



## AFISAR<sup>®</sup>

Agents for Impact Sustainability Alignment Rating based on the Sustainable Development Goals (SDGs) and Environmental, Social & Governance (ESG) criteria

### RATING REPORT

Svasti Microfinance Private Limited, India

Industry: Microfinance

Rating Period: FY 2022

COMPANY NAME

**Svasti Microfinance Private Limited**

INDUSTRY

Microfinance

COUNTRY

India



## SUMMARY

AFISAR® RATING	SDG SCORE	YEAR
<b>B+</b>	<b>69%</b>	<b>FY 2022</b>

## ALIGNMENT TO THE SUSTAINABLE DEVELOPMENT GOALS

NOT SUSTAINABLE			SUSTAINABLE			
0% - 8%	9% - 25%	26% - 42%	43% - 58%	59% - 76%	77% - 92%	93% - 100%
NO ALIGNMENT	VERY LOW	LOW	MODERATE	GOOD	VERY GOOD	EXCELLENT
<b>D</b>	<b>C</b>	<b>C+</b>	<b>B</b>	<b>B+</b>	<b>A</b>	<b>A+</b>

## INSTITUTIONAL DATA

	Number of borrowers	Number of employees	GLP (outstanding)
Oct-22	 259,668	 1,429	 USD 86.437m

## OVERALL RESULT

Overall B+ Rating (69%), hence the institution's overall SDG alignment & sustainability performance at institutional & portfolio level is above our acceptability threshold (43%).

## OVERVIEW

Svasti Microfinance Private Limited ("Svasti") showed good collaboration during the second AFISAR® rating process. It figures among top-5 MFIs even after being rated on the more nuanced version of AFISAR® questionnaire V 3.0 (introduced as of Jan 2022). Along with the SDGs, AFISAR V 3.0 provides more novel insights into the environmental, social, and governance ("ESG") dimensions. Due to a greater awareness of the importance of environmental factors, the section "Environment" was given more weight (9% > 19%), which led to lower average AFISAR scores (-10%). Estd. in 2010, Svasti aims to reach 10 million women by 2030 and transform their life by providing access to finance. Svasti performs extremely well on rights' protection (91%) due to the continuous developing of policies (e.g. new anti-corruption policy, ESG policy, Green policy adopted in Jan 2022) & practises (e.g. action plans based on external assessments & previous rating). Higher scores on SDG 8 (74%) and SDG 16 (81%) are due to new policies, despite

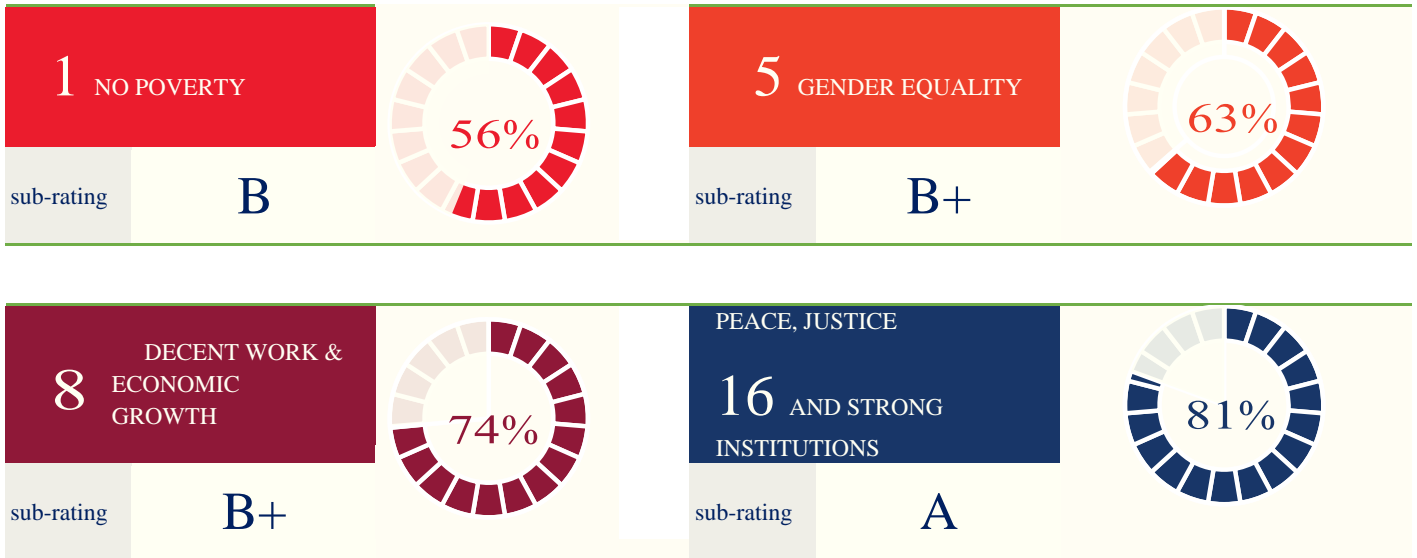
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many measures are yet to be specified & implemented. Svasti focuses on 100% women borrowers, which are all covered under insurance, and thus, has high scores for social aspects (68%) and SDG 5 (63%). Svasti also performs well regarding environmental aspects (42% above industry-average). While Svasti has started measuring electricity consumption, it provided estimated figures for water consumed and waste produced; reduction measures are outlined in policies but concrete targets are to be defined. Environmental awareness trainings are conducted for staff but to be started for clients (& community). Identifying and integrating climate and environmental risk into risk management is to be implemented.

