

CREDIT POLICY AND OPERATIONAL MANUAL

Margdarshak Financial Services Ltd.

Policy Owner: Operations Department

This manual is to be supplemented by BC specific standard operating procedures (SOPs) and documents for BC operations

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1. Introduction

Purpose and Scope of Manual

The purpose and importance of having a written credit and operational manual is to create a standardized policy and process for lending and to reduce bias and subjectivity in the credit decisions being made.

This manual has been designed to :

- assist the managers and field staff to perform their duties efficiently and effectively and is crucial for successful branch functioning.
- to ensure continuity in the department in the event that key personnel leave the credit department.
- helps ensure consistent credit decisions - meaning that all customers will be treated fairly.
- Can be used as a training tool.
- Provides details description of all stages of the lending process.

2. Mission and Vision

The mission of Margdarshak is derived from its reasons of existence i.e. mentoring institutions, skills and capacities for poverty alleviation. We believe that providing opportunities for expanding sources of income and livelihood and supporting them in accessing and using these opportunities will enable the poor and the marginalized community to bring itself out of the poverty trap. It is with this mission that the organization was established. For microfinance, we shall be following the same mission. The mission of Margdarshak therefore is:

Mission

Providing a holistic bouquet of financial products and services to the economically weaker enterprising sections of the community for enabling mainstreaming and socio-economic betterment.

Vision

Margdarshak's vision for the year 2017 is derived from its broad endeavour to work in the economic strengthening of the community. In this context our vision for micro lending is -

Adapting industry best practices in all aspects of organisation for emerging as financial service provider of choice for 200000 families in North and Central India.

3. Code of Conduct

The code of conduct for Margdarshak lays down guidelines for general ethical behaviour of staff and professionalism and diligence in performance of work. All employees of Margdarshak should adhere to professional behaviour in interactions both within the organisation as well as with clients and external parties.

Integrity

- Act honestly, fairly and reasonably in conducting microfinance activities.
- Conduct our microfinance activities by means of fair competition, not seeking competitive advantages through illegal or unethical microfinance practices. No officer, employee, agent or other person acting on our behalf shall take unfair advantage of anyone by manipulation, concealment, abuse of privileged information, misrepresentation of material facts or any other unfair practice.
- Ensure that our staff and any person acting for us or on our behalf, are trained or oriented to put these values into practice.

Transparency

- Disclose to clients all the terms and conditions of our financial services offered in the language understood by the client.
- Disclose the source of funds, costs of funds and use of surpluses to provide truthful information to clients.
- Provide information to clients on the rate of interest levied on the loan, calculation of interest (monthly/quarterly/half-yearly), terms of repayment, and any other information related to interest rates and other charges.
- Provide information to clients on the rate of interest offered on the thrift services provided by us.
- Provide information to clients related to the premium being charged on insurance offered by us as intermediaries.
- No Loans will be provided against gold ornaments.

Fair Practices

- Provide micro finance services to low income clients irrespective of gender, race, caste, religion or language.
- Ensure that the services are provided using the most efficient methods possible to enable access to financial services by low income households at reasonable cost.
- Recognize our responsibility to provide financial services to clients based upon their needs and repayment capacity.
- Promise that, in case of loans to individual clients below Rs. 25,000, the clients shall not be asked to hand over original land titles, house pattas, ration cards, etc as collateral security for loans except when obtaining copies of these for fulfilling “know your customers” norms of the RBI. Only in case of loan to individual

clients of Rs 25,000/- and above can land titles, house pattas, vehicle RC books, etc. be taken as collateral security.

- Interact with the clients in an acceptable language and dignified manner and spare no efforts in fostering clients' confidence and long-term relationship.
- Maintain decency and decorum during the visit to the clients' place for collection of dues.
- Avoid inappropriate occasions such as bereavement in the family or such other calamitous occasions for making calls/visits to collect dues.
- Scrupulously avoid any demeanour that would suggest any kind of threat or violence.
- Emphasize using social collateral which includes various forms of peer assurance such as lending through groups and group guarantees at the village, hamlet or neighbourhood level, or guarantees by relatives, friends, neighbours or business associates; and explain clearly to clients what the obligations of social collateral are.
- No loans to be provided against gold jewellery.

GOVERNANCE

- Observe high standards of governance, ensuring fairness, integrity and transparency by inducting persons with good and sound reputation, as members of Board of Directors. We shall ensure that directors are involved in all policy formulation and other important decisions.
- Ensure transparency in the maintenance of books of accounts and reporting/presentation and disclosure of financial statements by qualified auditor/s.
- Put in our best efforts to follow the Audit and Assurance Standards issued by the Institute of Chartered Accountants of India (ICAI).
- Place before the Board of Directors, a compliance report indicating the extent of compliance with this Code of Conduct, specifically indicating any deviations and reasons therefore, at the end of every half financial year.

FEEDBACK/ GRIEVANCE MECHANISMS

- Establish effective and efficient feedback mechanism
- Take steps to correct any errors and handle complaints speedily and efficiently.
- In case the complainant is not satisfied with redressal given, the client can approach Grievance Redressal Officer, MFIN, 705, Tower B , Millenium Plaza , Sushant Lok I, Gurgaon 122002, Haryana. Toll Free No. 18002700317, Phone no. 0124-4212570.
- If the client complaint is not closed within one month, then the client can complaint/appeal to Officer-in-charge, Regional Office, DNBS, Reserve Bank of India, 16/104, A-5, Mall Road, Near Wescott School Officers' Quarters, Civil Lines, Kanpur 208001. Phone No. 0512-2333266.

