CREDIT- OPERATIONS MANUAL

(UPDATED UP TO JANUARY 2023)

IDF FINANCIAL SERVICES PRIVATE LIMITED

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DISCLAIMER

This Credit-Operations Manual is an internal document of IDF FINANCIAL SERVICES PVT LTD. and has been prepared for the use of the Companies employees only. Any part of this Manual should be shared only with the prior and written permission of Head-Operations of the Company. While all efforts have been made to keep the Manual up to date, the Company does not guarantee that the actual practices will be in exact accordance with the Manual and would not accept any legal liability in this regard. The Company also cannot guarantee comprehensiveness of this manual and would not accept any legal liability on any action taken by any party on the basis of this Manual**.**

PREFACE

The Credit-Operations manual has been updated by incorporating latest guidelines/master directions issued by RBI and other regulators and shall be a reference point for all the staff members in the field and at administrative officers while carrying out their day-to-day functions on credit matters. The document shall also be the reference point for Internal Audit Department for auditing Branches and offices. Any deviations from the processes, policies and procedures as specified in the manual must be brought to the notice of the Head-Operations immediately.

The guidelines contained in the manual are updated up to January 2022 and the concerned are guided by the directions of regulators and internal circulars issued subsequently from time to time.

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1. INTRODUCTION AND BACKGROUND

Microfinance or Microcredit is a form of financial service which encourages small savings, provides small loans and other financial services to poor and low-income households who lack access to formal banking institutions. The small loans that are provided help poor families to meet their emergent credit needs both consumption or productive and improve their standard of living. The MFIs are those financial institutions which provide microfinance. The main objectives of Microfinance are Achieve Financial inclusion, Poverty alleviation, Women empowerment and poor, improvement in standard of living.

IDF Financial Services Pvt Ltd is a Non-Banking Finance Company- Microfinance Institution (NBFC-MFI) providing Micro finance to micro–Self-Help Groups (mSHGs) formed and nurtured by it.

1.1 COMPANY BACKGROUND

IDF Financial Services Pvt Ltd more popularly known as IDF FSPL took over the Micro finance portfolio of Initiatives for Development Foundation (IDF) with effect from 01st April 2009. Previously, IDF founded by Developmental Bankers was providing training & mentoring services to SHGs promoted by it and also the SHGs promoted by other organizations as a part of Government sponsored projects, in the field of livelihood with special emphasis on Entrepreneurship. For credit needs of the SHG's, IDF was referring them to the Banks under Bank Linkage Programme. However, it was realized that due to various limitations, the Banks would not be able to cater to the financial needs of SHGs fully.

In order to supplement the requirements of the SHGs, during the year 2005, IDF started its Microfinance programme out of its own funds as a part of its activities as per its objects. Parallelly IDF also started borrowing funds from banks/FIs to scale up level of micro credit services. This went on for few years and when the portfolio started growing due to increased credit needs of SHGs, IDF started borrowing funds from Banks/FIs. But the Banks demanded capital adequacy of about 10 -12 per cent against the existing 4% during 2007-08. IDF being a Public Charitable trust was not able to mobilize in short term, the level of capital stipulated by the bankers. Further, as per the policy of IDF, the margin on the loans was not to exceed 6 – 7% which did not generate adequate surplus to contribute to the capital of the organization. IDF realized that the only means of raising such capital was possible only through the Institutional form of NBFC.

Further, with the amendments to Income Tax Act with effect from FY 2008-09, micro finance operations were likely to be considered as of business nature. As such IDF Trust would be liable for income tax on account of its micro finance services. This would adversely affect the operations of IDF as a charitable trust.

1.2 THEREAFTER

In order to address the above issues, the members of the governing and management team of IDF acquired an existing NBFC, “Dhavalagiri Arthik Financial Services Pvt Ltd” to carry out micro finance services. Subsequently, the name of the company was changed to “IDF Financial Services Pvt Ltd” (IDF FSPL) with the approval of RBI. The required legal contracts were entered into between IDF and IDF FSPL to comply with the contractual obligations of IDF towards its lenders for micro finance operations. IDF has transferred the assets and liabilities of MFI operations to IDF FSPL on April 1st 2009. Post Andra Crisis and Malegam Committee recommendations, IDF FSPL changed its strategy by adopting micro SHG (mSHGs) model with 4-6 members instead of existing SHG model with 10-20 members and started uploading individual data to Credit bureaus.

Now, the company is in to formation of micro mSHGs and providing need-based credit to them for income generating activities and consumption purposes based on the “Qualifying Asset” Norms of RBI.

1.3. VISION

“Financial Empowerment of the economically underprivileged through Good Quality and Sustainable Financial Services”

1.4. CORE VALUES

a. Commitment
b. Transparency
c. Innovation
d. Exceptional teamwork
e. Ethics in business

1.5. MISSION

“Reaching 2 Lakh families by 2025.”

1.6 GOVERNANCE

IDF FSPL is a community based, predominantly community owned Micro finance institution, duly assisted by professional managers.

1.7 BOARD OF DIRECTORS

It is the supreme policy making body of IDF FSPL. It derives authority from the Articles of Association & Memorandum of Association. Presently, it consists of 7 Directors.

1.8 MANAGEMENT

The structure of management is provided below:

1.8.1 Registered Office:

The registered office located in Bangalore is also the office of the Chairman of the company and takes care of the transactions related to company matters, compliance with Registrar of

Companies directives, Reserve Bank of India directives, Tax issues, Investor related services, policy related issues, Financial Management,

1.8.2 Administrative Office

The Administrative Office is located in Dharwad. It is also the office of the Managing Director and monitors the day-to-day functioning of the credit operations of the company. Important wings of the company like Accounts, Audit & Inspection, Information technology, Training, Printing and Stationery, Risk Management and Human Resources etc. are administered through this office.

1.8.3 Divisional Office:

Divisional Offices are established at a suitable location to manage about four to five Area Offices and shall be headed by a Divisional Manager. The Divisional Office supports and supervises functioning of area offices under its jurisdiction and reports its performance to the Operational Head at Administrative office.

1.8.4 Area Offices

Area Offices are established at a location to manage about five branches. Each area office shall be headed by a Area Manager. The Area Office supports and supervises functioning branches under its jurisdiction and reports its performance to the Divisional Manager and Operational Head/State Executive

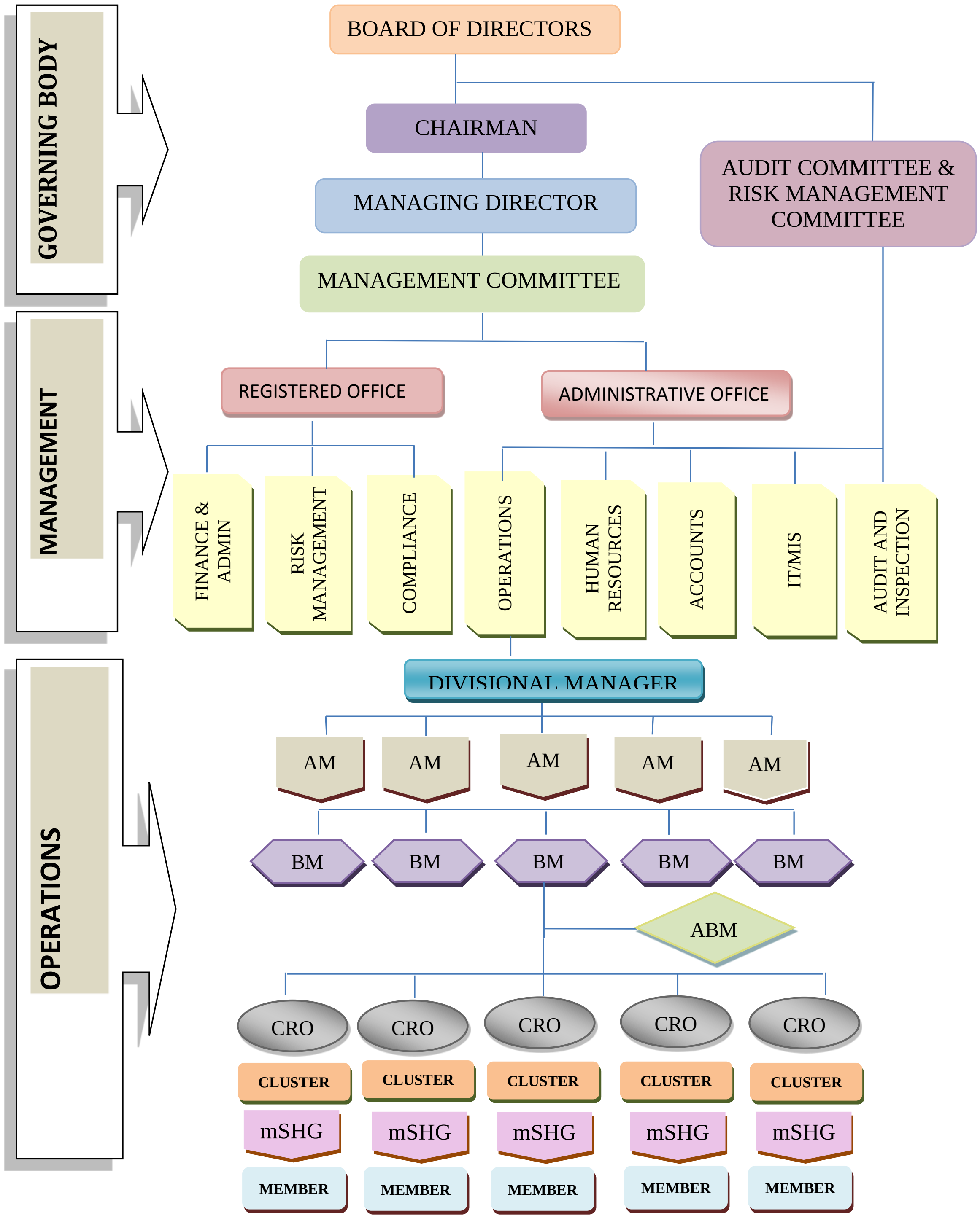
1.8.5 Branches

Branches are established so as to cater to 2000-4000 clients. Each branch shall be headed by the Branch Manager and 3- 5 Credit Officers. Each credit officer handles around 400-600 members. Based on the size of the branch and business level ABM shall be posted.

1.9 Organizational structure

Furnished below.

ORGANISATIONAL STRUCTURE



AM Area Manager
BM Branch Manager
ABM Assistant Branch Manager
CRO Credit Officer
mSHG Micro Self Help Group

2. Operational Procedure

The overall operational procedure is as follows,

2.1 Area Selection for Opening a New Branch:

a. Based upon the Business Plan, PIN Code reports obtained from CICs, Head - Operations discusses with the concerned Area Manager about the potential areas for the new branch opening.
b. Area Manager with the assistance of Credit Officers of the branches conducts the Survey in the potential area.
c. The survey report as per the prescribed format contains the geographical and demographic details, penetration of MFIs, public and cooperative banks, educational institutions, health facilities, government offices, farmers club, agricultural land etc. in the area.
d. Area Manager sends the survey report to State Executives and Divisional Manager with recommendation, which will in turn send the report with their recommendation to Head Operations.
e. Head Operations discusses the survey report after supplementing his views with MD.
f. Based on survey report and the proposed business plan, MD permits opening of branch based on the annual branch expansion plan approved by the Board
g. If the proposal is rejected same is informed to Area Manager duly supplementing the reasons for the rejection.

