43,865	33
Jharkhand	8,935	5
Rajasthan	1,732	0

BSFL's MIS differentiates loans to women and to men, so that access to different loan products and loan sizes can be obtained through a specific query.

Apart from the numbers, BASIX is also concerned to contribute to women's empowerment in terms of supporting their enterprise participation and market interface. In 2006, IGS initiated an action research project: A Livelihood Intervention for Women Enterprises or 'ALIWE' – to map out women's economic roles and the potential for integrating gender concerns within the triad strategy.

Staff: Three of BSFL's 10 Board members are women, with professional skills and experience in banking, finance, human resource management and journalism. Women are 11% of BSFL staff, 10% of management, 8% of field staff, a higher proportion among office based technical staff.

Staff level	Number	% women
Senior management	15	7%
Middle management and unit heads	149	12%
FXs + LSR/LSAs	511	8%
Accounts (HO)	49	41%
Total	724	11%

BSFL has a strategy of appointing at least one woman LSA per unit (45 units). This is reported to be difficult to maintain, as women have not managed the travelling required. Women LSAs seem more effective in urban areas (with easier travelling, women focused services).

RESPONSIBILITY TO STAFF

BASIX has had strong HR systems since inception. Since 2004, BASIX has established a corporate HR function to handle the load of recruiting, inducting and deploying hundreds of new staff every year. An updated version of the HR Manual is in process, which will serve to clarify guidelines.

The majority of field staff – LSAs (526) and LSPs (141) – are agents rather than formal employees of BASIX. They are paid on commission basis. The basic commission is Rs3,500/month, equivalent to the minimum wage, but with the addition of an incentive based on outreach and quality of portfolio, the average pay is usually more than double the minimum. Since 2006, LSAs with good work record of at least 3 years are eligible to become regular employees as Livelihood Service Representatives (LSRs). There are currently 95 LSRs.

For regular employees, conditions of work, salaries and leave are on par with Banks and major companies. BASIX provides all statutory benefits (Provident Fund, Employee State Insurance) and also insures staff for loss of cash in transit, and for accident. Leave allowance includes maternity and paternity leave.

BASIX lays strong emphasis on staff training and development. It developed a Personal and Professional Learning and Review (PLR) which was introduced in 2002. The PLR is a tool for staff to identify personal and professional learning needs through self-assessment and interaction with colleagues and to develop an action plan to address these. This is a systematic approach, though it takes time for some staff to take it seriously. The 2-day exercise is conducted twice a year for all staff in an off-work location.

As a follow-up of the PLR, BASIX invests systematically in training. In 2006-7, BASIX provided 1.5 days of external training and 5 days of internal training per employee. There is a policy of training credit points that each employee accrues for each year of service – 2 per year, equal to 30 days of Gross Fixed Salary. BASIX also provides for paid leave at 50% of Gross Fixed salary for longer training.

BASIX's working environment encourages staff discussion of issues. At the unit level there is a monthly meeting of all staff. Annually, an Operations Policy Task Force reviews all operations and advises Senior Management. The Task Force team is drawn from operations staff across all levels and services of BASIX.

Career growth opportunities are good with clear rules established for promotion – from FX to Unit Head to regional manager. Most of the present BASIX management team started as an FX.

Staff turnover during 2006 was 14%: 16% among more than one year old staff and 11% among less than one year old staff. Turnover is higher at the field executive and unit manager level. Discussions with field staff, particularly recently recruited FXs, reveal that they view working with BASIX as a stepping stone for high paying jobs with Banks or Insurance Companies. BASIX sees this as a contribution to staffing the sector, hoping that staff who leave will continue as ambassadors for rural finance and livelihoods.

COMMUNITY & ENVIRONMENT

Values and engagement

BASIX stands for values of equity - working with low income households), results – making things happen on the ground, innovation and learning – devising new ways of doing things and mastering those – and integrated development. These values are reflected in the Tenth Year Annual Report 2006, section on HR. BSFL (and KBSLAB) are part of this.

BASIX has engaged widely with the financial sector, with an active role in policy advocacy and supporting the microfinance sector in India. BASIX contributed to establishing the basis of the Voluntary Mutual Code of Conduct articulated through Sa-Dhan, the network of microfinance organisations in India.

Through IGS, BASIX is acting to catalyse innovation in livelihoods support, and providing services to other institutions.

In terms of its financial services, BSFL has a policy of not providing finance to the following activities: tobacco trade (e.g. pan thelas, tobacco wholesalers), alcohol trade (e.g. liquor shops, hotels serving drinks), activity involving child labour other than that of family members, activities primarily involved in dealing in counterfeit/duplicate consumer products. BSFL is supporting small businesses – but does not monitor conditions of hired employment in supported enterprises.

IGS has also established a rural BPO (Business Process Outsourcing) office) in Anantapur District of AP, providing a new opportunity for employment to skilled/semi-skilled rural youth – so far to 16 young men and women. The BPO is handling work for BSFL, including the processing of insurance policies and claims.

Environment

BASIX's work in agriculture includes addressing some of the environmental issues around excessive fertiliser and pesticide use. Ag/BDS services for soil testing, serve to reduce excessive application of fertilisers – as well as reducing input costs. BASIX has done a lot of work in reducing indiscriminate pesticide use in cotton farming (see case study in Annual Report 2007). IGS action research in various sub-sectors is aimed at exploring possibilities for organic agriculture, increasing the use of bio-pesticides and bio-fertilisers, and better water management.

In dairying, Ag/BDS to initiate fodder crops and azolla cultivation in farmers' fields is intended to reduce use of concentrate feed.

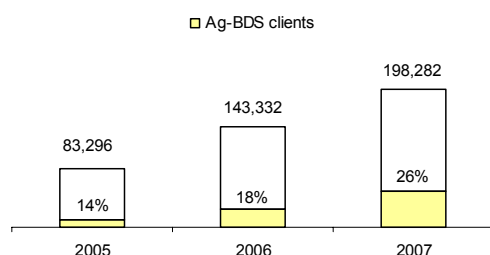
Other pilot initiatives have included installation of energy efficient irrigation pumps (in collaboration with Kirloskar Brothers Ltd) and marketing of photovoltaic lighting systems (in collaboration with Shell Renewables) – though the latter was not successful and BASIX is following up with market research and manufacturers of alternative solar devices.

RESULTS - OUTPUTS

OUTREACH

The number of BSFL clients has increased rapidly since 2005, with the number of borrowers more than doubling to nearly 200,000, and an increasing proportion of clients having Ag-BDS services.

BSFL growth



Areas of operation

BSFL started operations in Andhra Pradesh, and has expanded operations into adjacent areas of neighbouring states (Maharashtra, Orissa, Karnataka) and also further to the north (Jharkhand, Madhya Pradesh and Rajasthan).

BSFL operations across states in India

State	HDI rank ^a	BSFL Loans	Ag/BDS registrations
1 Jharkhand ^b	15	4%	3%
2 Madhya Pradesh	12	3%	3%
3 Orissa	11	7%	4%
4 Andhra Pradesh	10	59%	61%
5 Rajasthan	9	1%	.04%
6 Karnataka	7	2%	4%
7 Maharashtra	4	23%	26%
Total	17	166,852	52,208

^a Planning Commission, based on Census data for 22 States

^b Jharkhand ranked as part of Bihar

Within states, BSFL works mainly in rural areas and in less developed districts. It has operations across districts at different development levels: 53% borrowers, 38% AG/BDS clients are in the bottom two district quintiles.

BSFL services across districts by development level

Development quintile ^a	% BSFL loans	% Ag/BDS registrations
5 Bottom 1	14	3
4 Bottom 2	39	35
3 Middle	18	15
2 Top 2	20	30
1 Top 1	9	17

^a Districts ranked by literacy rate (Census 2001 data) as a proxy for development level

Financial inclusion

This section is based on client household findings from a sample survey undertaken by a BASIX field team, supervised by the rating team. The survey covers 184 clients who joined BASIX within the previous two years ('recent' clients). Recent clients are sampled to capture MFI outreach, prior to possible effects from MFI services. The clients were randomly sampled from five units in three states: AP, Maharashtra (Mah) and Jharkhand (Jhk).

To reflect BSFL's national programmes, overall percentages from the sample have been weighted to reflect BSFL's portfolio distribution in three broad regions, as shown below.

State/region	% Sample Clients	% BSFL loans (wt applied)
Andhra Pradesh	48	59
Maharashtra (& Karnataka)	37	25
Jharkhand (& other N-E states)	15	16

The sample is mainly (75%) rural/village based; 25% is 'semi-rural' from market centres; predominantly JLG clients (96% of the sample, compared to 94% of BSFL loan accounts); with a few individual clients (4 %).