4. Fair Practice Code (detail):**4.1. (i) Applications for loans and their processing**

- a) All communications to the borrower will be in the vernacular language.
- b) Loan application forms will include necessary information which affects the interest of the borrower, so that informed decision can be taken by the borrower. The loan application form will indicate the documents required to be submitted with the application form.
- c) Acknowledgement receipt will be provided against receipt of all loan applications to the borrower and receipt provided will clearly indicate the time frame of disposal.

(ii) Loan appraisal and terms/conditions

- a) Borrower will be informed in writing (vernacular language) about the loan amount sanctioned along with the terms and condition including the annualized rate of interest. Copy of acceptance of terms and conditions will be kept as record.
- b) There will be no penal interest charged for late repayment.

(iii) Disbursement of loans including changes in terms and conditions

- a) Borrowers will be duly informed in vernacular language or a language as understood by the borrower in any change in the terms and conditions including disbursement schedule, interest rates, service charges, prepayment charges etc.
- b) Decision to recall / accelerate payment or performance under the agreement will be in consonance with the loan agreement.
- c) Loan provided to the borrower will be without collateral.

(iv) General

- a) MFSL will refrain from interference in the affairs of the borrower except for the purposes provided in the terms and conditions of the loan agreement (unless new information, not earlier disclosed by the borrower, has come to the notice of the lender)
- b) In case of receipt of request from the borrower for transfer of borrowal account, MFSL will convey within 21 days from the date of receipt of request. Such transfer shall be as per transparent contractual terms in consonance with law.
- c) Recovery of loans will only be made at group meeting place and the staff will not persistently bother the borrowers at odd hours or use muscle power for recovery of

loans etc. Staff will maintain decency and decorum during the visit to the clients' place for collection of dues.

- (v) There will be periodical review of consolidated compliance report indicating the extent of compliance handled by the Grievance Redressal Officer with respect to Fair Practice Code at every quarterly board/internal audit committee meeting.
- (vi) Fair Practices Code will be displayed in vernacular language or a language as understood by the borrower in all the branches including the website for the information to various stakeholders.
- (vii) **Interest Rate Setting**
 - (a) The Board of MFSL shall adopt an interest rate model taking into account relevant factors such as, cost of funds, margin and risk premium, etc and determine the rate of interest to be charged for loans and advances. The rate of interest and the approach for gradations of risk and rationale for charging different rate of interest to different categories of borrowers shall be disclosed to the borrower or customer in the application form and communicated explicitly in the sanction letter.
 - (b) The rates of interest and the approach for gradation of risks shall also be made available on the web-site of the companies or published in the relevant newspapers. The information published in the website or otherwise published should be updated whenever there is a change in the rates of interest.
 - (c) The rate of interest should be annualised rates so that the borrower is aware of the exact rates that would be charged to the account.

(viii) **Complaints about excessive interest charged**

MFSL will lay out appropriate internal principles and procedures in determining interest rates and processing and other charges

4.2. Margdarshak Financial Services Ltd will adopt the following fair practices detailed below:-

i. General:

- a. Fair Practice Code in vernacular language will be displayed in its office and branch premises,
- b. All borrowers will be provided with the loan card & all repayments to be duly entered and acknowledged with signature and date of receipt.
- c. Field staff will be trained to make necessary enquiries with regard to existing debt of the borrowers,
- d. Training offered to the borrowers will be free of cost.
- e. The effective rate of interest charged and the grievance redressal system set will be prominently displayed in all its offices and on the loan card issued to the borrower (vernacular language) and on its website. Grievance Redressal Officer –toll free number 18001231088 and mail id is complaint@margdarshak.org.in is displayed on loan card and in all its offices.

- f. MFSL will be accountable for preventing inappropriate staff behavior and timely grievance redressal shall be made in the loan agreement and also in the FPC displayed in its office/branch premises,
- g. The KYC Guidelines of RBI shall be complied with. Due diligence shall be carried out to ensure the repayment capacity of the borrowers,
- h. All sanctioning and disbursement of loans will be done only at a central location and more than one staff will be involved in this function.
- i. Adequate steps are to be taken to ensure that the procedure for application of loan is not cumbersome and loan disbursements are done as per pre-determined time structure.

ii. Disclosures in loan agreement / loan card

- a. There will be standard form of loan agreement which will be in vernacular language.
- b. The loan agreement will disclose the following.
 - i. All the terms and conditions of the loan,
 - ii. Pricing of the loan include only three components viz; the interest charge, the processing charge and the insurance premium (which includes the administrative charges in respect thereof),
 - iii. There will be no penalty charged on delayed payment,
 - iv. Loan provided to the borrower will be without collateral,
 - v. The borrower cannot be a member of more than one SHG / JLG,
 - vi. There must be minimum 15 days moratorium between the date of disbursement of loan and due date of repayment of 1st installment.
 - vii. Privacy with respect to borrower data will be maintained.
- c. The loan card will reflect the following-
 - (i) the effective rate of interest charged
 - (ii) all other terms and conditions attached to the loan
 - (iii) information which adequately identifies the borrower and
 - (iv) Acknowledgement of all repayments including installments received and the final discharge.
 - (v) The loan card will display grievance redressal system along with the name and contact detail of Grievance Redressal Officer for handling complaint speedily and efficiently. Grievance Redressal Officer whose number is 18001231088 and mail id is complaint@margdarshak.org.in is displayed in loan card and in all the offices. If the client complaint is not closed within one month, then the client can complaint/appeal to Regional Office of Reserve Bank of India at Kanpur, DNBS department.

- (vi) Non-credit products issued shall be with full consent of the borrowers and fee structure shall be communicated in the loan card itself.
- (vii) All entries in the Loan Card will be done in vernacular language.

iii. Non-Coercive Methods of Recovery

Recovery should be made at the group meeting place only. Door to Door recovery can only be done if borrower fails to appear at the meeting place on two or more successive meetings.

5. