Social Rating and Impact Assessment of Sonata Finance using MiRACLe

Conducted by Microfinance Connect, April 2009

About Sonata

SONATA Finance Private Ltd (Sonata) is a microfinance company registered as an NBFC under Reserve Bank of India Section 45 IA. Sonata began microfinance operations in January 2006 with its head office at Allahabad, Uttar Pradesh. In the month of August 2007, it acquired the microfinance portfolio of Jeevika Livelihoods Support Organisation based at Jabalpur in M.P., establishing its outreach to two major states in Central India.

The vision of Sonata is "to help build a society that contains an opportunity to develop the minimal socio-economic conditions needed to live a life of dignity." To work towards this vision, the 3 main goals of Sonata are:

- Providing financial resources to enable poor women to come out of poverty and get connected with formal financial institutions.
- Developing a scalable and growing business that covers a significant number of poor households while maintaining portfolio and service quality.
- Providing returns to its investors to make it an attractive investment opportunity.

Sonata offers income generation and emergency loan products complimented with loan linked insurance.

Particulars	Urban	Rural	Total
Branches (Nos.)	14	16	30
Loan Clients (Nos.)	30,137	41,961	72,098
Amount Loan Outstanding (INR Cr)	17.4	24.6	42.0
Portfolio At Risk (%)	1.39	0.13	0.72

About MiRACLe

MiRACLe[TM] (Microfinance Rating & Assessment for Client Level Impact) is a tool to assess impact of microfinance interventions on consumers at different levels viz. individual, household, enterprise and community. The assessment process uses appropriate statistical techniques to select indicators reflecting different dimensions of impact. These indicators are assigned weights iteratively using Principal Component Analysis to arrive at a summative rating.

The application of MiRACLe under diverse contexts takes into account the "fungibility" of credit and "selection bias" of programmes to ensure attribution of impact only to the microfinance interventions. MiRACLe follows a quasi experimental design and includes both experiment and control groups. The sampling methodology is an adoption of 30 stage cluster sampling design, which is technically robust and can be adapted universally.

Notwithstanding the statistical rigour that it offers, MiRACLe is a simple and cost-effective rating tool to assess impact. It can be used with equal ease to monitor performance over a period of time (longitudinal design) as well as for snapshot studies (cross sectional design).

About Microfinance Connect

Microfinance Connect strives towards strengthening the microfinance industry by catering to the felt and unfelt service gaps through quality services. Progression in the sector has seen multiple stakeholders joining in to address the cause of reducing poverty through financial inclusion of the unreached sections. At MFC, our pioneering work identifies needs of present times and aims to take microfinance services to the next level of standardized practice.

Our core strength is the pool of rich experience and knowledge brought in by practicing professionals with diverse proficiencies in the field of microfinance. Some of our key initiatives include conceptualization of the Global Microfinance Impact Alliance, institutionalization of the first ever Global Microfinance Impact Awards, development of MiRACLe and a Web 2.0 enabled online networking platform for microfinance stakeholders. MFC is an initiative of Sambodhi Research & Communications.

The service offerings of Microfinance Connect include:

- Knowledge Exchange & Networking
- Institution Development & Mentoring
- Business Analytics & Market Research
- Investment Support

PART I: Respondent Profile

General Information

The following table gives the profile of the respondents – both clients and non-clients in terms of their poverty status, occupation, assets owned and financial inclusion.
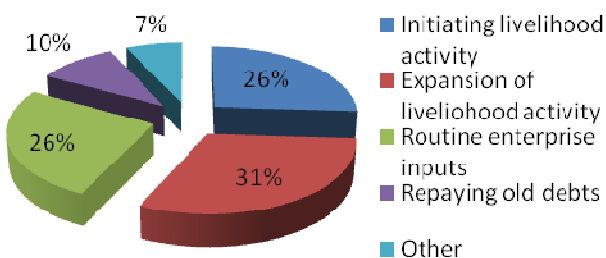
Particulars	Clients %	Non-clients %
Poverty category		
APL	33	28
BPL	51	59
Don't know	17	13
Occupation		
Service	7	12
Agriculture	4	9
Enterprise/shop	22	28
Self employed	44	29
Wage labour	22	21
Asset Ownership		
Land	15	**25**
House	98	91
Shop/office	14	9
Access to banking services		
Bank account	52	42
Post office account	16	11