The proportion of women clients (46%) in the sample is close to BSFL's overall programme data (47-50%), with a similar difference between the states (Table page 10).

- the unbanked

Around half of the sample client households have not had access to any formal financial services: 38% had a savings account (in a Bank or Post Office – 3% had both) and 19% had a loan from a bank (including loans through agricultural cooperatives) in the past three years. This compares with the All India (Census 2001) figure for access (savings and credit) of 36%. Access to formal financial services is highest for households in Maharashtra (reflecting higher access through agricultural cooperatives). AP households are more likely to have post office savings, than a bank deposit.

Household access to formal financial services	% Overall	% AP	% Mah	% Jhk
Savings Account in Bank	21	9	41	32
Savings account in post office	17	17	22	7
Bank loan (in last 3 years)	19	17	31	11

Households with more than one client of BSFL are 1.1% of the sample.

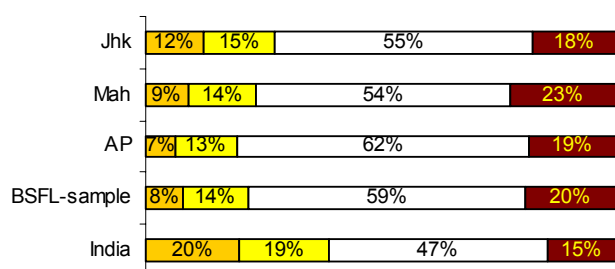
- the poor

Poverty analysis based on poverty score card method

BSFL is catering mainly to households living between \$1-2/day at purchasing power parity, with 59% of sample households at this level. Outreach to the poor (those living below \$1/day) is 22%, including 8% in the bottom half below \$1/day. Comparing by state, there is not much difference, through poverty outreach is slightly higher in Jharkhand.

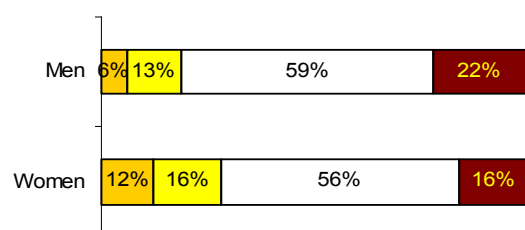
Poverty analysis – by state

■ Bottom half <\$1/day ■ Top half <\$1/day □ \$1-\$2 ■ >=\$2



This outreach profile is broadly in line with BASIX’s mission to target low income households ‘including the poor’, assessing <\$2/day as ‘low income’, and <\$1/day as ‘poor’. A higher proportion of women clients (28%) are below \$1/day compared to men clients (19%) indicating slightly deeper outreach through targeting women.

Poverty analysis-comparing men and women clients



- the vulnerable

BASIX works with different communities and does not target any particular social group. Outreach to different castes reflects the All India population profile, including outreach to Scheduled Castes and Scheduled Tribes who are the most vulnerable in the Indian socio-economic hierarchy.

Social Group	% BSFL	% All India
Scheduled Caste	18	16
Scheduled Tribe	6	8
Backward Caste	48	45
Minorities (Muslim/Christian)	11	15
General Castes	17	16

Women headed households (women are seen as main decision-maker or earner) are another vulnerable group, particularly when there is no adult male earner. At the All India level, 10% of households are women headed (NSSO, 2000). By comparison, 8% of sample households are women headed – in AP and Maharashtra; (15% of women clients); 4% have no adult male earner (in AP).

Women headed households (WHH)	% sample	% AP	% Mah	% Jhk
WHH	8	10	7	-
- no adult male earner	4	7		
- with adult male earner	4	3	7	

Support to employment

BSFL loans to 148 clients in the sample have supported 178 enterprise activities, primarily in trading (36%) followed by animal husbandry (27%) and agriculture (25%). (Agriculture is more important in the Maharashtra and Jharkhand samples).

Enterprises for which BSFL loan used	% Overall	% AP	% Mah	% Jhk
N	178	88	63	27
Agriculture	25	15	40	37
Animals	27	36	17	7
Trade	36	35	37	41
Services	7	8	3	11
Manufacturing	5	6	3	4

The majority (88%) of these enterprise activities are family based with on average 2.5 people working in each credit supported enterprise: 1.5 men, 1.0 women including hired (non-family) labour. Family workers are mainly (64%) full-time. Hired workers are mainly (86%) part-time or seasonal employees. In terms of full time equivalence (>6 hours a day, >8 months/year), there are 1.6 workers/credit supported enterprise.