2.2 Acquiring Premises and providing Manpower:

a. Head - Operations informs HR department about the decision to open the branch in the area specified and requests for the posting of Branch Manager and other field staff to proposed Branch.
b. Head–Operations informs Admin department about the decision to open the branch in the area specified and request for the permission for acquiring the premises and also procure indents as per procedure for acquiring Hardware, furniture & fixtures and other essentials for operationalizing the branch.
c. Admin department informs the State executives/Divisional Manager about the decision to open the branch.
d. Area Manager is advised to search for suitable premises along with the proposed Branch Manager for the location of the Branch as per the policy laid down in this regard.
e. The Area Manager along with the proposed Branch Manager ascertains the rates prevailing in the area, scouts for an appropriate premise as per the policy and negotiates rent, advance, other terms and conditions and sends recommendation to Admin department for taking the premises on lease/rent.
f. Admin department in HO, after due diligence, permits the premises to be taken on rent and prepares rent agreement and forwards it to Accounts department
g. Accounts department arranges for payment of Advance rent if any as per sanction of Admin department, after obtaining the details.
h. Area Manager/Branch Manager gets the premises agreement executed by the land lord, pays the advance rent and takes the possession of the premises.
i. Head –Operations furnishes full information to Admin department about the opening of the new branch and requests for necessary furniture and fixtures.

j. Area Manager/Branch Manager sets up the office with the help of Admin department which will arrange for supply of Name Board, Furniture, fixtures and other accessories.
k. Head operations requests IT Department to allot the uniform code number for the branch.
l. Admin/HR applies for shops and establishment Act license, provides the initial kit containing RBI license, Company COI (Certificate of Incorporation), Code of conduct and other mandatory displays and issues a circular about the opening of the branch in consultation with HR department for having provided man power and decides the date of opening.
m. Branch commences its business from the specified date. This date is reckoned as the opening date of the branch.

2.3 Area selection under the Branch:

a. Branch Manager discusses the potential coverage areas under branch during the staff meeting.
b. Discussion in the staff meeting regarding the penetration into new area of operations.
c. The meeting minutes contains details of the survey of the area.
d. AM shares the details of survey report during the meeting.
e. Area of operation fixed before opening the branch is discussed by State Executive/Divisional Manager with Head Operations.

2.4 Role of proposed Branch Manager:

a. Branch Manager meets the village leaders like panchayat president, religious leaders, Anganwadi workers etc.
b. BM makes a short self- introduction and introduces the Company, explains in detail about the various development activities carried out by the Company and requests their support and cooperation in implementing the operations in the village.
c. Branch Manager along with CRO visits the area and meets leaders in the village and makes an introductory visit to public and important private institutions, business establishments, Hotels in the village. He explains about the company and will have an interaction with them about the various activities carried out by the company.

2.5 Awareness Camp:

a. CRO organizes awareness camp to mobilize the women and men of the village and invite them from nearby households to attend the meeting at fixed venue.
b. During the meeting following subjects will be explained to the prospective members
c. Benefits of the Group Formation
d. About the company and the products
e. Loan facility available
f. Terms and conditions of the loan.
g. CROs assess the interest of women/men and receive their acceptance to form group and also a group member.
h. If the likeminded women/men preferably from same street who have attended the meeting express their intention to form groups, for their own convenience.
i. CRO asks them to form into groups with a membership of 3-6.
j. The CRO notes down the contact details of the participants, who have shown interest, for subsequent follow-up.

k. At the end of the meeting, Branch Manager thanks the opinion leaders and participants for their active participation in the meeting.

2.6 RBI Framework on Microfinance-2022

The RBI has come out with new framework for microfinance business by all commercial/small finance/RRBs/NBFC/NBFC-MFIs referred to as Regulated Entities (REs), vide their master directions DoR.FIN.REC.95/03.10.038/2021-22, dated march 14th 2022. Our Board vide resolution dated 29th April, 2022 have approved the new RBI framework on Microfinance for adoption/implementation by our company. The earlier RBI guidelines on Microfinance have been modified to ensure uniform guidelines to all microfinance providers. The detailed guidelines are furnished here below:

2.6.1. Highlights of new framework:

- **All Regulated entities providing Microfinance are brought on the same platform by framing uniform guidelines under microfinance segment.**
- **The annual Household income criteria revised to Rs.3.00 lacs.**
- **Interest rate on microfinance loans is de-regulated and REs are permitted to have their own pricing structure.**
- **Aggregate indebtedness is linked to household income and repaying capacity of borrowers.**
- **REs to have board approved and well documented verifiable policies for pricing, income assessment, tenor of loan etc.**

2.6.2 Definition of Microfinance Loan:

A microfinance loan is defined as a collateral-free loan irrespective of end use and mode of application/processing/disbursal (either through physical or digital channels), given to a **household having annual household income up to ₹3,00,000**.

2.6.3 Definition of Family/household:

The household is defined as individual family unit consisting of husband, wife and their unmarried children. The list of family members should be cross verified with ration card.

2.6.4 Qualifying Asset:

Qualifying asset is defined as small collateral free loans granted by all Regulated entities to a family irrespective of end use and mode of application/processing/disbursal (either through physical or digital channels), to a household having annual household income up to ₹3,00,000.

2.6.5 Income and Expenditure Assessment:

As the house hold income is the basis of deciding the eligibility of family member for microfinance loan, same should be **assessed** correctly by the branches taking into account all available sources of income of family members as per the format furnished in Annexure-II. If the annual income of the the family consisting of husband, wife and unmarried children is less than or equal to 3,00,000, then the family is selected for financial assistance. The annual income so assessed is subject to verification by Regulatory authorities, RBI/Sa-Dhan and is to be up-loaded in the credit bureau site for reference by all microfinance providers.

2.6.6 Aggregate indebtedness/Loan Size:

Amount of eligible loan to the borrower is arrived at based on repaying capacity. Repaying capacity is a portion of monthly income that is available for servicing the borrowings-existing and proposed. RBI has stipulated 50% of monthly income to be made available for repayment of borrowings. It means that the total monthly EMIs (both principal as well as interest component) of all existing (collateral-free microfinance loans as well as any other type of collateralized loans) and loan under consideration should not exceed 50% of monthly income or net income (disposable income) of the household.

Assessment of Income/expenditure and, disposable income, repaying capacity and fixing the loan limit are illustrated in Annexure-II.

2.6.7 Tenor of loan:

The loan tenor shall be flexible as per borrowers' requirement and repaying capacity. The tenor can be increased in order to reduce the EMI burden on the borrower or to meet higher credit needs of the client.

2.7 Basic Lending Norms-Qualifying Assets;

As per Regulatory frame work, an NBFC-MFI is defined as non-deposit taking NBFC that fulfills condition that not less than 75% its net assets are in the nature of 'Qualifying Assets" as far as its loaning operations are concerned: Qualifying asset means loan to clients which satisfies following criteria.

a. Loan disbursed by an NBFC-MFI to a borrower with a rural household annual income not exceeding Rs.3,00,000 in rural, urban and semi-urban areas.
b. Loan amount is decided based on the monthly income of all the family members and repaying capacity of the borrowing family. The family for this purpose is husband, wife and unmarried children.
c. Tenure of the loan is flexible and decided based on the repaying capacity of the family and as per comfort of borrower.
d. Loan to be extended without collateral.
e. The NBFC-MFI is free to extend credit facilities under "non-Qualifying asset" category subject to a cap of 25% of total loan portfolio without above restrictions.

Violations if any in following above guidelines will be viewed seriously.

2.8 Guidelines for assessment of income:

As the household income of the family is basis for deciding the loan amount and tenor, it is very important to assess the income correctly. The family has different streams of income, some are daily, monthly, quarterly, half yearly or annual. List out the sources of income of all family members by interacting with the members and assess the income. Based on the nature of income flow, the sources are categorized as regular or seasonal, while based on frequency it may be daily, monthly, quarterly, half yearly or annually.

2.8.1 Income from Agriculture:

a.The income can be from own land or leased land. Own land may be undivided/orally divided share in the ancestral landed property. Many families may not have tittle to property as the land is held in the name of father/grand-father but not partitioned legally or the tittle is transferred to legal heirs. The family may be cultivating the land on lease or share cropper basis. So, income from such owned land holding needs to be assessed correctly. Income from agriculture is seasonal in nature and is half yearly/annually based on duration of crop.

b.Ascertain the land holding of the family members and the short duration/long duration crops horticulture/plantation crops grown.

c. Ascertain the total yield from each crop and the selling price to arrive at the income. The frequency of income can be half yearly for short duration crops and yearly for long duration/plantation crops. Portion of the produce/fodder which is retained for home consumption need not be considered for calculation of income. However, if the family is not into dairy activity, entire fodder is sold and hence needs to be considered for income computation.

2.8.2 Income from Dairy activity:

The two main types of milch animals reared are She-buffalo and Cow. Buffalo milk being high in fat content sold at higher price than Cow milk. The main breeds of buffaloes reared are local, Murrah, Pandarapuri, Surti , Mehsana, Jaffarabadi which are indigenous varieties. Most of the farmers rear cross bred exotic varieties such as HF, Red Dane etc. while, local ones such as Hallikar, Killari, Sahiwal, Red sindhi , Gir etc,. are rare ones. The selling price of cow milk is lower than buffalo milk because of low fat content. The cost of commonly reared high yielding buffalo (Murah) and cows (HF, Jersy, Red dane) is around Rs.60,000-1,00,000).

a.The income from Dairy activity is regular and frequency is Daily. Most of the farmers sell their milk through KMF and the price is decided by fat content.

b.Ascertain the breed of the cow/buffalo and the milk sold every day. Verify milk cards issued by KMF. Compute the income only for milk sold by the family.

c. The farm yard manure which is bye product of dairy activity is used for self if the family is into agriculture. Income from farm yard manure is computed only if it is sold.

2.8.3 Income from Other Allied Agriculture activities:

Few farmers are into Goat rearing, Sheep rearing, Poultry, Fishery etc which are major agri-allied activities supplementing the income of the households. Income from this activity is usually from sale animals for meat purpose, egg, sheep fenning etc. Sheep rearing is mainly done by shepherd community which is migratory in nature. Income from manure is again depends on whether it is sold or used for farming and hence is factored accordingly while computing the income of the family.

2.8.4 Business activity:

The business is mainly trading activity involving buying and selling of goods. Goods are bought at wholesale price and sold at retail price. The difference between buying and selling price is the gross profit. Net profit is arrived at by deducting cost of selling from gross profit. Selling cost includes, procurement cost of goods, Rent, electricity, wages for hired labor, License fees, interest on working capital loans if any etc. The most common business activities are provision stores, stationery store, cloth store, garment shop, book stall, Fruit, flower and vegetable vendors, milk vendors, tender coconut shop, Bakery, Kerosene, Masala and dry fruit shop, Pan shop,Coconut shop, medical shop, cold drink shop, food grain shop, Furniture shop, etc.

a.The nature and frequency of income is regular and daily respectively. The income is assessed based on the average daily net profit. Usually, 10-15% of the turnover is considered as net profit for provision, stationery stores while, net margin for tea stalls/hotels is around 25-40% depending on locality. However, this is general assumption and the correct income needs to be arrived at after interaction with the client.

b.There are certain agro-based business enterprises such as coconut, areca business, Fruit business on standing crop contact basis. The entrepreneur enters into yearly contract with farmers and the contract price is based on number of trees, area, health of trees etc. In this arrangement selling, harvesting cost, maintenance is borne by the entrepreneur.

2.8.5 Service enterprises:

The service activity involves providing certain technically and intellectually skilled activities i.e . skills of a person are sold at a price. Few services require special training such as electrician, Typing, Electronic repairs, Auto repair/cycle shops, beauticians, Photo studio, Tailoring, garment Designing, Xerox, Tea stalls/hotels, baby sittings etc., while few traditional service activities are carpentry, black smithy, jewelry/gold smithy, masonry, Centering work, Dhobi services, Saloons, Plumbing, passenger transport, Goods transport etc.

a.The income from service activity is fees charged for the services rendered which is regular and daily in frequency. Recurring expenses include rent, electricity charges for of the service activities. Few services are operated from residence hence recurring expenses are very low/negligible.

2.8.6 Manufacturing/cottage industries:

Small scale and traditional cottage industries come under this category where Raw materials are processed/molded/converted into saleable products such as furniture manufacture, Jewelry business, Pottery, broom stick, incense sticks, Garment and apparels, Welding and Fabrication, Floor mills, Food processing units, picle/pappad making, Basket making, photo frame, Phenyle, Soap powder etc,. The investment in such activities is very minimal and are run as family enterprise to meet local demands.

a.Raw materials are procured at cost, processed and end products are sold to shops at whole sale price. The costs are cost of raw materials, rent, electricity, packing labor employed if any. The net profit or the net margin the entrepreneur gets is taken as income for computation purpose.