## AFISAR<sup>®</sup> RESULTS

### RESULTS PER SDGs WITH HIGH RELEVANCE TO MICROFINANCE



### SNAPSHOTS: SDGs WITH HIGH RELEVANCE

**SDG 1 (NO POVERTY)** Clear vision with 100% focus on low-income women entrepreneurs, and microenterprises mostly in urban areas (78.4%); 21.6% outreach to rural population which is a significant increase from 100% urban focus in previous ratings; needs-based affordability considerations partly integrated into pricing assessment; no preferential loan conditions for active targeting of lowest-income segment (not part of Svasti's mission); financial literacy initiatives under Asian Development Bank Project; significantly improved client growth rate from -3% to 33%; no access points other than the branches (although repayments are done at centre meeting locations)

**SDG 5 (GENDER EQUALITY)** 100% female clients (accessing credit-linked life insurance); low female representation in staff (11.1%, better than 6.3% in previous rating), top, senior and middle management (6.2%, a marginal decrease from 7.2% in previous rating), and BoD (1/5); no defined target for increasing female representation despite being an equal opportunity employer with equal opportunities for professional development of all genders, wide range of staff benefits for all employees including paid parental leave.

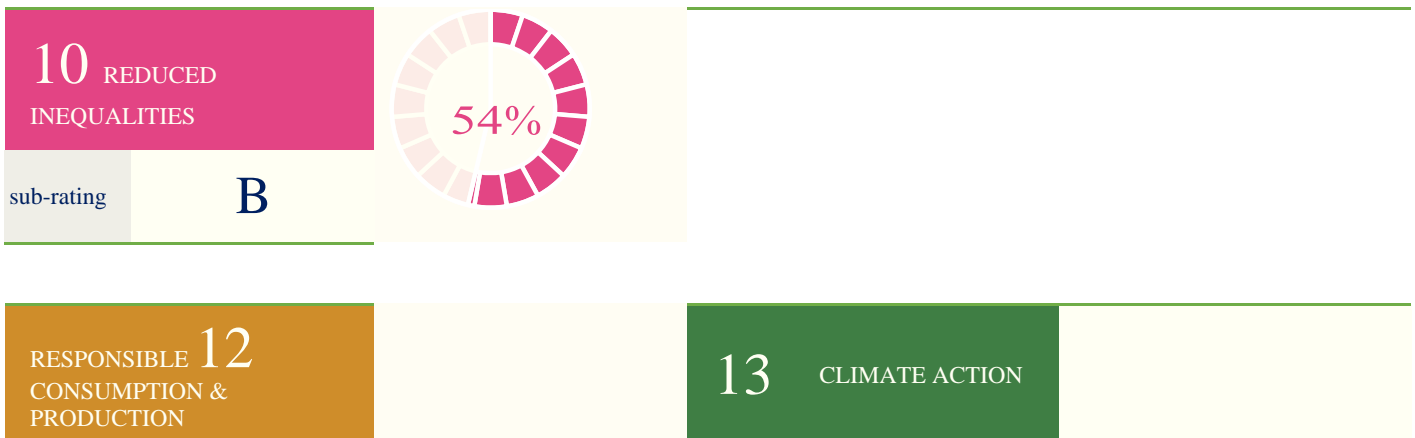
**SDG 8 (DECENT WORK AND ECONOMIC GROWTH)** Higher staff attrition (47.3% vs. 44% in previous rating) but in-line with industry standards, 522 new jobs created as compared to 430 in last rating, more comprehensive staff training; strategic training programs (internally promoted/laterally hired to leadership roles, external leadership trainings by industry regulators for selected staff), performance review/career development for 100% staff (100% female staff); average loan size (disb.) 473 USD; client retention rate 92% which is marginally higher than 87% from previous rating, volume of loans disbursed in reporting period increased by 11% as compared to the last rating.