Credit-supported enterprises	Total	Women	Full time equivalent
Total Workers			
Total working/enterprise	2.5	1.0	1.6
- family	1.6	0.6	1.3
- hired	0.9	0.4	0.3

The 12% of enterprises that hire labour, are both in agriculture and non-farm activities. Agriculture involves a larger number of part-time workers. 59% of hired employees are men, 41% are women. Daily wages reported for hired employees range from Rs50 to Rs100.

Credit supported enterprises	%	Av no. hired/ent	
Hired employment		Full time	Part time
Enterprises with hired labour	12	1.1	3.8
- agriculture	5	0.9	8.2
- non-farm	7	1.2	0.6

Just under half the enterprises involve both men and women in the family – one-third in the case of men clients, two-thirds in the case of women clients; 62% of men clients manage the supported enterprise themselves; 23% of women clients do routine management (55% in dairying, 41% non-farm, 4% agriculture) – though not usually handling the main market activities.

Enterprise 'management'	% sample	% men clients	% women clients
N	178	105	73
Joint (woman & man)	46	34	67
Men	40	62	10
Women	14	4	23

Client profile

The rating survey data for sample clients and their households shows:

- Nearly all clients (99%) are economically active: 33% are engaged in farming, 39% in non-farm activities; 6% in skilled labour (8% of men), 5% in casual labour (10% of women clients);
- Nearly half (48%) have completed primary level schooling or above: 55% of men, 47% of women in the sample, compared to 59% of men and 36% of women at the All India level [population above 17 years, Census 2001];

Client Schooling	% sample	% men	% women
No schooling	30	21	38
'Neoliterate' / < Primary	22	25	16
Completed Primary	29	32	29
Completed Secondary	14	17	14
College graduate	5	6	4

- School attendance of children of clients is relatively high: net primary enrolment is 91% girls and 95% boys (compared to 87% girls and 90% boys all India); net secondary enrolment is 85% girls and 86% boys (compared to All India gross enrolment rates of 49% girls and 59% boys) [Census 2001];
- 39% of client households have no agricultural land, 39% have small/marginal landholdings (<5 acres), 16% semi-medium (5-10), 6% medium landholdings >10 acres. (No large farmers >25 acres);
- almost all client households have more than one income source;
- 58% have *pucca* houses built of cement and bricks
- 72% have TV and 83% have an electric fan
- 50% share a handpump/tap with others for drinking water, 29% have their own handpump/tap, 22% use a public pond/well

- 59% do not have a toilet facility (compared to 64% in the 2001 Census); 36% have their own toilet facility (24% - Census) – half with septic tank disposal; 5% have a shared facility
- the majority report eating high value food items regularly; though 7% reported times of food shortage in the previous year.

APPROPRIATE SERVICES

In this section, quantitative findings are from the social rating sample. Qualitative feedback is from Focus Group Discussions with clients (11 FGDs, 49 participants).

Client awareness

Through the rating questionnaire, clients were asked a series of questions about BSFL products and services, on issues that BSFL expects them to know – related to credit, Ag/BDS, insurance and general procedures. Overall, awareness appears extremely low at 46%; slightly higher on credit terms (at 59%) and Ag/BDS (at 56%); very low on insurance terms (at 30%).

In case of Ag/BDS and insurance, awareness is analysed only for those clients who have the services. It seems surprising that less than half of clients with Ag/BDS were aware of the services that they had paid for. Other gaps relate to knowing the break-up of upfront fees, the loan insurance premiums and insurance cover.