2.8.7 Salary income:

If any of the family member is employed on contract/temporary or on regular basis, the monthly salary is the net income and is considered as regular source. Usually, such employments are in local organizations.

2.8.8 Remittances as income:

If any of the family member is running a business/service activity in the nearby cities, remits part of his income earned to the family it is regular income and can be monthly/quarterly based on frequency of remittance. Likewise, Governments are now giving the cash subsidies/benefits through online directly to the accounts of beneficiary which is termed as DBT. Such govt. benefits include old age, widow, disability pensions which are regular monthly sources of income for the family. Crop insurance, Kisan samman, flood/drought relief funds, Scholarships for education, released by governments are irregular sources.

2.8.9 Rental and interest income:

Few families may be earning regular income by renting small portion of their house for rent, earnings by way of interest on the fixed deposits in banks is treated as regular income for computation.

The above sources of income are indicative not exhaustive. The CROs/BMs should recognize all the sources of cash flows and assess the income of the family. The monthly/quarterly/half yearly cash flows are then converted into annual income as per the format at annexure-IV. The income assessed by CROs should be cross verified by MBs/AMs during the GRT.

2.9 Guidelines for Assessment of House Hold expenditure:

The annual family expenditures are also equally important as we need to arrive at net income of the family which is also base for computing repaying capacity. The expenses are categorized into two types i.e expenses for income generating activity and expenses incurred for consumption.

Assessment of expenditure for income generating activity:

2.9.1 Agriculture and allied agri. activity:

Major expenses are cost of seeds, fertilizer, external labor employed, Pesticides/weedicides, lease amount in case of leased land, harvesting/selling cost etc. Cost of farm yard manure is not taken for calculation if the family has dairy animals. Likewise, fodder cost is not considered if the farmer has own/leased lands.

2.9.2 Business/Service/cottage industry:

Though there are certain major costs (raw material cost, rent, electricity, employed labor cost, manufacturing/processing cost, conveyance, license fees/taxes, packing/marketing cost etc.) for running the business/service activities, they are not recorded separately as the net margin/profit is arrived at after deducting expenses are taken while assessing income.

2.9.3 Household expenses for consumption:

Major expenses are food, health/medicines, clothing, rent, electricity, water, gas, school fees, entertainment, conveyance expenses etc which are assessed by interacting with family members and recorded. Few Occasional expenses such as Hospitalization, Marriages/social functions etc, are averaged over a period of time while recording the expenses.

2.10 Calculation of monthly repayment obligation:

Credit bureau report is generated for all the earning members of the family to verify the existing outstanding loans availed from all the financial institutions including MFIs, Banks, SFBs, FIs, NBFCs and their EMIs. EMIs of existing loans and the proposed loan should be less than the repaying capacity of the family. In case of non-EMI loans such as Crop loan by way of Kisan Credit Card, Gold loans, working capital loans (OD/CC) which have no monthly repayment schedules and limit will be renewed every year on due date. In such cases, the total outstanding amount may be divided by 12 to arrive at monthly repayment obligation for computation of loan amount.

2.10.1 Calculation of Loan amount:

The loan amount has to be arrived at based on the repaying capacity which is defined as 50% of monthly income or the net profit whichever is lower and the total monthly repayment obligations of the family to all the FIs. Loan amount should be fixed ensuring that EMIs of all the existing and proposed loans are within repaying capacity of the family.

The assessment of income/expenditure, computation of loan amount should be recorded as per Annexure-IV.

3. Pre application process:

3.1 Group Formation:

a. CRO conducts meeting of interested family members who are in need of small loans for income generating activities and for consumption needs.
b. The list of family members is confirmed by cross verifying with ration card.
c. Eligible families having annual income not exceeding Rs.3.00 lacs are identified after assessing the house hold income as per the guidelines prescribed and the format annexed.
d. All the available sources of income and streams of expenditure are recognized and assessed by CRO by interacting with family members. The income sources shall be cross verified with account statements, milk society passbooks, pension orders etc.
e. CRO should also collect details of all borrowings (Microfinance loans and other loans, secured/un-secured loans) and their repayment obligations (EMI amounts) by earning family members by quick online credit bureau check to assess repaying capacity of the client.
f. CRO makes quick credit bureau check for all earning family members online and confirms the eligibility based on RBI/ company norms. Any deviation in this regard OR subsequent change in eligibility status shall be referred to Credit Dept at AO for decision.
g. Repaying capacity is computed for identified families based on annual income. The households whose total EMI (Existing EMI+EMI for loan under consideration) of all collateral free/collateralized loans does not exceed 50% of monthly income or the net income (whichever is lower) are eligible for loan.
h. KYC documents are collected and CRO verifies preferably with a mobile app and ensures that documents are valid.
i. During the meeting the followings events are completed for eligible families.
    - Group formation of like-minded members
    - Naming the group
    - Groups are formed into clusters comprising of 3-6 groups
    - Cluster should have 15-30 members, i.e., 3 to 6 groups
    - KYC-documents: CRO obtains Aadhar document of the members which is mandatory.
    - In addition, ration card is also obtained to ascertain the number of dependent members and family income.

- If ration card is not available, voter id is obtained.
- Electricity bill/Municipal receipt etc. to ascertain that whether it is member's own house or rented house, if rented house then decision will be taken in consultation with other members.
- Original Joint Photograph with Spouse/Father/Guardian
- Authentication of ID/Address proof done by verifying it with original of the same by CRO and affix his signature and ensure that photograph of spouse/ member is available on Aadhar card are same and then only he has to affix his signature.
- Any deviation in this regard OR subsequent change in eligibility status shall be referred to Credit Dept at AO for decision.
- CRO prepares details of members from whom documents are collected and sends it to Branch Manager. Branch Manager checks the details and forwards the list to AO.

3.2 Credit Bureau Check at AO:

a. Credit Bureau section at Admin office, makes the CB check once again for every member and confirms the eligibility. The list of eligible members is sent back to Branch.

b. If the member is ineligible as per extant RBI/SRO guidelines, then loan cannot be sanctioned to members

c. In case member is removed from the mSHGs, a new member is substituted, in consultation with cluster/groups duly following all above procedures.

3.3 Submission of Livelihood form with KYC documents:

a. The CRO collects Family details of the member in Livelihood form, provided as per the annexure and submits the completed livelihood form along with KYC documents, original joint photos of members with spouse, to Branch Manager.

b. Branch Manager scrutinizes the Livelihood form, KYC documents and certifies by affixing his signature.

3.4 Compulsory Group Training:

a. The training will be conducted for 3 days continuously for new members, for an hour every day and one day for existing members. The training curriculum contains the following:

b. About organization

c. Eligibility for mSHGs

d. Loan product

e. Repayment

f. Cluster meeting

g. Insurance

h. CRO records same in the training register confirming participation.

3.5 Group Recognition Test:

a. The Group recognition test is conducted by the Branch Manager for loans up to Rs.75,000 and by Area Manager for loans above Rs.75,000, by visiting member's house & discussing with spouse/parents/Guardian etc. KYC documents will be cross verified with original documents.

b. There will be a separate GRT process for first and subsequent loan cycles.

c. The GRT Formats are provided in annexure.

d. BM/AM to cross check and confirms the sources of income and income assessed by CROs. The eligibility of the family may be re-assessed based on revised/expenditure and repaying capacity, loan amount are revised accordingly.

e. BM/AM to compute the eligible loan amount based on income and repaying capacity @ 50%of monthly income or net income whichever is lower, as per computation sheet furnished in annexure-II.

f. The tenor of the loan shall be fixed in consultation with client.

4. Post Application Process:

4.1 Sanction and disbursement process:

a. Once mSHGs get positive GRT report, CRO obtains the loan applications. In the application, all the data is filled in properly with details of members and spouse as appearing in livelihood forms and KYC documents.

b. CRO ensures the genuineness of the KYC documents with reference to the Originals submitted by the members.

c. CRO obtains the signatures of the members in the completed loan application and submits to BM.

d. Branch Manager verifies loan application, livelihood form, KYC documents, GRT report and copy of training register.

e. Further, these documents will be verified by Area Manager randomly.

f. Once the documents are verified, Area Manager along with Branch Manager will sanction the loan and prepares list of members.

g. BM/Area manager submit list of members for whom loan is sanctioned to Credit operations department at Admin Office for clearance or approval and marks a copy to the Branch Manager.

h. The credit department gives clearance for disbursement of sanctioned loan based on credit bureau report and closure of previous loan accounts in case of existing customers. After getting the clearance for disbursement of sanctioned loan, CRO prepares the loan cards for all the loans to be disbursed with all the required details.

i. CRO prepares the cluster cards where in repayment from the members is recorded.

j. Credit Department will send mail to BM/AM/DM for having approved loan sanction recommendations sent by them.

k. All the clients along with their spouse/co-borrower to whom loans are sanctioned/approved are called to Branch office and the loan documents are executed.

4.2 Specimen Formats for various operational procedures:

Following specimen formats are furnished in Annexure:

a. Loan application form- micro SHG group and individual member
b. Group Recognition Test (GRT) form.
c. Livelihood form
d. Loan process note & sanction
e. Loan card-Interim loan product
f. Loan card Group loan product
g. Cluster card
h. DP Note
i. Cash receipt
j. Abhyudaya loan application cum process note
k. Client bio-data form
l. Personal guarantee agreement
m. Articles of agreement
n. Branch survey form.

4.3 Funds Arrangement:

a. For arrangement of Funds, Branch Manager informs the date of disbursement to AO.
b. Head Office/Admin Office transfers funds to the designated Bank account of Branch via online (RTGS/NEFT) on the date of disbursement or permit the branch to utilize the amount recovered from the borrowers for disbursement.
c. In case the fund arrangement is made by cheque then cheque drawn on the designated Bank Branch is prepared for loan amount sanctioned.
d. The same is entered in the Cheque issued register and will be handed over to Branch Manager/Area Manager under acknowledgement or sent by courier/post.
e. BM/Area Manager receives the cheque and enters the details of the cheque in cheque movement register and sends confirmation of receipt of the cheque to HO/AO via Telephone/mail immediately.
f. He will withdraw the money on the day of disbursement.
g. as per the procedure laid down under Para no 17.1

4.4 Information to mSHGs about loan disbursement schedule:

Branch Manager instructs CRO to convey members regarding the disbursement date and time. In turn the CRO informs the members accordingly.

4.5 Fund transfer:

Loan proceeds to the members of mSHGs can be disbursed either by cash or by NEFT

4.4.1 Loan Disbursement –NEFT

In order to ensure loan proceeds, reach the right person, avoid misappropriation/ frauds, and also to encourage cashless transactions, it has been decided to disburse the loan proceeds only through NEFT directly to the Savings Bank accounts of members of the group.

For this purpose, following procedure shall be adopted.

a. The CRO should collect SB accounts details such as account number, IFSC code, (CRO Should mention correct IFSC code which is of 11 digits irrespective of the Banks) Bank and Branch name of each member in the group and ensure that the accounts are in active status.

b. If the accounts are dormant/in-operative then members should be asked to approach the concerned Bank Branch for activation of the account.

c. The CRO should also confirm the beneficiary's name mentioned in the bank pass book matches with the name recorded in the loan application and livelihood form.

d. The copy of pass book should be obtained and held on record.

e. In case if the members do not have SB accounts, CRO to convince them about the need for the one and guide them to open the account in the Bank Branch convenient to them.

f. Joint SB Accounts with husband/nominee is also acceptable.

g. The SB accounts should be preferably opened in Nationalized Banks/Private Banks/Grameen Banks for smooth & expeditious transfer of funds.

h. Once the sanctioned loan is approved by Credit department, the accounts department shall prepare the list of members along with loan amount sanctioned, their SB account number, Bank/Branch name and IFSC code and forward the same to HO/AO for transfer of funds directly to the SB accounts of members.

i. Accounts department to convey the concerned BM and AM about the transfer of loan amount through NEFT

j. The beneficiaries must be informed about the NEFT and get the confirmation about the Credit of the loan amount to their bank account.

k. CRO and BM should confirm and record the receipt of loan proceeds in the SB account of members by obtaining photo copy of the pass book.

l. If the money is withdrawn by the borrower in ATM, member may be advised to get mini statement of the account to which the loan is credited.

m. It should be ensured that the SB account number, Account holders name, IFSC code, name of Bank Branch is correctly mentioned to avoid undue delays in disbursement of loan proceeds through NEFT.

n. In case if there is any delay in crediting the loan proceeds to the SB accounts of members, the concerned employees shall be held responsible for their lapse.

