

## SOCIAL BOND / LOAN FRAMEWORK (April 2023)



**CreditAccess Grameen Limited is a leading Indian microfinance institution focused on providing micro-loans to women borrowers predominantly in rural areas across India**

### Introduction

CreditAccess Grameen ("CA Grameen" or the "Company") provides micro-loans, up to USD 1,250, mainly to women borrowers under Joint Liability Group ("JLG") model, catering to the critical life cycle needs like income generation, health care, education, festival celebration, home improvement, water, and sanitation.

We primarily operate at the bottom of the pyramid, predominantly focusing on underbanked and underserved low income households in rural regions across India. The wide range of credit and non-credit products offering by CA Grameen, makes us one of the preferred financing partners for our customers, leading to high customer satisfaction and loyalty.

In business for more than two decades, CA Grameen has asset under management of over USD 2.1 billion and serves over 3.9 million active borrowers with 16,800+ employees operating through 1,727 branches across 14 states and 1 union territory in India as on 31<sup>st</sup> December 2022.

The microfinance industry in India still offers significant growth potential with current industry penetration levels at around 35%. A significant proportion of India's population still does not have access to formal banking facilities. The major reasons for financial exclusion are poverty, low income, financial illiteracy, high transaction costs and lack of infrastructure.

Our product portfolio consists of following loans –

<b>Loan Type</b>	<b>Customer Centric Products</b>	<b>Purpose</b>	<b>Ticket Size (USD)</b>	<b>Tenure (months)</b>
Group	Income Generation Loan	Business Investments and Income, Enhancement activities	60 - 1,250	12 –36
Group	Home Improvement Loan	Water Connections, Sanitation and Home Improvement & Extensions	60 –620	12 –36
Group	Family Welfare Loan	Festival, Medical, Education and Livelihood Improvement	Up to 250	3 – 12
Group	Emergency Loan	Emergencies	12	3

Retail Finance	Retail Finance Loan	Purchase of inventory, machinery, making capital investment in business, business expansion, purchase of assets	Up to 25,000	6 –180
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We have also piloted few more retail finance products to meet the evolving needs of customers who have larger business / income expansion requirements or asset ownership aspirations. These include individual unsecured business loans, mortgage backed business loans, two wheeler loans, gold loans and planning to pilot affordable housing loans.

In addition to credit products, we have also launched couple of non-credit products basis the customer feedback and needs. Currently, we have launched wage-loss insurance product for our customers. We have also launched AEPS (“Aadhaar Enabled Payment System”) based cash withdrawal service at the centre meeting for our customers. We aim to offer suitable insurance and savings/investment products to our customers over coming years by partnering with insurance companies.

We believe this wide range of products and services and our well-designed product delivery and collection systems have enabled us to achieve high customer retention rates and low credit costs.

In order to continue to provide these products and services, we have decided to align our financing instruments with our future investments, and we have set up this Social Bond / Loan Framework.

Our Social Bond/Loan issuance will be governed by our Social Bond/Loan Framework, which is aligned with the Social Bond Principles (“SBP”) as set out by the International Capital Markets Association (“ICMA”) and the Social Loan Principles (“SLP”) as set out by the Loan Markets Association (“LMA”) and Asia Pacific Loan Market Association (“APLMA”). We intend to update the Social Bond/Loan Framework periodically at our sole discretion to reflect developments in the best practices of the Social Bond / Loan Market.

### **Use of Proceeds**

We will apply 100% of the net proceeds from the issuance of each Social Bond / Loan to finance or re-finance, in part or in full, new and/or existing social eligible loans - made by us during the period from [36] months prior to the issuance of the Social Bond / Loan - (the “Eligible Social Loans”) that would meet, all or some of the following criteria:

- a.** Employment generation, and programs designed to prevent and/or alleviate unemployment stemming from socioeconomic inequality, including through the potential effect of small and medium enterprise financing and microfinance
- b.** Small and Micro businesses financing with:
  - small businesses: formal household businesses, or small scale enterprises with mostly income over USD 500, and
  - micro businesses: self-employed households, who operate retail shops, sell agriculture, or handcraft products or provide commercial services, earn USD 5-10 per day.
- c.** Businesses co-developed and co-managed by women.
- d.** Businesses located in rural /semi-urban areas of India.
- e.** Affordable housing. Under the category Affordable Housing, we intend to extend loans for i) purchase or construction of low-cost houses , ii) home improvements and repairs to damaged dwelling units, primarily to individuals belonging to low-income groups (LIGs) and economically weaker sections (EWSs) and living in rural or semi-urban areas in India.