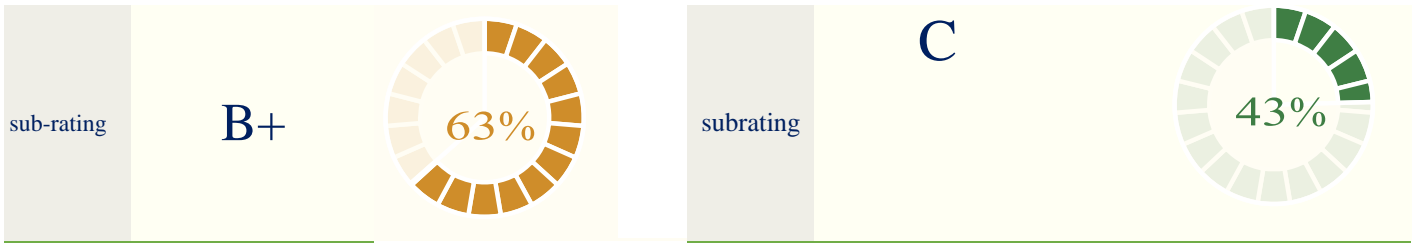
**SDG 16 (PEACE, JUSTICE AND STRONG INSTITUTIONS)** Good corporate governance and internal controls, improved attendance rate in Board meetings (100% from 98% in previous rating), whistleblower policy exists, newly formulated anti-bribery and anti-corruption policy introduced which is displayed on the website and a statement of public disclosure, opportunity to define fraud in all its forms, 2/5 directors are considered independent, sustainability matters are discussed at Board level (e.g. new ESG committee established) and executive committee meetings





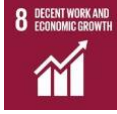





## AFISAR RESULTS

### RESULTS PER SDGs WITH MEDIUM RELEVANCE TO MICROFINANCE



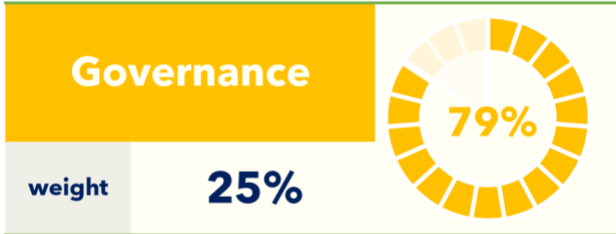
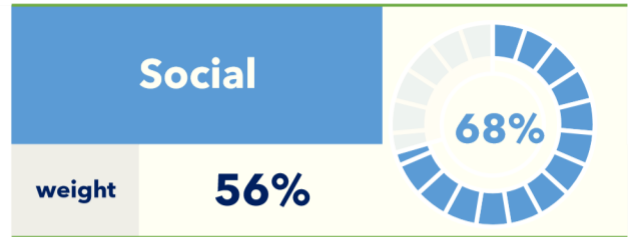
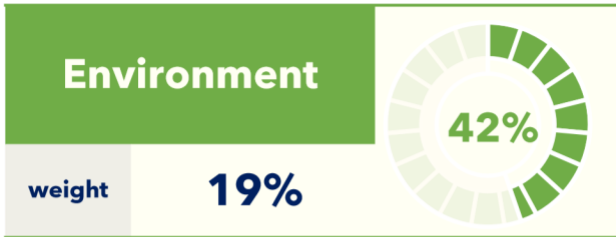