If NEFT is not possible for reasons beyond the control of the branch/client, then loan proceeds can also be paid through account payee cheque. The account payee cheque should be handed over to the borrower under acknowledgement in the Register maintained.

4.4.2 Loan disbursement-by Cash:

Loan disbursement up to INR 20000(Twenty Thousand Only) may be made through cash, under exceptional circumstances mentioned below:

a. Members not having SB accounts for the reasons beyond their control.
b. Members insist for cash disbursement for genuine reasons such as in- convenience to with-draw cash from bank because of long distance or long Bank holidays.
c. In case of continuous bank holidays, the cash collected by way of repayment may have to be used for loan disbursement in view of risk perceptions.

Cash disbursement if required under exceptional circumstances should be permitted as a last resort by Head of Operations Dept.

4.6 Cash withdrawal from bank for the loan disbursement:

a. Branch Manager presents the cheque jointly with CRO/BM/AM in the Bank, obtains cash and comes to the branch.

b. The remittance limits prescribed from time to time is adhered while withdrawing cash from the bank.

c. If the loan is not disbursed on the same day, then Branch Manager enters the amount brought from the bank in the double lock register duly noting denomination and keeps in double lock under joint custody duly affixing their signature in the place provided.

d. As far as possible cash holding in the branch is to be totally avoided as this may pose security threat.

e. The cash is taken out from the double lock by recording the same in the double lock register and disbursed to members.

f. Any cash holding in branches over and above the prescribed cash limit should be informed to State Executive/DM/Accounts Department and safe custody of the cash should be ensured by the BM

4.7 Loan disbursement:

a. As informed by CRO, all the members along with nominee gathers/assembles at the Branch office on the informed date and time along with their original KYC documents.

b. The members will be made to sit according to their respective groups in a row.

c. It is mandatory to invite the nominee/spouse at the time of loan disbursement.

d. Area Manager or designated staff by Area Manager shall verify the KYC document with the original and loan documents are executed by the members in their presence.

e. Branch Manager addresses the groups and informs them about the Terms of the Loan such as Amount sanctioned, rate of interest, period of loan, service charges, Insurance, date of commencement of repayment, place and time of cluster.

f. Branch Manager confirms all the above from the members once again and clarifies any doubts of the members.

g. Branch Manager enters the details of all the loans disbursed in the disbursement register maintained for this purpose.

h. This register is held under the safe custody of the Branch Manager and is a very valuable record.

i. The register is a record for execution of loan document and receipt of having disbursed the loan amount.

j. The Branch Manager obtains the signatures of the members and nominees against their names in the disbursement register and disburses loan by Cash/NEFT to the group members.

k. The disbursement is witnessed by respective Area Manager/CRO or designated staff by Area Manager.

l. Loan should not be disbursed without signature of the borrower and nominee and their physical presence is must in the branch.

m. In case any official from HO/AO/Audit department is present on the day of disbursement they should also witness the process by affixing their signature in the disbursement register

n. Disbursement register has to be kept in double lock custody.

o. In case if one member of a group could not comply the requirements of the loan, the loan is to be cancelled under immediate information to Admin Office and the loan amount payable to the respective member is to be credited back to the bank account immediately.

p. If any misuse of the loan is observed/during Audit concerned CRO/AM/BM will be personally held responsible and made liable for the amount of loss.

4.8 Post disbursement Briefing, Issue of Duplicate Loan Agreement & Loan cards

a. Immediately after the loan disbursement, Branch Manager provides a copy of group loan agreement along with individual loan cards.

b. It is necessary that the Borrower affixes his/her signature on the loan card to confirm that he/she has read the terms & conditions of the Loan.

c. Branch Manager/ concerned CRO informs members of mSHGs about the date, time, amount to be repaid and place of First cluster meeting for repayment.

d. The members are informed to bring the loan card to the cluster meeting for entering the repayment details.

e. Amount should be repaid in cluster meeting compulsorily.

f. Before members leave the branch, respective CRO ensures that the members have received the copy of loan agreement, loan card and loan amount if cash is disbursed.

g. Branch Manager/Computer operator enters the details of the loan disbursement in the MIS sheet immediately after the completion of disbursement process.

BM/AM should ensure about the correctness of the entries.

4.9 Rephasement of existing loan and Sanction of Additional loan.

Existing loan can be rephased if the borrowers' experiences difficulty in repayment as per terms due to natural calamity, pandemics, failure of business, accidents, unexpected death of the earning member of the family, unforeseen economic situation in the market.

The loan can be rephased by rescheduling the repayment period/providing moratorium and if there is requirement, need based additional loan can be extended.

A request letter from the member should be held on record for rephasement and fresh documents for additional loan as per the laid down policies should be taken.

4.10 Safe keeping of Loan Document:

Loan documents are to be kept month wise/date wise in a pusty/bundle along with the sanctioned letter in the double lock and these documents are to be kept in the safe at Area/ designated office immediately after execution.

4.11 End use of loan:

a. After the disbursement, CRO verifies the utilization of loan amount by verifying the asset and enters in the loan cards.

b. Branch Manager/Area Manager and auditors carry out random verification of end use of loan through personal contact or over telephonic conversation.

c. Disbursement of loans out of Recovery amount:

d. Branch Manager downloads demand list from MIS of all the clusters.

e. He calculates the number of days required to collect the recovery amount equivalent to amount to be disbursed based on demand list and accordingly fixes the disbursement date.

f. He obtains the prior approval through email from the Admin department to hold "repayment cash" for the required number of days to enable disbursement

g. CROs informs disbursement date and time to the members.

h. CRO &BM disburses the Loan following the procedure mentioned above.

i. Branch Manager keeps the balance amount in double lock and enters into double lock register signed by joint key holders.

j. He informs the admin department about total repayment, disbursement and balance amount over the phone and confirms through email.

k. BM enters the details of repayment slips issued to the customers and disbursement in MIS. Operations/Accounts department verifies the details of repayment slips and matches with the disbursements.

5. Loan Repayment Process:

a. The loan repayment starts as per the guidelines.

b. The loan recovery will be scheduled in the first fortnight of the month.

c. AM/BM/CRO generates demand list from the MIS.

d. Incase if errors are noticed in the demand list, they bring it to the notice of IT department to correct it.

5.1 Recovery in clusters:

a. CRO and members of mSHGs of the concerned cluster assemble on the scheduled date, time and place
b. Members sign in the cluster attendance register.
c. CRO collects the repayments in cash, enters in the mobile app, generates receipts and hands it over to the members. The EMI amounts gets updated in the loan account simultaneously.
d. CRO enters the amount in loan card, signs it and gives back to the members.
e. CRO enters the details in cluster collection card and cluster attendance register.
f. If repayment is not received from some member/s during the cluster meeting, for any reason, the concerned CRO requests the members not to leave the cluster till the repayment is made.
g. CRO immediately informs the Branch Manager If No members/Group have attended the cluster meeting or Some members/groups are absent for the cluster meeting.
h. The Branch Manager, either deputes another functionary to attend the cluster or he himself attends the cluster to pursue with the members for the recovery.
i. CRO in charge of the cluster then moves on to the next cluster.
j. Branch Manager/authorized functionaries try their level best to persuade the members for repayment and collects the amounts due. For whatever reason if the payment is not received on the same day, efforts to recover the dues continue the next day. Branch manager provides the details of group/cluster which has not repaid loan installments to Area Manager.
k. After all the cluster meetings are over for the day, CRO does End of Day by generating summary on the mobile preferably before 11am and tallies the data with collected amount.
l. He then remits the repayment amount to the designated bank account of the Company.
m. On a bank holiday, the amount is deposited in the Branch. The BM records the amount in the Double lock register and holds the cash in the vault. He remits the cash to the bank during the next working day.
n. CRO enters the details of repayments in remittance register maintained in Branch office and attaches Bank counterfoil of the remittance to the summary report.
o. Branch Manager verifies the details of receipts, deposits, repayment and enters in the cluster cards and ensures correctness.
p. Branch Manager sends the details of repayment to the admin office by mail.
q. Admin Office verifies the details of repayment viewing transaction online and confirms the correctness or otherwise to Head Operations, DMs, Area Managers and Branch Managers by email immediately.

5.2. SMS SERVICE:

The company has a transnational SMS facility for every recovery transaction. It has been implemented with BHASHSMS bulk service provider. As and when collection entry is made through the BIJLI mobile app from our Credit Officers, the transaction hits the BIJLI server and entry will be passed to the respective customer loan account. After posting an entry, receipts will be issued to customers from Bluetooth mobile printers and simultaneously SMS regarding receipt amount details will be triggered to the customer's registered mobile.

5.3. DIGITAL COLLECTION (UPI COLLECTION):

The company has registered with BBPS as biller through IDFC First Bank Payment Gateway. Customers can pay their EMI through any Unified Payments Interface (UPI) app such as Gpay, Paytm, BHIM app. Phonepe and banking mobile apps. As and when the customer does a transaction through UPI app, the transaction amount is credited to our Company Bank account and the same is reflected in the customer loan statement by debiting the customer bank account. After reflecting on the loan statement, SMS regarding receipt amount details will be sent to the customer's registered mobile number from BIJLI server. The transactions are settled on the bases of T + 1 days and T + 2 in case of holidays.

5.4. CALLING APP:

BIJALI system has a Calling App which is a part of MOBILE APP used for online onboarding of clients. The calling App gets contact number and other details such as account number, name, Group, cluster names from the BIJALI data base. Call can be initiated for follow-up or for any other purpose by selecting client details in the App. After the call is over, call track report with feedback such as, wrong number, client out of coverage area, invalid number etc., can be generated for analysis.

6. Overdue Follow-up Strategies:

a. Branch Manager enters the names of defaulters along with other details and sends it to Area Manager.

b. Branch Manager and Area Manager deliberate and draw a strategy to recover the overdue amount.

c. Branch Manager implements the strategy and informs the repayment received from overdue accounts to AM & admin office.

d. The Admin Office verifies the recovery details from MIS and confirms to Head Operations/DMs/AMs/BMs.

e. The admin office reconciles the mismatch in recovery if any in consultation with concerned BM and AM.

f. If the recovery effort of the branch has failed, the Area Manager visits the village, meets members at their house along with Branch Manager and CRO to pursue for recovery.

g. Area Manager utilizes the good offices of other cluster members& village Leaders to persuade defaulting members to repay.

h. If there is no response, for these actions, the branch has to issue notices as under:

Ordinary Notice: Issued by the Branch by ordinary post[i]
Registered post Notice: Issued by the Branch by registered post, if there is no response for ordinary post until seven days from the date of issue.
Final Notice: Issued by the Operations dept, if there is no response for registered post until 15 days from the date of issue

Legal Notice: Issued by Operation Dept, through a Lawyer if no response for final notice until 30 days from the date of issue

7. Loan Closure Process:

a. Branch manager generates the List of accounts that are due for final repayment from MIS/cluster cards (one month in advance).

b. CRO informs mSHGs members the due date of closure of their accounts along with the approximate amount one month in advance.

c. During the cluster meeting, CRO collects cash from mSHGs members for balance due.

d. CRO makes entry in the loan card for last installment collected. Branches to maintain list of closed accounts data month, date wise to facilitate issue of NDC to members without any hassle.

8. Insurance of Members:

a. Insurance department/Account department prepares loan disbursed details of mSHGs members as per insurance company's format and calculates the premium.

b. Insurance department/Account department prepares cheque in the name of the insurance company towards premium& remittance through NEFT or cheque.

c. Insurance department/Account department notes the policy number and details of premium payment and separate the policy copies. Renewal of policies in case of two-year loans, 15days days prior to the expiry of policy, renewal premium has to be calculated and remitted to insurance company and policy details to be noted and filed after receipt.

d. While the insurance cover is mandatory for borrower, clients can opt for insurance cover for Co-borrower/nominee at additional premium.