Services from Sonata

Sonata offers credit products with linked Life insurance for the period of loan. The average loan sizes of clients in different cycles of loan are available in the table below:

Loan cycle	Mean amount (INR)	% of clients
L1	8,212	39
L2	11,589	44
L3	12,909	13
L4	10,886	4

Loan purpose: Income generating loan is the most prominent loan product with enterprise loans accounting for 83% of total loans given out to the sample clients.

Break-up of loans of sample by Loan Purpose

Delayed payment/default: 10% of clients agreed to have delayed payment of installments of their loans with the following reasons being cited for the delay:

Reason for delay in repayment	% of clients*
Loss in business due to lack of entrepreneur skills	37.9
Sudden crisis/ problem in family	27.6
Sudden crisis in business/ job	24.1
Insufficient income from business/ job	13.8
High Installment Amount	6.9
High interest rate	3.4

*% of clients who have delayed payment

Part II: Outcomes & Impacts

The outcomes and impact of Sonata's operations have been assessed on indicators covering **Enterprise, Household income and Livelihood, Gender and Empowerment** and **Household security**. A basic analysis of **Customer Satisfaction** is also presented as the first level of client feedback on their perception of Sonata's offerings. Finally, the study provides a **composite Rating Index of impact** constituting of all the above mentioned parameters.

Enterprise

27% of the sample clients have their own enterprises, of which 45% initiated the enterprise with loan from Sonata Finance and 52% used their own capital/savings. 68% of enterprise owners have expanded their business after joining the MFI. Of these, 78% h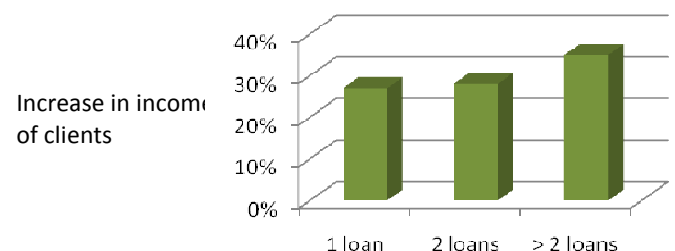ave accessed loan from Sonata for the expansion, 61% have utilized their savings and 15% have used other sources as well.

Type of enterprise	% of enterprises
Manufacturing	17.1
Trading	68.3
Service	13.4
Others	1.2

Client enterprise financial details	Average Amount
Monthly turnover	15,746
Monthly requirement of working capital	11,141
Capital deployed for expansion in last 12 months	10,468

Household Income, Expenditure & Assets

The mean monthly income of sample clients is INR 4,847 and 72% have reported that their income has increased after joining the MFI program by an average 30%.
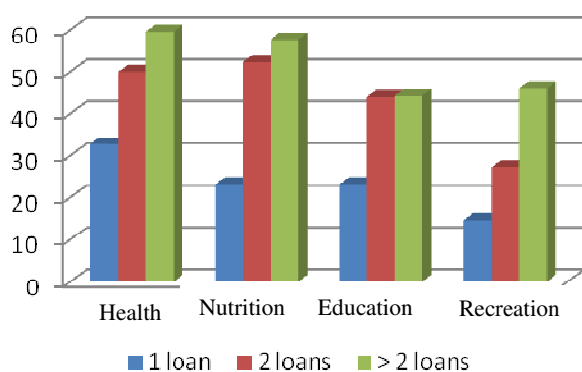
50% of Sonata's clients have reported an increase in consumption of food items including food grains, vegetables, milk and other dairy products and cooking oil. There has been an increase in expenditure on food, clothing, health and education in 50% of the sample households and while 40% households have also reported increase in expenditure on social occasions and festivals.