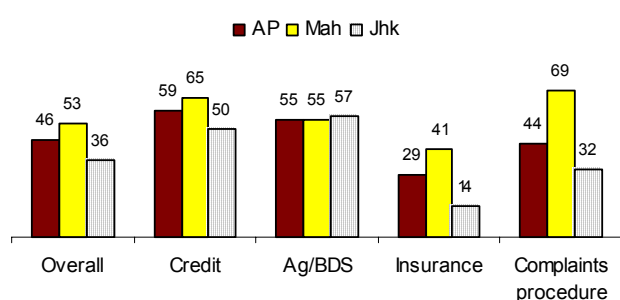
Awareness of products and transactions	% sample
Credit	59
Knows interest rate	79
Knows cash security amount	75
Knows about penalty for late payment	54
Knows procedure if difficulty in repaying loan	55
Knows loan processing fee and amount	47
Knows about up-front fee deducted from loan	45
Knows about different credit products	37
Ag/BDS [n = 73 with Ag/BDS services]^a	56
Knows the Ag/BDS service fee	69
Knows what Ag/BDS services are provided	42
Insurance	30
Knows about health insurance cover	42
Knows about life insurance cover	38
Knows the insurance premium	22
Knows about cattle insurance cover [n=41] ^a	23
Knows the cattle insurance premium [n=41] ^a	15
Knows procedure if have complaint about LSA/field staff	49
Overall Average	46

^a As a % of clients with these services

Very low awareness of insurance premium reflects the fact that payment is packaged with the loan payment (even though the details are supposed to be explained by field staff). And the insurance certificate is in legalistic English, which it is not possible for clients to understand.

Weather insurance is not listed in the table, since just 11 clients had taken this, but the pattern is similar: 4 of the 11 knew the premium, only 2 were aware of its coverage. Comparing sample data from the three states, there is similar awareness around Ag/BDS. Otherwise client awareness is higher in the Maharashtra sample, and much weaker in the Jharkhand sample.

Awareness by state



The overall pattern is similar for both men and women clients – with average awareness at 44% for women compared to 49% for men. Women’s awareness is higher on Ag/BDS coverage (47% of women clients compared to 36% of men clients); lower on knowledge of the interest rate (70% of women compared to 86% of men) and cattle insurance (16% average compared to 32% of men).

Client feedback

Access to other financial services

BSFL client households have quite substantial access to other semi-formal or informal financial services. Mainly Self Help Groups (SHGs) - over half the client households have a member in an SHG, 7% have a member who is client of another MFI. Access to other microfinance is highest in AP, but SHG membership is also significant in Jharkhand and Maharashtra (over a third of client households in the sample). Average outstanding was Rs5,450 to SHGs, Rs3,000 to other MFI.

16% have savings in an informal chit fund (25% in Jharkhand); 9% have borrowed from a moneylender in the previous year, mainly amongst AP clients (15%) who borrowed mainly (around half) for farm related activities, otherwise for household needs (family events, medical expenses, school fees, debt repayment) or non farm activities. Average outstanding to moneylenders was Rs30,000.

Household access to semi/ informal financial services	% Sample	% AP	% Mah	% Jhk
Member of SHG	54	64	37	43
Client of other MFI	7	10	2	4
Loan from moneylender	9	15	-	4
Chit Savings	16	16	9	25

Positive feedback

Clients value amongst BASIX services, the:

- ⇒ range of products and services
- ⇒ easy access to credit with low transaction costs and door-step service
- ⇒ timely disbursement of loans (mostly)
- ⇒ low interest rate (recently reduced to 21% from 24%)
- ⇒ soil test as part of Ag/BDS for agricultural loans (Maharashtra)
- ⇒ flexibility in loan instalments linked to household cash flows, and agricultural seasons

Farmers appreciate BSFL terms of credit, in comparison with accessing credit through the Primary Agricultural Cooperative Society (PACS). Although the PACS nominal interest rate is 6%, there are additional costs. A group of farmers in Wardha district (Maharashtra) described the hassle they face (*‘duniya bhar ki taklif’*) having to spend at least fifteen days going to and fro to the PACS and the Bank, doing the paper work and obtaining the no-dues certificate – ‘wearing out their *chappal*’ in the process. In comparison, for BSFL loans, they said the field staff come to the house to fill the form, and then it takes just one day to go to the unit office to collect the loan.

Farmers also appreciate repayment of BSFL loans in 2-3 instalments, linked to the harvest season, which helps to reduce the interest cost. The soil tests had made a substantial difference in maintaining productivity with reduced input costs – fertiliser and pesticide (in a context where application is based more on competition – ‘more is better’ – than practical knowledge of what is necessary).

In another unit in AP, BASIX is working towards promoting organic agricultural practices as part of Ag/BDS. This is getting a favourable response from farmers in the area who reported a decrease in application of fertilisers and pesticides resulting in reduced costs of production. They also reported marginal increase in yield and expect that continued application of organic practices will result in higher crop productivity.