8.1. Claim Settlement Procedure:

a. Branch Manager informs about the death claim to Insurance department at AO by mail.

b. Insurance department notes the same and to intimate to Insurance Company and sends claim forms to branch after recording in claim register.

c. Branch collects the following documents and sends it to insurance department:

- Completed Claim form
- Original death certificate.
- KYC documents of member and nominee
- Bank passbook copy of nominee

a. The Admin office in turn verifies the above document and submits them to insurance company for settlement of the claim after making entries in the register

b. On claim settlement the insurance company issues a cheque favoring the nominee and sends it to Admin office.

c. The admin office forwards it to the branch after making an entry in the claim register.

d. The Branch Manager delivers the cheque to the nominee and visits the drawee bank along with nominee and helps him/her to draw the money.

e. Then the Branch manager collects the amount due to the company from the nominee and closes the loan account.

9. Loan Products:

a. Any product to be introduced should be designed by operations department should conform to the needs of the mSHGs members and individuals.
b. The design has to be in consultation with IT, Accounts, audit& Finance departments.
c. Any product introduced should be technically feasible and economically viable and based on the Market research
d. Modalities of introduction of the product has to be discussed at all levels such as CROs, BM, AM, DM etc.
e. Before introduction, salient features of the product have to be discussed with the Senior Management of the company so as to assess pros and cons of the introduction of the product.
f. Recovery procedure are to be discussed in detail.
g. It has to be discussed whether the product to be introduced to the selected branches on pilot basis or to all the branches on inception.
h. Based on the feedback on all the above points product has to be designed and pilot tested. The Product has to be launched only after the approval of product by Risk Management Committee and BOD.

9.1 Loan Products and Limits for Group members of mSHGs:

The loan limits for various loan products and aggregate indebtedness limits per member are fixed in accordance with RBI guidelines issued from time to time. The loan limits for different loaning cycles are furnished below:

Members	1st Cycle	2nd Cycle	3rd Cycle	4th cycle & above	Repayment period
mSHGs	Rs.30,000 Rs.40,000	Rs.40,000 Rs.50,000 Rs.60,000	Rs.60,000 Rs. 75,000	Rs.75,000 Rs.90,000 Rs.1,00,000 Rs.1,25,000	1. Tenor 24-36 months based on repaying capacity Or As requested by client based on repaying capacity assessment.

Loans are provided to mSHGs members mainly for the purpose of agriculture and allied activities, microenterprise, (Industries, Service, Business) house repair and other consumption needs.

9.2 Dairy – Group Loan Product:

Retaining the clients by designing tailor made loan products suitable for different categories of income generating activities/different categories of clients is one our strategies to improve our portfolio and quality of advances. Dairy activity is one of the major income generating activities in the rural areas supplementing the family income. But, the limiting factor is credit as the cost of milch cows/buffaloes is in the range of 60,000-80,000, which 0ur existing products are not able to meet because of size of loan under group loan. Based on the feedback from field staff a Dairy Loan product is designed to suit the requirements of poor families in the villagers. After detailed deliberations, a new product **Dairy Group loan** facility is designed with following details.

Sl. No	Details	Rules
1	Location	All approved locations by Management
2	Eligibility	- The Group should be of 3 to 8 members. - Member/ Nominee Age: 18 to 57 years. - Our existing regular customer & New customer. - Previous loan should be closed before availing this loan for the existing customers. - There should not be over dues in the group for the existing group. - Loan should be utilised for Dairy activity like purchase of Cow, She-Buffaloes. - Members should have sufficient space for Cow Shed. - Fodder & Cattle feed should be available nearby location. - Milk Dairy route/Milk producer's society/ Veterinary Hospital should be available in nearby place. - Sufficient demand for sale of milk in the area to be ensured. - The loanee should not have repayment liability of more than Rs.125000/- including the loan availed with other MFIs. - The Nominee should be aware about this loan. - Member should have own house or Agriculture land. - Credit Bureau verification is compulsory.
3	Assessment	- The Assessment should be done by CRO/BM
4	GRT	- GRT should be done by BM/AM/DM
5	Loan Application	- Loan Application should be obtained from the member
6	Sanction /Approval	- The sanctioned loan should be approved by the Admin Office
7	Loan Amount	- For 1st cycle: 40000 & 50000 - For 2nd cycle 50000 to 80,000. - For 3rd & Subsequent cycle 80000 to 125000

		- Total indebtedness should not cross Rs 125000 including the loan availed with other MFIs. - Member should avail the loan based on their repaying capacity.
8	Rate of Interest	- 24-25 % on reducing balance.
9	Service charges & GST	- 1 % of the loan and 18% GST on Service Charge.
10	Client Insurance	- Depending on loan amount & tenure. - Insurance will be for both member & nominee
11	Loan Disbursement	- Through NEFT and confirmation should be done by Area Manager.
12	Loan Utilisation	- Within a week End utilisation of loan should be done by BM/Auditor/Area Manager.
13	Repayment Period	- 24-36 monthly installments (EMI)Based on repaying capacity/request of the client
14	Repayment Frequency	- Monthly
15	Repayment Mode	- By cash/cheque or Digital Payment mode in monthly cluster meeting
16	Documents required	- Member and Nominee KYC (Voter & Aadhar cards are compulsory (Xerox) - Nationalized bank Account details with IFSC - Property Details like House, Available land records - Pass books issued by the dairy units.
17	Livestock insurance	- **Cattle Insurance Not Available.** - **This should be informed to member & confirmation letter should be obtained.**

9.3 Interim Loan Product:

To meet the emergent credit/consumption needs of members of mSHGs during the currency of regular loan limits a new product ‘Interim Loan’ has been introduced. This will also prevent migration of our clients to other MFIs offering higher loan limits. However, it should be ensured that the aggregate indebtedness per client shall not exceed Rs.1,00,000/-. This Interim loan will continue even though the regular loan is closed by the member.

Sl. No	Details	Rules
1	Eligibility	- To existing loanees during the tenure of the existing loan. (1st Cycle after 5th inst and 2nd Cycle after 10th inst) - The existing loan should be regular - There should not be over dues in the cluster - Loan should be utilised for emergency cases like Education, Health etc. - The loanee should not have liability of more than Rs.100000/- including the loan availed with other MFIs. - The Nominee should be aware about this loan.

2	Loan Amount	Maximum of Rs.5000/- for 1st cycle loanees. Maximum of Rs.10000/- for other cycle loanees Credit Assessment should be based on the requirement of members
3	Rate of Interest	24-25 %
4	Service charges & Service Tax	1% of the loan and 18% GST on Service charge
5	Repayment Period	Based on repaying capacity/request of client
6	Sanction	Sanction by Area Manager
7	Approval	The sanctioned loan should be approved by the Admin Office
8	Loan Disbursement	Branch Manager and concerned Credit Officer together have to disburse the loan at the door step of loanee after getting sanction and approval

Ref: Circular No: 02/ 2017-18 dated 03/ 04/ 2017

9.4 Individual Loan Products:

As per RBI guidelines NBFC-MFI should have minimum 85%of its net assets in the nature of qualifying assets. Qualifying asset is defining as total assets other than cash and bank balances and money market instruments. Qualifying asset shall mean a loan which satisfies following criteria.

a. A loan disbursed by NBFC-MFI to a borrower having annual household income not exceeding Rs.3,00,000.
b. Loan amount not exceeding Rs.60,000 in first cycle and Rs.1,00,000in subsequent cycles.
c. Total indebtedness of a borrower to be assessed based on repaying capacity of client.
d. Tenure of a loan shall be based on repaying capacity or as requested by client. penalty.
e. Loan shall be extended without collateral security.
f. Assets created as per RBI guidelines on microfinance should not be less than 75% of total portfolio. The remaining 25 % of portfolio can be deployed for non-qualifying assets which should be in accordance with regulations specified by RBI/Company.

With this background, two Individual loan products are proposed i.e., **'Abhyudaya'** an individual loan to be classified as qualifying assets and second one **'Pragati'** an individual scheme outside purview of qualifying asset. These schemes are designed to encourage existing mSHGs members to take up income generating activities. The product details are as under:

'IDF-Abhyudaya' Loan Product:

Sl. No	Details	Conditions

1	Target Customer	a. Existing borrowers who have cleared all previous cycle loans availed from our company. b. New client approaching our company for loan after promptly closing the loan availed from other NBFC-MFI. (Subject to permission from head-operations). c. Party should be engaged in income generating activity.
3	Purpose	Loan should be utilized for the specific purpose like purchase of assets to carry out Agriculture/Allied agri. Activity, Industry, Business, Service Sector activity. and or Education, of Children, Home Repairs and Renovation, Small scale manufacturing unit, cottage industries, Tailoring, Sheep rearing, Dairy, Kirani Shop, Hotel, etc.
3	Eligibility	Our existing regular customer of our MFI or any other NBFC-MFI, who has repaid and closed 1st 2 nd cycle loan as per repayment schedule. The house hold annual income shouldn’t exceed Rs.3,00,000. The Nominee should give his/her consent for the loan. Nominee should be made aware of the loan Member/Spouse should have own house or Agriculture land/lease land.
4	Loan Amount Prescribed	Max. Rs. 1,25,000 based on repaying capacity as arrived in credit assessment.
5	Rate of Interest	24-25% on reducing balance.
6	Service charges & GST	1% of the loan and 18% GST on Service charge
7	Insurance	Insurance will be based quantum of loan and repayment period
8	Repayment Period	Based on repaying capacity/as requested by client. 24-36 months
9	Repayment Frequency	Monthly
10	Repayment Mode	By cash or cheque in monthly cluster meeting
11	Loan Disbursement	Through NEFT and confirmation should be done by Area Manager to concerned dept.
12	Assessment (GRT)	The Assessment should be done by BM and Sr BM based on the annual sales turnover and repaying capacity. Source of application by CRO and appraisal by BM or Sr Bm or AM
13	Sanction	Loan up to Rs. 75,000 to be sanctioned jointly by BM &AM. Loans above Rs.75,000 and up to Rs.1,25,000 are to be sanctioned by Divisional Manager and Head-Operations on the recommendation of AM.

	Approval	By the Admin Office
14	Loan Application	Loan Application should be in Two sets (One to Office and another to member)
15	Loan Utilization	Within a week. End utilization of loan should be done by BM and area Manager.
16	Documents required	Member and Nominee KYC (Aadhar card is compulsory), Nationalized bank Account details. Property Details like Shops, Land or House, Articles of agreement (No.12 on Rs.200/- stamp) for Borrower.

9.5. 'UNNATHI' -Top up Loan Product:

<u>IDF-UNNATHI SCHEME</u>

One of the strategies of the company for credit expansion is to launch new Tailor-made loan products to suit the requirement of our clients. Tailor made products, not only ensure credit growth but also helps to retain existing clients by mitigate the risk of client drop out. Based on the feedback from field functionaries and our existing clients there is demand for interim loan from our existing clients to expand their business or to start new venture. In order to meet the demand of our clients we have launched one more tailor-made new scheme by name IDF-Unnathi. Highlights of the new scheme are:

1. This is a Additional loan during the currency of existing loan.

2. Both mSHGs members and individual clients are eligible for the loan.

3. If all members in a group are eligible for this additional loan, then loan shall be given as mSHGs loan, otherwise it shall be individual loan if only few members in group are eligible.

4. Size of the loan is equal to the principle repayment made by the client.

5. The Loan can be given after 6 months and before completion of 18 months from the disbursement of existing loan.

6. This loan will continue even after closure of existing loan.

The detailed guidelines are as under group loan scheme.