We shall abide by the regulations prescribed by the regulator (The Reserve Bank of India) with respect to microfinance and MSME customer segments. Further, regarding the affordable housing loans, we shall abide by the regulator's directions on Priority Sector Lending.

All Eligible Social Loans are deemed to provide social benefits that contribute to and meet sustainable development goals - (i) decent work and economic growth 8, (ii) good health & well-being 3, (iii) quality education 4, (iv) gender equality 5, (v) clean water & sanitation 6, (vi) reduced inequalities 10, and (vii) revitalize economically depressed areas and reduce poverty.

The Company may, at any time, extend the list of Eligible Social Loans to other type of assets which provide verifiable social benefits. In this case, the company commits to update the current Framework and to extend the set of criteria to appropriately analyse the new asset class.

*For the avoidance of doubt, the notion of "refinancing" means the use of existing sourced loans (meeting the above social eligible criteria) that would be used to "back" the issuance of Social Bond / Loan.*

### **Process for Project Evaluation and Selection**

We will establish a cross-departmental Social Bond / Loan Committee ("SBC") that will strengthen its overall governance framework and oversee the Social Bond / Loan Framework.

When a loan is approved, committed, or confirmed, each business unit may propose such loan to be considered as eligible to Social Bond / Loan financing. Further, each loan shall adhere with the company's Environmental and Social System (ESMS) policy which ensures that the loans have positive environmental and social impact and they do not have any exposure to prohibited list of activities as per IFC's performance standards.

The SBC will be chaired by [Udaya Kumar, Managing Director and Chief Executive Officer]. The SBC will comprise representatives of:

- [Corporate Finance Department;
- Sustainability Department;
- Business Units developing Eligible Social Loans; and
- other CA Grameen employees designated to oversee the compliance with social loan principles including audit and risk functions.]

The SBC will annually validate the selection of loan products with pre-defined parameters and will review their allocation.

The list of Eligible Social Loans will be recorded in our internal accounting systems. Social bond/ loan issuance will also be documented in this system. At any time of the lifetime of the Social Bonds / Loans, the outstanding amount of Social Bonds / Loans will not exceed the value of Eligible Social Loans.

### **Management of Proceeds**

The net proceeds from each Social Bond / Loan issuance will be deposited to a general account and an amount equal to the net proceeds will be earmarked for allocation to the Eligible Social Loan products as selected by SBC.

All relevant information regarding the issuance of Social Bonds / Loans and the Eligible Social Loans

(re)financed will be monitored and kept in our internal accounting systems. We will commit to allocate the majority of the proceeds received from each Social Bond / Loan to Eligible Social Loans within [36] months following issuance.

Pending the allocation or reallocation, as the case may be, of the net proceeds, we will invest the balance of the net proceeds, at its own discretion, in cash and/or cash equivalent and/or other liquid marketable instruments, as per our cash management policy or to reimburse outstanding credit facilities / pay down existing debt.

### **Reporting**

Within one year of the inaugural Social Bond / Loan issuance, and annually thereafter until full allocation of the amount equal to the net proceeds of the social issuance, we will directly provide to investors a Social Bond / Loan Report ("the Report"). The Report shall also be included in the company's annual report. The Report will provide information on the allocation and social impact of the Social Bonds / Loans issued.

### Allocation Report

We will report on the issuance of its inaugural Social Bond / Loan one year after and on an annual basis thereafter, until full allocation:

- The list of Eligible Social Loans financed or refinanced during the preceding [36] months (subject to confidentiality disclosures);
- Proportion of net proceeds used for new financing versus re-financing;
- The aggregated amount of allocation of the net proceeds to the Eligible Social Loans; and
- The balance of unallocated proceeds invested in cash and/or cash equivalents.

Where possible, we will report on the social impacts resulting from the Eligible Social Loans. Subject to confidentiality agreements, competitive considerations, or a large number of underlying projects limiting the amount of detail that can be made available, the information may be presented on an aggregated portfolio basis.

Impact metrics and social benefits will try to follow – when applicable and appropriate – the below guidelines:

- Number of micro and small business financed with the Social Bond / Loan
- Distribution of key categories of income generation activities / businesses financed with the Social Bond / Loan
- In a case study format, Highlight the ability of customers to generate additional income or sustain current income and business

### **External Review**

As per the Social Bond / Loan Principles, CA Grameen's Social Bond / Loan Framework has been reviewed by Sustainalytics, an independent third party who has issued a Second Party Opinion (SPO).