Some issues

The most significant issues arising from FGDs conducted by the rating team relate to the utility of Ag/BDS. Whilst this service is much appreciated in some areas (as we found amongst farmers in Maharashtra and AP), we also found dairying services being pushed (supply driven) without attention to whether the service is needed in a particular area; but also situations of marginal and landless farmers who were unable to sustain an income from dairying. Other issues related mainly to upfront costs of borrowing.

- Clients say that Ag/BDS services are compulsory when taking a related loan. Field staff also report promoting this as a compulsory package, bundled as part of the loan. Thus, clients are not given a choice.
- Not even in a village where (as we found in a village in Wardha district of Maharashtra) there is an established NGO dairy providing all veterinary services and cattle feed, along with the milk marketing facility. The cost of services is cut from the monthly milk payment. Farmers were not sure of the costs but said they found this method of payment convenient (rather than paying the LSP from BSFL when he visited) and more practical – since BSFL veterinary services under Ag/BDS apply to the animal purchased with BASIX credit, and not to other animals that the household may own. The NGO dairy covers 15 other villages where BSFL is also providing Ag/BDS (veterinary) services. This seems to be a case of pushing Ag/BDS where it is not needed.
- On the other hand, in a village in AP, clients said they do not intend to renew the Ag/BDS services (veterinary) because LSP comes twice a month only and is not available when required.
- In another dairy JLG (in Maharashtra) we found marginal and landless families struggling to repay their loans: 3 out of 4 farmers had sold their animals within a few months of purchase, probably due to issues of animal quality, time of purchase, as well as the costs of buying feed. A different type of support service seems appropriate to these poorer farmers if dairying is to be a viable livelihood.
- Some clients are having to borrow the cash security and loan processing fee, sometimes they say from a moneylender, whom they repay with interest as soon as they have received the loan: ‘Rs1,500 for even a day costs Rs100’. They would prefer BASIX to make a deduction from the loan amount.

- A few clients (around 5% of those interviewed) asked for interest on the cash security.
- There is a mis-match between the period of livestock insurance (12 months) and the term of the loan (18 months). Clients find this confusing and appear reluctant to incur the additional cost of renewing the insurance after one year.

Client exit

BSFL is not able to track its exit rate from the portfolio MIS since it lacks a client ID, as discussed earlier. Senior management estimates the dropout rate to be very broadly ‘10-15%’ – which is around the current average in microfinance.

A comparison of a repeat survey (that BASIX conducted in May 2007 of 400+ clients surveyed in 2006, as part of the Social Indicator Project) indicates that under 30% of client covered in the first round were still loan clients one year later. Nevertheless in the BSFL microfinance model, there is no requirement for clients to continue regular cycles of borrowing. For agricultural clients there is a typical seasonal pattern to borrowing (credit for inputs for new crop around May-July, repayment completed after harvest by January the following year, and a few months before the cycle repeats).

In addition to tracking dropout rates, BASIX needs to define dropout with reference to a period of ‘no transaction’.

PERSPECTIVE - CONCLUSION

The organisation is broadly on track to put its mission into practice. BSFL is catering mainly, though not exclusively, to low income clients. Its clientele does include the poor, and depth of outreach is likely to increase as BASIX expands into more undeveloped States in the north and east.

There is immense potential for value addition for clients from the livelihood promotion services offered by BASIX and the organisational structure is well placed to develop a range of appropriate services, and link these to credit provision.

Issues that need attention include clearer targeting and identification of areas for Ag/BDS services. There is scope for adding more social information in MIS and strengthening client protection (awareness) and monitoring.

M-CRIL's Microfinance Rating Symbols

Grade	Credit Rating description	Social Rating description	Grade
α++	Excellent systems, highest safety ➤ most highly recommended	Excellent adherence to social mission and values	Σα++
α+ α	Very good systems, high safety ➤ (very) highly recommended	Strong adherence to social mission and values	Σα+ Σα
α- β+	Good/satisfactory systems and safety ➤ recommended, needs monitoring and improvement to handle large volumes	Good/satisfactory adherence to social mission and values	Σα- Σβ+
β β-	Borderline to weak systems, significant risk ➤ acceptable after improvement	Weak adherence to social mission and values	Σβ Σβ-
γ+ γ	Weak systems, very high risk ➤ not ready for investment	No social mission or values	Σγ+ Σγ

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