### Trend Analysis

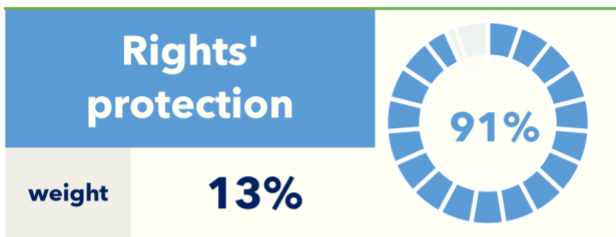
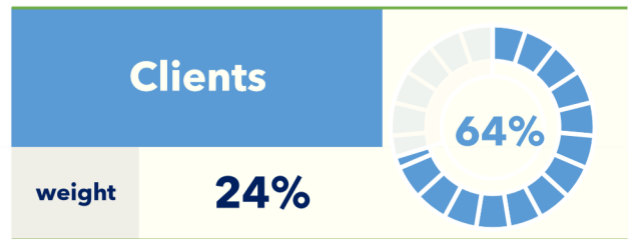
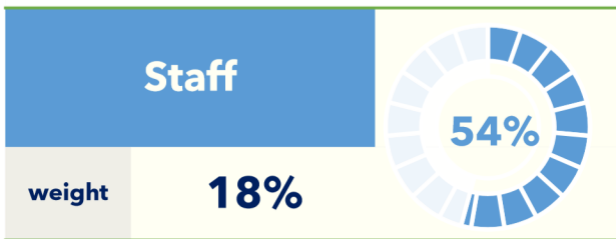
SDG	Trend	% Change	Major Drivers
	No Poverty	-7%	<ul style="list-style-type: none"> <li>High client growth rate and client retention rate; significant outreach in rural areas</li> <li>needs based affordability (partly) integrated into pricing assessment but no preferential loan conditions</li> </ul>
	Gender Equality	↓	-4%
	Decent Work & Economic Growth	↓	<ul style="list-style-type: none"> <li>11.2% female staff (increased, still low), 6.2% top/sen/mid management (decreased)</li> <li>no concrete targets defined to promote diversity in workforce but some measures</li> </ul>
			<ul style="list-style-type: none"> <li>Growing staff base, performance reviews for 100% staff, effective policies ensuring workers' rights and feedback channels</li> </ul>
	Peace, Justice & Strong Institutions	↑	<ul style="list-style-type: none"> <li>workers' rights are partly presented to BoD</li> <li>Good corporate governance, newly formulated anti-corruption policy and public statement; sustainability discussed in Board</li> </ul>
			5%
	Reduced Inequalities	↓	<ul style="list-style-type: none"> <li>Increased GLP proportion in rural areas; 100% clients access more than one financial products -31%</li> <li>no option of repayment other than cash</li> </ul>
	Responsible Consumption and Production	↑	<ul style="list-style-type: none"> <li>8% CPP certified, started estimating water usage and paper waste but only for one month, new ESG and Green policy</li> </ul>
			<ul style="list-style-type: none"> <li>concrete targets to be reflected in next rating</li> <li>Housing loans; climate and environmental risk only considered in the exclusion list,</li> </ul>
	Climate Action	↑	-17%
	Quality Education		56%
			<ul style="list-style-type: none"> <li>actual risks and client related vulnerabilities need to be identified and elaborated</li> <li>more comprehensive staff training, 100% female beneficiaries in fin. literacy trainings</li> </ul>

# AFISAR® RESULTS

## RESULTS PER KEY CATEGORY (ESG)



## BREAKDOWN: KEY CATEGORY "SOCIAL"



# AFISAR<sup>©</sup> - RATING OPINION

## REMARKS OF THE RATING COMMITTEE PER KEY CATEGORY (1/4)

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### Staff aspects:

Gender equality /equal opportunities (+) Human Resources Policy underlines nondiscrimination and thus, equal pay and fair opportunities for recruitment, all staff receive performance reviews (100% female staff receive performance reviews) as compared to only 72% reported in previous rating; equal opportunity for all genders during recruitment as well as career development (SDG 5, 8, 10)

(-) 11.1% female employees (up from 6.3%); 6.2% female in top/senior/middle management (down from 7.2%) opportunity to track gender equal pay and set targets for proportion of women employees at different levels (although difficult to for some positions) (SDG 5, 8, 10)

Comprehensive benefits for all employees (+) Mandatory staff benefits are covered under pension scheme and employee state insurance (health care for self, disability and invalidity coverage, paid parental leave; pension fund to cover retirement benefits, work-related accidents), costs are borne by only the employer (SDG 1, 3, 8, 10)

Staff base, trainings & career development (+) Comprehensive staff training (avg. 43 hrs/employee) covering internal procedures & policies, code of conduct, gender sensitization, credit and repayment methodologies, customer feedback, handling of issues amongst borrowers, internal audit, risk identification and mitigation; Great place to work certified in February 2022 (SDG 4, 8)