Sl. No	Details	Conditions
1	Target Customer/Eligibility	a. Existing client under Group or Individual scheme b. Existing Group loan or Individual Loan should be regular. **(If only few members in a group need a loan under this scheme, then loan can be granted as individual loan.)** c. Party should be engaged in income generating activity.

		d. The house hold annual income shouldn't exceed Rs.3,00,000
2	Purpose	The loan should be given for expansion of existing business or new business for working capital needs or for purchase of assets. Loan should be utilized for the specific purpose like purchase of assets to carry out Agriculture/Allied agri. activity, Industry, Business, Service Sector activity. Small scale manufacturing unit, cottage industries, Tailoring, Sheep rearing, Dairy, Kirani Shop, Hotel, etc.
3	Loan Amount Prescribed	A. Max. Loan amount shall be to the extent of principle loan amount repaid in existing loan by the client subject to the condition that the **subject to the condition that the maximum limit under Unnathi loan should not exceed 50% of the existing main loan limit or based on repaying capacity of client whichever is lower.** The loan amount shouldn't exceed original loan amount. C. Loan should be need based and based on repaying capacity as arrived in credit assessment.
4	Rate of Interest	24-25% on reducing balance.
5	Service charges & GST	1% of the loan and 18% GST on Service charge
6	Insurance	Insurance will be based on quantum of loan and repayment period
7	Repayment Period	Based on repaying capacity of client.
8	Repayment Frequency	Monthly. The date of EMI should coincide with EMI date of existing loan.
9	Repayment Mode	By cash or cheque in monthly cluster meeting
10	Loan Disbursement	Unnathi loan shall be given after 6 months from the disbursement of existing loan but before completion of 18 months. The loan should be disbursed through NEFT. Unnathi loan shall be given after 6 months from the disbursement of existing loan but before completion of 18 months.
11	Assessment (GRT)	The Assessment should be done by BM and Sr BM based on the annual sales turnover and repaying capacity. Furnished in Annexure-I Source of application by CRO and appraisal by Area Manager.
12	Sanction	Loan committee of Branch Head and Area Manager.
	Approval	By the Admin Office
13	Loan Application	Loan Application should be in Two sets (One to Office and another to member). Application and other documents are as per mSHGs or individual scheme.
14	Loan Utilization	Within a week. End utilization of loan should be done by BM and area Manager.
15	Documents required	KYC documents, Loan application and documentation as per mSHGs group loan or Individual Loan scheme. (Stamp paper for articles of agreement waived for this loan)

9.6 IDF-Pragati -Individual loan product: (Qualifying Asset norms not applicable)

Sl. No	Details	Guidelines
1	Target Customer	a. Existing Member loanees who have cleared all previous cycle loans availed from our company. b. New client approaching our company for loan after promptly closing the loan availed from other NBFC-MFI. (subject to permission from head-operations). c. Party should be engaged in income generating activity
3	Purpose	Loan should be utilised for the specific purpose like purchase of assets to carry out Agriculture/Allied agri. Activity, Industry, Business, Service Sector activity. and or Education, of Children, Home Repairs and Renovation, Small scale manufacturing unit, cottage industries, Tailoring, Sheep rearing, Dairy, Kirani Shop, Hotel, etc.
3	Eligibility	Our existing regular customer of our MFI or any other NBFC-MFI, who has repaid and closed 2 nd cycle loan as per repayment schedule. The Nominee should give his/her consent for the loan. Nominee should be made aware of the loan Member/Spouse should have own house or Agriculture land/lease land.
4	Loan Amount Prescribed	Max.Rs. 1,50,000 need-based loan. subject repaying capacity as arrived at in credit assessment.
5	Rate of Interest	24-25% on reducing balance.
6	Service charges & GST	1% of the loan and 18% GST on Service charge
7	Guarantee	Personal guarantee of other than family member with net worth acceptable to the company.
7	Insurance	Insurance will be based quantum of loan and repayment period
8	Repayment Period	24-36 months
9	Repayment Frequency	Monthly
10	Repayment Mode	By cash or cheque in monthly cluster meeting
11	Loan Disbursement	Through NEFT and confirmation should be done by Area Manager to concerned dept.
12	Assessment (GRT)	The Assessment should be done by BM and Sr BM based on the annual sales turnover and repaying capacity. Source of application by CRO and appraisal by BM or Sr Bm or AM

13	Sanction	Divisional Manager on the recommendation of AM.
	Approval	By the Admin Office
14	Loan Application	Loan Application should be in Two sets (One to Office and another to member)
15	Loan Utilization	Within a week. End utilization of loan should be done by BM and area Manager.
16	Documents required	Member and Nominee KYC (Aadhar card is compulsory), Nationalized bank Account details. Property Details like Shops, Land or House, Articles of agreement (No.12 on Rs.200/- stamp) for Borrower, Guarantee agreement on Rs.200/- stamp paper.

Covid-19 scheme:

9.7 WASH (WATER, SANITATIO0N AND HYGIENE)PROGRAMME

Water, Sanitation and Hygiene (WASH) is need of the hour for developing and underdeveloped countries. Poor sanitation, lack of safe drinking water, Open Defecation are causing health hazards leading to loss of working hours/productivity for labor, attendance in Schools for children apart increasing the family expenditure. Addressing these issues ensures good health/work atmosphere and increases work efficiency apart from improving family income. Hence, **Safe drinking-water, sanitation and hygiene** (WASH) are crucial to human health and well-being. Safe WASH is not only a prerequisite to health, but contributes to livelihoods, and dignity and helps to create resilient communities living in healthy environments.

WASH Programs are now part of development plans of WHO, World Bank, Central and state Governments. SWATCH BHARAT launched by Govt. of India encompasses all the above aspects for improvement of quality of life. WASH products include Toilets, Repairs and renovation to existing toilets, piped water connections, Water storage tanks-Sumps/overhead tanks, Water harvesting, safe disposal of waste water, Water quality improvements (water filters) etc.

Many MFIs have partnered with Sa-Dhan, Water.org, Finish Society for implementing this programme. We have also partnered with above organizations for WASH and our Board in their meeting dated 13th December have approved the programme for implantation.

9.8 WASH PRODUCTS:

Following WASH products have been shortlisted for financial assistance to our existing clients.

1. **New Toilet (Pit/Septic tank)** : Refers to financing new individual household latrine (IHHL) structure with or without bathroom along with a concrete / plastic septic tank or twin leach pit. Financing may be used for costs associated with purchase of construction materials, sanitaryware and labor cost.

2. **Toilet improvement**: Financing for renovation of sanitation facility beyond the initial construction or connection of the facility to sewer connections (underground drainage). This can include conversion of single pit to twin pit, tiling, ventilation, roof, doors, cleaning leach pit, adding bathroom and water facility to an existing toilet.
3. **Piped water connection/water storage tanks**: Refers to financing a household drinking water connection/piped water into a house from a water service provider. This includes installation of new piped network connection like pipe extensions to the dwelling from a main water line and construct/purchase of water storage tank. This can also include financing to formalizing existing drinking water connection, cover upfront connection costs such as connection fees, utility security deposits, hardware and labor costs.
4. **Water and Sanitation Combo**: Refers to financing for combined new drinking water facility and toilet construction. Financing also includes any improvement or renovation to already installed water & toilet facility at a time.
5. **Water quality improvements**: Refers to the financing of a standalone product that is for individual household water filtration, including filters and filtration systems. water + water filter, a combination loan which includes a water access loan and a water quality improvement loan. Includes both point-of-access and point-of-entry technologies
6. **Accessible Family toilet (AFT)**: Financing to construct a new toilet which is family friendly for Person with disabilities, injured, elderly and pregnant women. This also includes renovating existing toilet to family friendly by adding hand rail, grab bars, toilet commodes, western toilet/raised squatting pan, anti-skid flooring, ramp, light, wide entrance door and emergency alarm.

9.9 WASH LOAN PRODUCT-COMMON TERMS:

Sl. No	Details	Terms & Conditions
1	Target Customer/Eligibility	a. Existing client under Group after first cycle or under Individual scheme. b. Existing Group loan or Individual Loan should be regular. **(If only few members in a group need a loan under this scheme, then loan can be granted as individual loan.)** c. Party should be engaged in income generating activity.

		d. The house hold annual income and other eligibility criteria as per microfinance guidelines of RBI. e. The family should own a house and should have enough space available for construction of WASH structure. Any proof of house ownership to be held on record.
2	Purpose	For construction of Toilet, Special needs Toilet, water storage tanks, water purifiers, piped drinking water connection/waste water disposable system, water and sanitation combo.
3	Loan Amount Prescribed	Based on estimate from trained mason/plumber. Indicative loan limit for different models of toilet or other structures are furnished below.
4	Rate of Interest	25% on reducing balance.
5	Processing charges & GST	1% of the loan and 18% GST on Service charge
6	Insurance	Borrower Insurance will be based on quantum of loan and repayment period.
7	Repayment Period	Based on repaying capacity of client (Follow RBI guidelines). Min. 18 months.
8	Repayment Frequency	Monthly. The date of EMI should coincide with EMI date of existing main loan.
9	Repayment Mode	By cash or digital during cluster meeting
10	Loan Disbursement	Direct to clients SB account. Releases in stages based on progress of construction.
11	Assessment (GRT)	Annual household income and expenditure should be assessed by BM/AM and repaying capacity.
12	Sanction	Loan committee of Branch Head and Area Manager.
	Approval	By the Admin Office
13	Documentation.	As per existing documentation guidelines.
14	End use	One month from disbursement. End utilization of loan should be done by BM and area Manager. **Geo tagged Photograph of structure along with client** shall be held on record.

9.10 Indicative Ticket Size:

S.No.	Product Name	Suggested Ticket Size
1	New Toilet (Pit/ Septic)	30,000 – 35,000
2	Toilet Improvement	20,000 – 30,000
3	House Water Connection/Piped Water/Water Storage	10,000 – 15,000
4	Water And Sanitation Combo	25,000 – 35,000
5	Water Quality Improvement	5,000 – 10,000

Above are the indicative/suggested unit costs. The actual cost shall be arrived at based on the estimate given by Mason depending on size of structure, length of pipeline, nature of soil, cost of materials and labor cost. It should be ensured that sufficient funding is provided to complete the structure.

9.11 Models of Toilets:

The most popular and low-cost toilet models are furnished in Circular 4-2022 dated 22.12.2022.

9.12 Training to staff:

Middle level executives have been given training in the Trainer's training programme conducted recently by water.org officials at Dharwad. These executives should further train the field level officers for smooth implementation of programme.

9.13 Identification of Masons:

Sa-Dhan and water.org are also ready to train masons on the designs of WASH structures. Hence, Operations department should advise branches to identify Masons for construction of Toilets and arrange for training if required. FINISH Society will provide training to Masons wherever required in consultation with Sa-Dhan. The client can also entrust the work to a Mason of his choice if not satisfied with the one identified and trained for the purpose under the programme. In such cases the competence of the mason to complete the structure should be ensured and if required training should be provided.

The plumbing work of WASH structures can be entrusted to local competent plumber in consultation with client. Further, the client is free to purchase required materials from the shop of his choice and also decide the labour charges.

9.14 Creation of awareness:

The field staff should educate, explain the advantages and create awareness among our existing clients on WASH facilities. Educative material in Kannada to create awareness among clients is attached for use by field staff.

9.15 End Use of funds:

The field staff should ensure completion of WASH structure financed by us within one month and the **Geo tagged photograph of the structure along with client** should be held on record.

Clients should be clearly informed that there is no subsidy component available under this programme and the entire amount being granted is loan which is to be repaid with interest. Further no intermediary/officials of Government/local panchayat should be involved.

9.16 Reporting:

The progress made should be reported to Sa-Dhan, water.org and FINISH Society as per the format and periodicity prescribed.

9.8 MICRO HOUSING LOAN SCHEME- 'IDF-ASHRAYA'

Housing is one of the basic needs of an individual. In spite of many Financial Institutions venturing in to the business, still there is a huge gap between demand and supply, especially for weaker sections of the society. BPL families have no access to funds for owning a shelter or repair/renovation of existing dwelling unit. Surveys have shown that housing is one of the or the only major item of expenditure comprising of 25-35% of family income. In order to make good the gap between demand & supply, IDF Financial Services Pvt. Ltd., proposes to launch an exclusive Housing Loan product for our existing members with following objects.

a. To provide hassle free micro loans for construction small dwelling unit, Renovation & Repairs to existing unit, need based expansion to existing dwelling unit.

b. To retain our existing customers by meeting their financial needs for housing & reduce drop-outs.

c. To fall in line with our National Mission of providing housing for all by 2022.