99% of clients have purchased at least one household asset, while 37% have purchased at least two and 46% have purchased more than two. The assets considered include furniture, electronic items, vehicles including bicycle and jewelry.

Gender & Empowerment

Expenditure on women: Nearly half of the MFI clients reported an increase in the household expenditure on women. The increased spending on women is more on health and nutrition as compared to other heads.

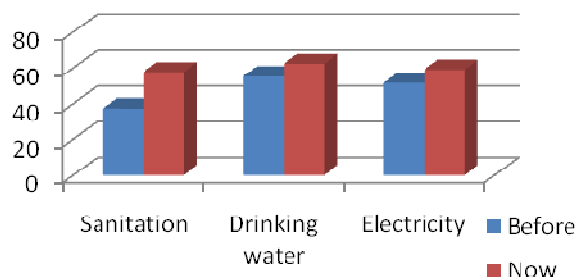| Expenditure head	% of clients reporting increase
Health	45%
Nutrition	42%
Education	36%
Recreation	26%

The study also brings out the fact that the increase in spending on women is associated with the loan cycle that the client household is into. For instance, only 33% of clients in the first loan cycle reported an increase on health of women, the same for clients in the third loan cycle is 60%. The graph below gives more details.

Empowerment - Participation & Articulation: The MiRACLe tool includes participation and articulation at the household and community levels as well as individual confidence as the indicators of empowerment. Across all indicators, the percentage of clients responding affirmatively was found to be higher than the percentage of non-clients with one exception. The percentage of non-clients participating in political processes (76%) is higher than the clients (71%).
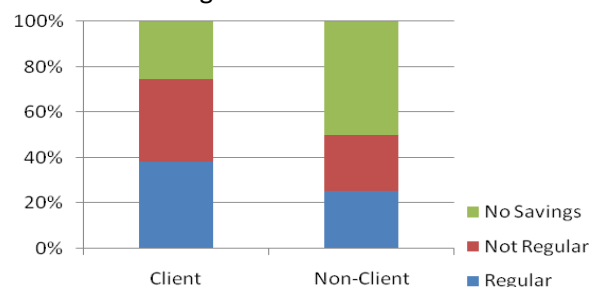
Indicator	Client %	Non-Client %
Participate more actively in household matters	96	88
Family members include me in important decisions	93	85
More vocal in raising concerns in the family	94	87
More confident to independently take decisions	96	86
Participate more actively in community processes	94	85
More vocal in raising concerns in the community	90	83
Participate more actively in political processes	71	76

Access to basic Amenities: Access to the three basic amenities viz. sanitation, safe drinking water and electricity has also improved in the client households although marginally. While access to sanitation has risen by 13% (from 37% to 50% client households), access to both safe drinking water and electricity has improved by 7%. Also, most clients are unable or do not perceive any direct role of the MFI towards this outcome.
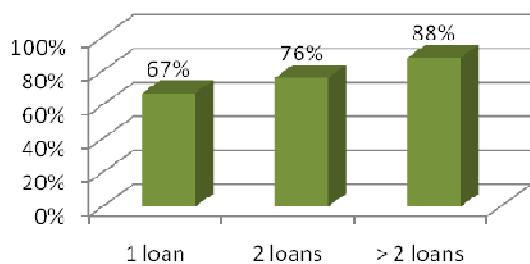