(+) strategic trainings oriented towards career development for employees getting promoted or laterally hired to leadership roles, capacity building trainings, organised by industry regulators, to selected staff (SDG 4, 8)

### Client aspects:

Client base (+) 259,668 borrowers (100% female clients), client retention rate is 92%; 21.6% rural client base (up from 0% in previous rating) and 78.4% urban clients; needs-based affordability is partly integrated into the pricing assessment and is based on the regulatory guidelines of RBI; targetting of lowest income individuals is due to set threshold by RBI for MFI clients is falling near the international poverty threshold of \$3.65 for LMIC like India; there is no active tracking of individuals falling below the poverty threshold; no preferential loan conditions for active targetting of customers belonging to lowest-income segment (although this is not Svasti's mission; planned participation in 60 Decibels Microfinance Index is a good step to assess income-related and other client-level indicators and the effects of product offerings on social outcomes - to be reflected in next year's rating) (SDG 1, 5, 8, 10)

Products & Services (+) Disbursement is done via account transfer and collection cash; 125 branches located (100%) in economically disadvantaged areas, no access points other than the branches (although repayments are done at the centre meeting locations) (SDG 1, 10) (+) Provision of WASH loans and housing loans as products with social impact, mandatory insurance as per regulatory guidelines, voluntary health insurance in some of the branches (SDG 1, 2, 4, 5, 7, 10, 13)

Note: The indicated SDGs serve to demonstrate the main linkages and are not exhaustive.

## AFISAR<sup>©</sup> - RATING OPINION

### REMARKS OF THE RATING COMMITTEE PER KEY CATEGORY (2/4)

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#### Client aspects (continued):

Products & Services opportunity to include more dedicated products with specified social objectives (such as education, etc.) and define targets (under the defined social goals monitored by ESG committee) to be achieved within a specific timeframe (SDG 1, 5, 8,10)

Client protection (+) Svasti adheres to the Client Protection Standards by Cerise + SPTF and has recently received GOLD certification from MFR (in March 2022) (SDG 12)

Non-financial services, training & Loan conditions (+) 259.668 clients (100% women) received financial literacy training (through a video developed under ADB project) covering financial fraud prevention measures, beneficial government programs and schemes and rumors regarding loan waivers especially during elections (SDG 1, 4, 5, 8, 10)

( - ) no skill development/business training is offered to the clients; opportunity for business development trainings and financially supporting trained clients (SDG 1, 4, 8, 9)

Client segmentation & sectors (+) 97.8% group lending model, 2.2% individual lending, focus on low-income women entrepreneurs, and microenterprises; major focus on services/trade (61%) followed by agriculture (28%), and manufacturing (7%); 92% client retention; client growth rate 33.5%; portfolio share for women 100% (SDG 1, 5, 8, 9, 10)

(+) financial support is offered to clients in case they want to start a new business (SDG 8, 9)

Portfolio Effective annual interest rate 20.8%, GLP 86,43 Mio. USD (outstanding); average loan size (disbursed) 473 USD (SDG 1, 8)

#### Rights protection (customers and staff):

Support systems for staff/clients (+) The Human Resources policy and code of conduct addresses discrimination against staff members as well as clients; Grievance redressal mechanism in place both for clients and employees and ensures confidentiality of the processes; induction training covers the aspects related to code of conduct, client protection & anti-violence (SDG 5, 8, 16)

(+) No reported incident of violence or discrimination during the reporting period

(+) Staff training and Internal Audit observations as preventive methods against fraud (SDG 5, 16)

Note: The indicated SDGs serve to demonstrate the main linkages and are not exhaustive.

## AFISAR<sup>©</sup> - RATING OPINION

### REMARKS OF THE RATING COMMITTEE PER KEY CATEGORY(3/4)

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#### Rights protection (customers and staff):



Employees'/Workers Rights (+) Workers' rights are covered by the Human Resources Policy and Code of Conduct; Staff grievance redressal mechanism and whistleblower policy exists for employees to express their concerns; workers' rights are partially discussed at the Board level (e.g. staff attrition and recruitment, orientation, well-being) (SDG 8)

(-) No concrete measures to facilitate workers' rights and freedom of association opportunity to include other aspects of workers' rights in Board meetings (staff grievances, complaints regarding POSH, etc.) (SDG 8)

#### Governance:

(+) Directors Board & Audit Committee in place; 100% attendance rate; (2/5) Directors are independent; sustainability matters in the dimensions of ESG are discussed in the Board-level SPM committee (to be renamed as ESG committee) and in executive management meeting and addressed through collective decision and actions;