As lending to housing sector is un productive i.e., doesn't generate any income, assessing **repaying capacity of the client is more important.** Repaying capacity is the capacity of the client to generate sufficient income from various sources to service the debt existing & proposed after meeting the monthly expenses for maintaining the family. Repaying capacity is usually arrived at by deducting existing EMIs on loans availed from our MFI and other financial institutions & proposed EMIs housing loan to be availed to be availed from our MFI, tax liability etc. from total income from all recorded sources. Usually 50-60% of the total monthly income is required to maintain the family. Hence, remaining 40-50% of monthly total income is residual income which should be sufficient to service the debt existing & proposed.

With this background, an individual housing loan product for construction, expansion, repair/renovation named '**IDF-Ashraya'** is proposed with following guidelines.

Sl. No.	Parameter	Guidelines
1	Target customers	Our existing mSHGs members who are regular in their dealings under existing loans.
2	Eligibility	a. Existing mSHGs members having own un encumbered house property/vacant site. (2nd housing loan may be extended for expansion/repair/renovation for those who have availed 1st HL in other FIs.) b. The client should be in 2nd/3rd loan cycles. Party should have existing group/individual loan which is regular. c. Existing 1st cycle loan should have been closed promptly and the EMIs of existing loans should have been serviced regularly till date. d. Aggregate loan amount o/s from NBFC-MFIs should be within the stipulate amount of Rs.1,00,000/client. e. The client or spouse should have profitably running business activity. f. The Nominee/spouse should be co-borrower for the loan.
3	Purpose	Repairs/renovation/expansion/construction of house property. Expenditure on flooring, Toilet's construction, leakage repairs, expansion, Electricity/water connections, painting, Pucca roofing, construction etc.,

4	Loan amount	Max.Rs.50,000 subject to a. 50% of loan given by our company should be for income generating activity. b. Aggregate o/s loan balance shouldn't exceed Rs.1,00,000/- from NBFC-MFIs. c. Loan for housing purpose should be need based and assessed based on the estimations for each activity.
5	Assessment of loan	Assessment and processing of loan should be done by BM and AM jointly as per the format furnished and recommended for sanction to DM.
6	Sanctioning authority	Divisional Manager
7	Approving authority	Admin. office
5	Interest rate	24-25% on reducing balance
6	Service charges	1% of loan +18% GST.
8	Co-borrower	Spouse
9	Insurance	Both client and spouse to be covered under insurance for the loan amount and period of repayment.
	Repayment period	48-60 months
10	Repayment frequency	monthly
11	Repayment mode	By Cash/cheque in a cluster meeting.
12	Disbursement	a. Loan to be released in 2-3 installments depending on progress of work and end use of previous releases. b. Loan to be released through NEFT.
13	Utilization of loan	To be done within a month for repairs/renovation and within 3 months for expansion/new construction.
14	Repayment holiday	NO
15	Documents	a. Loan application. b. Details of Nationalized Bank account c. Original Property documents (Khata, RoR, Property card, Title deeds such as sale deed, Allotment letter, Gift deed or any document of title/ownership), Latest Tax paid receipt, Electricity bill, Nil Encumbrance certificate. d. Construction permission from local authority (Gram Panchayat, Pattan Panchayat, Municipal office etc.,) e. NOC from existing HL lender.

PROCESS NOTE AND LOAN ASSESSMENT SHEET

Sl. No	Parameter	Values/Description
1	Name & Address of Client	
2	Name of Spouse/Co-borrower	
3	Property details	a. Sy. No: b. Khata No:

		c. Location: d. Measurement: e. Area sq.ft.: f. House tax paid details: Paid/not paid. g. Present approx. value: h. Encumbrance: yes/No i. If encumbered, name of financial institution: j. Nature of ownership: Inherited/purchased/allotted/Gifted k. name of the department, if open site property is allotted l. Title deeds available: sale deed/ allotment letter/ Gift deed (Title deeds should be in original. Inherited property may not have title deed.)
4	Name of owner	
5	Source of income	Agriculture/Business/Both Agri. & business
6	Nature of business activity	
6	Annual income of family (shouldn't exceed Rs.1/1.6 lacs)	
7	Assessment of loan repaying capacity	I. **Monthly Income details:** **(**Only existing income to be considered, not future/expected income) a. Monthly income from Agri: (Annual income from Agri/12) To be reviewed as Agri income is not monthly b. Monthly income from Business: c. Monthly income from any other source: d. Total monthly income of the family (a+b+c): **II. Monthly Deductions:** e. EMI of existing loan: f. EMI of loan from other MFI if any: g. EMI of proposed House loan: h. House Tax: i. Total deductions (e+f+g+h): **III. Residual income (d-i):** **IV. Repaying capacity (% of residual income):** (Total monthly income as per 'd'/Residual income*100) (Should be min. 60% of total income shown at 'd'. If not, go on reducing the loan quantum or increase the repayment period to reduce the EMI on proposed housing loan till the residual income is above 60% of total income. (we can fix min. residual income at 70%) j. Quantum of loan as per repaying capacity: k. Quantum of loan as arrived at based on qualifying asset criteria: l. Need based loan as per estimate given by client and vetted by BM/AM: m. Loan applied by client: **V. Quantum of loan- lowest of above j-l above:**

8	Marketability of title	The property documents should be verified for valid, legal & marketable title. We can consult & seek opinion of our panel advocate on the issue.
9	Recommendation of processing officer	BM &AM to furnish brief justification on cost of investments, need for the same, dealings of the client etc., while recommending the loan.
10	Sanctioning authority's Note	DM to furnish brief note justifying the sanction.
11	Documents	Original title deeds, Khata, RoR, latest tax paid receipt

Each item of investment in housing project as estimated by the client should be thoroughly vetted by the processing and sanctioning authority depending on use of locally available materials and their quality.

A simple application form shall be designed.

10. Asset Classification

IDF Financial Services strictly complies with the Asset classification norms prescribed by the Reserve Bank of India from time to time. At present in terms of RBI Master Circular No RBI/2013-14/49-DNBS. (PD)CC No347/03.10.38/2013-14 dated July 1st 2013, the following norms have been duly adopted by the Company with respect to Asset Classification and provisioning.

10.1 Asset Classification Norms:

Standard Assets means the asset in respect of which, no default in repayment of principal or payment of interest is perceived and which does not disclose any problem nor carry more than normal risk attached to the business:

Nonperforming asset means an asset for which, interest/principal payment has remained overdue for a period of 90 days or more.

10.2 Provisioning Norms:

Bad and doubtful debts are part of any business cycle. Each and every business has certain inherent risks and despite the best processes and systems, the business suffers certain losses which need to be absorbed by the Company.

Provisioning norms with effect from April 1, 2013 as per RBI guidelines are given below:

The aggregate loan provision to be maintained by NBFC-MFIs at any point of time shall not be less than the higher of

a) 1% of the outstanding loan portfolio

or

b) 50% of the aggregate loan installments which are overdue for more than 90 days and less than 180 days and 100% of the aggregate loan installments which are overdue for 180 days or more.

11. Write Off of Bad Debts:

Writing off loans will prevent the buildup of worthless assets in the portfolio.

Moreover, a loan that has been written off becomes valid deductible expense under present taxation rules.

a. As a matter of good practice, adequate loan loss should be provided for delinquent accounts, in accordance with the RBI guideline on provisioning.
b. IDF Financial Services Pvt Ltd (IDF FSPL) has adopted a very prudential practice in identifying bad and doubtful debts and making the necessary provisions and write offs.
c. An existing policy for 'write off' of bad and doubtful debts is already in place in the Company since 2011-12.
d. In view of the guidelines issued by Reserve Bank of India in respect of classification of assets, the company has formulated the following guidelines for write-off of bad debts/loss assets for approval of the members of the Audit Committee of IDF FSPL/Board of Directors for implementation w.e.f. FY 2013-14.
e. The Policy is as per RBI and other guidelines issued from time to time, as applicable to NBFC-MFIs.

11.1 ASSETS ELIGIBLE FOR WRITE OFFS

Write-off of loan outstanding classified as NPAs, may be considered in the following cases.

a. Only Non-performing loans, overdue for 180 days and above shall be considered for write off.
b. In exceptional cases an account may be considered for write off, even if it has not completed 180 days provided the internal auditors considers the account irrecoverable and hence needs to be written off.
c. Before considering the account for write off, all avenues for recovery should have been exhausted.
d. There are no realizable assets created out of the finance availed from the Company
e. There is no negligence on the part of the concerned staff in respect of sanction and follow-up of advances, which include
f. Follow-up by Credit Officers, Branch Managers & Area Managers
g. Maintenance of record of follow-up in Audit- Inspection Sheet
h. Issuance of Demand Notice followed by reminder
i. In deserving cases, issue of legal notices
j. All death cases not covered by insurance shall be eligible for write-off
k. Critically ill clients with no members in the family taking the loan liabilities, shall be eligible for write-off
l. The un-covered amount of fraud/forgery/misappropriation cases, after initiating legal action/FIR shall be eligible for write-off

m. The loan accounts affected by national calamities not recovered even after rephasement are eligible for write-off

n. Staff accountability should be examined and observation on lapses/action taken, if any, should be indicated in the proposal put up for approval of write-off.

o. Filing of suit need not be compulsory for write-off.

p. All loans recommended for write off shall be certified as irrecoverable by the internal auditors.

11.2 Process for recommendation for write off:

Branch managers prepares the list of eligible accounts proposed for write off, and BM submits the recommendation for write-off as per Format [Annexure-I] every quarter to Head Office.

All details shall be mentioned in the proposal form to be submitted to Area Manager.

AM shall verify all the proposals and recommend the same to Review committee at Admin office.

The review committee shall consist of Operation Head, concerned DM and Head audit, who in turn will review the proposals and place it to the MD, who will scrutinize and accord his approval and forward it to the Audit committee for their approval.

Audit committee approval shall be conveyed to BOD who shall approve the same.

Authority to sanction write-off proposals rests with MD and Chairmen subject to approval of the BOD.

11.3 Write-off:

After the board approval the accounts department shall write-off the approved loan accounts from the books of accounts. While write-off it follows relevant Account standards

11.4 Post write-off procedure

a. [Accounts written-off are Parked in a separate account called Bad debts written off Account (BDWA)

b. Amount written-off are recorded in a register or file named as “Bad- Debts write off Register or file” by all branches

c. Branches continue follow-up for recovery

d. Accounts in BDWA are considered as part of NPA.’s for internal monitoring at all levels and will continue to be followed up for recovery till final removal from BDWA.

e. The amount recovered if any shall be credited to respective account parked under Bad Debt Written off Account.

11.5 Review of BDWA:

The Review and Screening Team will be constituted with the following:

- Head – Audit
- Head - Operations
- Head - Accounts

a. Branches having written-off accounts submit a quarterly report showing the recovery and recommending for continuance or otherwise of recovery efforts as per format given in Annexure-II to the Team.
b. The Team reviews progress of recovery and examine the desirability of further continuation of recovery efforts.
c. The Team reviews profile of the accounts covering progress of FIR, efforts made for recovery including legal process or any offer for compromise etc.
d. The Team submits the outcome of the review to MD every quarter.

12. One time Settlement Scheme:

The loan becomes overdue for many reasons such as loss in business, Family problems/personal problems, Natural calamities. One time settlement or negotiated settlement of over dues by offering some concessions in interest or principle is better option considering time value of money, legal hurdles and cost of recovery. The Branch head shall decide and negotiate with the party for OTS and recommend the proposal to Area Manager.

12.1 Eligibility:

a. The loan should be overdue for more than 90 days.
b. No recovery in spite of taking all possible recovery steps.
c. Party should be ready to close the account within one month's time from date of acceptance of OTS proposal.
d. Down payment of minimum 25% of the outstanding balance should be paid on the day of acceptance of proposal and remaining within one month's time.
e. Following approach is adopted for waiver/write off of portion of loan.
f. Accounts of willful defaulters, fraudulent accounts are not eligible.