Household Security

Savings: Savings at the household level was taken as the key indicator of economic security. A comparison of the percentage of clients and non-clients shows that around 75% and 50% of clients and non-clients save money. Within these, 39% clients and 25% of the non-clients are regular in their saving habits.
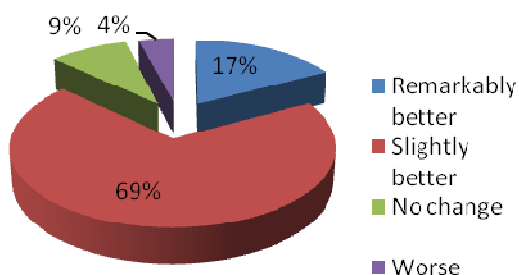

Out of the client households, 80% percent reported an increase in savings since the time of joining the MFI. On the other hand, 3% clients also reported a decrease in the

savings level. Also, 21% of the clients report that their household has been affected due to lack of money since the time they joined the MFI.

The percentage of clients reporting an increase in household savings also increases with the loan cycle that the family is into. 67% clients in the first, 76% in the second and 88% in the third loan cycle reported an increase in the savings at the household savings.
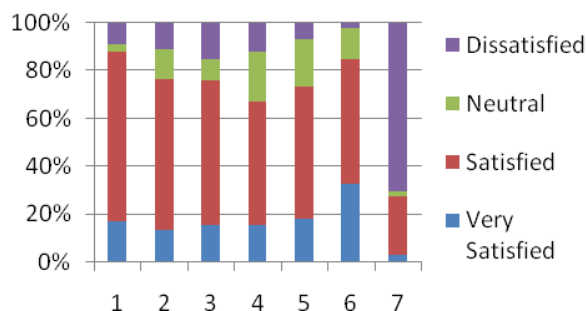

Socio-economic condition: 87% clients perceive their socio-economic condition to be better from the time they joined the MFI. Nearly 17% clients perceive a remarkable improvement in the same. Also, 4% clients reported that the socio-economic condition of the family has worsened from the time they begun availing MFI services.

While segregating this data in terms of the loan cycle that a particular client family is into, it becomes evident that the percentage of clients perceiving an improvement in condition increases with the loan cycle. 83% clients in the first cycle, 89% in the second and 90% in the third loan cycle perceive their socio-economic condition to be better.

Customer Satisfaction

Customer satisfaction can be seen as a preliminary impact indicator, explaining the clients' impressions and opinions regarding the MFI. This is relevant especially in case of a young institution like Sonata, since this provides valuable feedback on the MFI's operating procedures and delivery of services, which can be further streamlined in view of this information. However, MiRACLe does not delve into each of the operational aspects, but presents a basic overview of customer satisfaction. Clients' feedback on Sonata's services is represented in the graph below:

1	Amount of loan vis a vis requirement
2	Processing time, paper work and procedures
3	Repayment frequency
4	Amount of instalment
5	Method of disbursement and collection of loan
6	Behaviour of loan officers and staff
7	Other support services provided by MFI

It may be noted that Sonata does not provide (non-financial) support services to clients as the MFI is focusing on financial operations and growth as part of the present strategy.

Composite Rating Index

MiRACLe uses Principal Component Analysis or PCA to summarize variability among a set of 24 indicators to measure the construct of impact at the individual, household, enterprise and community levels. PCA ensures that the component scores are derived statistically and represent client feedback and outcomes. The factor/component scores are segmented into ten quintiles. The quintiles are represented as A++, A+, A onwards up to D. The interpretation is as follows:

A^{++}	Very Strong Impact
A^{+}	Across all levels including individual, household,
A	enterprise & community
B^{++}	Strong Impact.
B^{+}	May not be consistent across levels - individual,
B	household, enterprise & community
C^{++}	Mild Impact.
C^{+}	Only Financial needs of clients are catered to with
C	satisfaction.
D	Weak or No Impact Basic financial needs not met with satisfaction

The average client score is computed for the MFI using PCA. The grade in which the score falls is assigned as the final rating of the MFI on client level impact. In this case, Sonata has achieved a rating of **B++** which implies Strong Impact. This has to be seen in the light of the fact that Sonata initiated microfinance operations in January 2006.