(-) 1/5 Board of Directors are women; opportunity to improve gender representation at the board level, define strategic targets towards sustainability and link executive management's performance on it to their variable remuneration (SDG 16)

#### Corporate governance

(+) Defined control mechanisms (conflict of interest policy, procurement policy - a progress from previous rating), Staff trainings on customer feedback mechanisms, risk identification, risk management and prevention of violence and harassment; no instances of regulatory noncompliance were reported; internal investigation committee responsible for cases of cash misappropriation, internal complaints committee for prevention of cases against sexual harassment (SDG 8, 16)

(+) Well-documented anti-bribery and anti-corruption policy with clear definitions and mitigatory actions - publicly accessible through website (a progress from previous rating); Internal Audit checks for identification of frauds; zero instances of corruption were reported

(-) HR Manual only mentions fraud at few instances but there is an opportunity to clearly define fraud in all its forms and necessary prevention mechanisms; opportunity to train staff on newly formulated anti-bribery and anti-corruption policy (SDG 16)

(-) An instance of fraud was identified by Internal Audit team where the loan amount of customer was transferred to Loan Officer's bank account; adequate action was taken under the set policies of Svasti (SDG 16)

Note: The indicated SDGs serve to demonstrate the main linkages and are not exhaustive.

## AFISAR<sup>©</sup> - RATING OPINION

### REMARKS OF THE RATING COMMITTEE PER KEY CATEGORY (4/4)

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#### Environment:

##### Environment - Resources

(+) tracking of dry waste (estimated - combining paper, plastic, glass, residual waste, etc.) produced, water (estimated) and energy (measured) consumption for one month at HQ (a progress from previous rating); usage of sustainable energy sources (reported data only)



NOT SUSTAINABLE			SUSTAINABLE			
0% - 8%	9% - 25%	26% - 42%	43% - 58%	59% - 76%	77% - 92%	93% - 100%
NO ALIGNMENT	VERY LOW	LOW	MODERATE	GOOD	VERY GOOD	EXCELLENT
D	C	C+	B	B+	A	A+

## RELEVANCE OF SDGs TO MICROFINANCE

#	SDG	Relevance
1	SDG 1: No Poverty	High Relevance
2	SDG 2: Zero Hunger	Lower Relevance
3	SDG 3: Good Health & Well-Being	Lower Relevance
4	SDG 4: Quality Education	Lower Relevance
5	SDG 5: Gender Equality	High Relevance
6	SDG 6: Clean Water & Sanitation	Lower Relevance
7	SDG 7: Affordable & Clean Energy	Lower Relevance
8	SDG 8: Decent Work & Economic Growth	High Relevance
9	SDG 9: Industry, Innovation and Infrastructure	Lower Relevance
10	SDG 10: Reduced Inequalities	Medium Relevance
11	SDG 11: Sustainable Cities & Communities	Low Relevance
12	SDG 12: Responsible Consumption & Production	Medium Relevance
13	SDG 13: Climate Action	Medium Relevance
14	SDG 14: Life below Water	Low Relevance
15	SDG 15: Life on Land	Low Relevance
16	SDG 16: Peace, Justice and Strong Institutions	High Relevance
17	SDG 17: Partnership for the Goals	Low Relevance

## METHODOLOGY

The assessment of a company's sustainability performance is based on an integrated set of indicators, selected specifically for the rated company's industry, based on the Sustainable Development Goals (SDGs). A holistic approach is applied to identify positive and negative contributions to the SDGs. The indicators cover qualitative and quantitative information at institutional and portfolio level in the dimensions environmental, social and governance (ESG). Whereas the four SDGs identified as most crucial for the microfinance sector are: SDG 1 "No poverty", SDG 5 "Gender equality", SDG 8 "Economic growth" and SDG 16 "Peace, justice & strong institutions", the majority of the SDGs is covered under the AFISAR© Tool.

Based on the organisational structure and business model, the five key categories assessed are staff, clients, rights' protection (both staff and clients), governance and environment. The weight of each SDG, ESG dimension and key category may differ to a minor extent in case an indicator cannot be fully assessed.

The rating is largely based on information provided by the rated company (questionnaire and additional data provided by rated company via email), visit to the HO on 1st Dec 2022 & branch visit on 2nd Dec 2022 and, to a limited extent, publicly available information. An unanswered question results in the lowest score for that question.

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