12.2 Categories of Overdue Accounts

For the purpose of OTS, overdue loan accounts are classified in to 4 categories based on age of overdue loan and the reason for over dues, as under:

Sl. No	Parameter	Overdue Classification Category
1	Overdues more than 90 days.	A
2	Overdue for more than 180 days.	B
3	Serious health issues in the family	C
4	Death of borrower or earning member	D

12.3 Guidelines for Concession:

Concession in the interest/principle to be extended under OTS is decided for different overdue categories as under:

Sl. No	Category of overdue loan	Maximum amount of Concessions
1	A	Upto 50% in un applied interest
2	B	Upto 75% in unapplied interest
3	AC	Up to Rs. 5000 write of outstanding+100% waiver of unapplied interest
4	AD	Upto Rs.7500 write of outstanding +100% waiver of un applied interest.
5	BC	Upto Rs.10000 write of outstanding +100% waiver of un applied interest
6	BD	Upto Rs.12500 write of outstanding +100% waiver of un applied interest
7	ACD	Upto Rs.15000 write of outstanding +100% waiver of un applied interest.
8	BCD	Upto Rs.20000 write of outstanding +100% waiver of un applied interest

Concessions proposed for different categories are outer limits. Amount of concession shall be negotiated with the party on the merit of each case. Format for OTS recommendation is furnished in ANNEXURE-III.

12.4 Sanctioning authority:

Head-Operations
Approval: MD
Deviation: Chairman

13. DIVERSIFICATION OF BUSINESS:

Under micro finance space there are different business models such as Business Correspondence model, Assignement model, Co-Lending model etc,. These models not only meet the liquidity needs of the company but also reduce pressure on capital adequacy as the assets are parked as off-balance sheet items. The assets under these are shown in our balance sheet as “managed assets” and included for computation of portfolio as Assets under management (AuM). These models depend on the software integration and MIS system to be shared between partners. The specific advantages are as under:

1. Dependency on capital is reduced as the assets created are from funds of partner Banks/FIs and are in their balance sheet. So, CRAR and Debt Equity ratios etc,. can be managed within accepted benchmark levels.
2. Liquidity can be managed as there is no need for borrowings at higher cost.

3. Improvement in staff productivity.
4. Risk of delinquency is shared by both the partners.

In view of the above benefits Board has permitted to diversify the business into following models.

Direct Assignment of Assets model:

Direct assignment is one of the Securitization of assets model. It involves direct sale of assets/receivables to needy Banks/FIs to achieve their targets under certain sectors. We can sell our standard assets/relievable to the assignee on certain commercials to the extent of 90% of the identified pool and 10% can be share of MFI called as Minimum Retention Ratio (MRR). Though the assets are virtually transferred to the balance sheet of the assignee, the servicing of these assets will vest with MFIs at certain agreed service charges. All the collections as per repayment schedules are to be shared to an appointed Trustee who will share the principal and interest as per terms agreed. The assets can be sold with or without gain, or the interest can be shared. The company is subject to due diligence by the Assignee and stipulate MHP and MRR and select the sector wise Asset pool as per their requirement.

Income from this model shall be from share in the interest collected, service charges for follow up, which are mutually agreed by assignee and assignor as per guidelines stipulated by RBI. The size of the pool goes on reducing based on the tenor of each asset and finally liquidated. The risk of delinquency is if the assignee under the model.

Business Correspondence Model:

This is most common model of diversification. In this model assets are created from the funds of Bank based on their products, unlike Direct assignment model where created assets are sold to the assignee. Our role is sourcing, identification of beneficiary, collection of KYC documents as per guidelines of the partner, whereas partner Bank takes care of processing, sanction and disbursement. Post disbursement follow up, collections of EMIs, end use of funds is the responsibility of the BC.

Income from the BC business shall be from, commission on the interest collected, share in the processing fees, and service charges for follow up services. These commercials are as per mutual consent. The delinquency is partly covered by way of FLDG (First Loan Default Guarantee by BC) The FLDG can be in the form of Fixed deposit or Bank guarantee. FLDG needs to be topped up at regular intervals based on the portfolio outstanding.

Co-Lending model:

This new model, where Banks and MFIs share their financial resources in the ratio of 80:20 or 75:25. The lendable funds are pooled into an Escrow account based on the agreed ratio and disbursed to the client. The rate of interest may be different for partners based on their cost of funds and collects are shared by the partners based on pro-rata basis. The risk of delinquency is also shared based on the ratio of funds shared. Tin view of different rate of interests charged by the partners, there is need to maintain three loan ledgers for two partners for their share of funds and third one for client on a combined interest rate. Collections are pooled in to escrow accounts and shared among partners for which a software flatform is required.

As these models provide many comforts to the MFIs, our company is open to partner with Banks/FIs in order to improve AuM and outreach without depending much on capital/borrowed funds. We need to identify the compatible partner, negotiate commercials and enter into an agreement based on thorough benefit cost analysis. The Board is the approving authority for such partnerships.

1. 14. Environment protection practices:

Our Board has adopted ENVIRONMENT PROTECTION POLICY for implementation. As per the policy guidelines, certain lending norms and practices are revised as under:

AT OPERATIONAL LEVEL:

Since we are lending micro loans to our clients to take up income generating activities and consumption needs, following environment protection practices need to be adhared to as a part of our lending guidelines.

1. Promote use of solar energy by providing financial assistance for purchase and installation of solar power-based instruments, water heaters, Lights, Torches etc.
2. Encourage construction of toilets by providing financial assistance to our clients along with income generating activity.
3. Encourage organic farming practices through financial support to our farming clients.
4. Discourage financing of activities involved in sale of Tobacco and tobacco products.
5. Discourage financing of activities involved in plastic packaging materials.
6. Discourage financing of prohibted/illegal activities such as mining, liquor, drugs etc
7. Encourage Bio-degradable packing materials.
8. Encourage financing of manually operated transport vehicles, equipment.
9. Create awareness among our clients on environment protection practices, illegal/prohibited income generating activities during our regular CGTs.
10. Our CSR activities wherever possible shall be directed towards environment protection activities such as Tree planting, Health and Hyigene.

AT ORGANIZATIONAL LEVEL:

Employees need to adopt following environment protection practices in thier day-to-day office activities.

1. Minimise use of paper in office.
2. Use of recycled and recyclable paper and paper products
3. Reduce packaging as much as possible
4. Follow energy and water conservation practices in offices.
5. Install/ Replace energy/water saving and efficient devices in offices.
6. Purchase environment friendly office equipment or Evaluate for their likely impact on environment before purchasing.
7. Encourage recycling rather than purchase new office equipment wherever possible.
8. Encourage promotion of travel alternatives such as use of e-mails, Conference calls etc.
9. Impleent proper travel plans to get maximum output thereby reduce number of travels.
10. Encourage use of public mode of transport and ‘Green’ vehicle wherever possible.
11. Separate office waste in to degradable and non-degradable (organic/inorganic) while disposing.

The operational and fielf fuctioneries are advised to strictly adhare to above ENVORONMENT PROTECTION PRACTICES and implement them in letter and spirit.

ANNEXURE-I

11.6. RECOMMENDATION FOR WRITE-OFF

Sl. No.	Parameter	Remarks of BM/AM
1	Name of Branch	
2	Name of Client	
3	Name of Group & Cluster	
4	Name of the village	
5	Loan Amt. and Date	
6	Rate of interest	
7	Repayment period & No. EMIs	
8	Nature of activity of client	a. At the time of application: b. At Present:
9	Annual Income	a. At the time of application: b. At Present:
10	Balance O/s	

11	Overdue amt.	
12	Since when overdue	
13	Whether NPA	YES/NO
	Since when A/c is NPA	
14	Recovery steps initiated	Dates of personal contacts: Dates of notices:
	Date of filing suit if any	
	Audit comments if any	
	If any fraud is committed	Yes/no
	If so, any staff accountability fixed	
14	Justifications for write off. (illness, death of income earning member, business failure etc.)	
	Amt. of death claim and date adjusted	
15	Quantum of concession requested	
Recommendation of Branch/Area Office: Place: Date: Branch Head Area Manager		
Remarks of sanctioning authority: Place: Date: Sanctioning Authority		

MODALITIES OF FILING OF SUIT:

- Fraud, misappropriation in all cases above ` 25,000/-
- Lok Adalat
- To be reviewed after a year

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ANNEXURE-II

BDWA REVIEW FOR THE QUARTER ENDED ………………

BRANCH:

1. Name of the borrower
2. Address
3. Activities
4. Loan sanctioned and date
5. Account NPA Sl.No.
6. Amount written-off and date
7. Net loss involved
8. Status of FIR
9. Date of Suit filed, if any
10. Present status of the suit, if any
11. Security available
12. Steps taken for recovery

Date: Signature of Branch Manager

Review & Screening Committee

Observations

Signature Signature Signature

Name:

Designation:

Delegation of power: Board of directors

ANNEXURE-III

12.5 The format for recommendation of loan for OTS is annexed

Sl. No.	Parameter	Remarks of BM/AM
1	Name of Branch	
2	Name of Client	
3	Name of Group & Cluster	
4	Name of the village	
5	Loan Amt. and Date	
6	Rate of interest	
7	Repayment period & No. EMIs	
8	Nature of activity of client	a. At the time of application: b. At Present:
9	Annual Income	a. At the time of application: b. At Present:
10	Balance O/s	
11	Overdue amt.	
12	Since when overdue	
13	Whether NPA	YES/NO
	Since when A/c is NPA	
14	Recovery steps initiated	Dates of personal contacts: Dates of notices:
	Date of filing suit if any	
	Audit comments if any	
	If any fraud is committed	Yes/no

	If so, any staff accountability fixed	
14	Reasons for Concession/OTS (illness, death of income earning member, business failure etc.)	
	Amt. of death claim and date adjusted	
15	Quantum of concession requested	

Recommendation of Branch/Area Office:

Place:
Date: Branch Head Area Manager

Remarks of sanctioning authority:

Place:
Date: Sanctioning Authority

ANNEXURE-IV

INCOME/EXPENDITURE ASSESSMENT, COMPUTATION OF LOAN AMOUNT

I.House Hold Income Assessment

Name of Family Member	Income Source	Crop / Nature of Business	Nature of Income	Income Frequency	Yield	Rate	Wage	No. of Days	Source Wise income	Member wise income
1.FAMILY HEAD:										

2. APPLICANT:										
3. FIRST SON/DAUGHTER:										
4. SECOND SON/DAUGHTER:										
Note: 1.Nature of business: Agri, Dairy, Poultry, Goat/sheep rearing, Fishery etc. 2.Nature of income: Regular. Seasonal, Irregular. 3. Income frequency: Periodicity of income flow							**Total Annual income**			
							Declared annual income			
							Monthly income (Lower of the above/12)			

II. House Hold expenditure Assessment

Expenditure Details	Frequency (weekly, monthly etc)	Amount	Annual Expenses
Food			
Utilities			
Rent			
Clothing			
Regular medicines			
Fees			
Electricity			
Water bill			
Cooking gas			
Entertainment			
Farm inputs seeds			

Fertilizer			
Labour			
Cattle feed/fodder			
Lease amt (tenant)			
Emergency expenses-marriage, Hospitalization			
Others-specify			
Total Annual Expenses			
Monthly expenses			

III. Existing Credit History

Name of Family Member	Name of Lender	Loan amount availed	EMI amount	Balance O/s	Overdue Amt.

IV. Assessment of Repaying Capacity and Computation of Loan amount.

Sl. No	Parameter	Value	Remarks
1	Monthly income		
2	Monthly expenses		
3	Net income (1-2)		
4	50% of monthly income (Half of sl.No.1)		
5	Repayment capacity (lower of Sl.No.3 or 4)		
6	Existing EMI Total		
7	EMI amount of proposed loan		
8	Total monthly EMI pay-out (6+7)		Should be less than col. 5.
9	Repaying capacity (5-8)		
10	Max. Eligible loan matching to net repayment capacity		
11	Fixed obligation to income ratio (FOIR) before proposed loan		Should be less than 50%
12	Fixed obligation to income ratio (FOIR) after proposed loan		Should be less than 50%
13	Loan applied/sanctioned		
14	Tenor of loan		

Note: FOIR Calculation: EMI/Monthly Income* 100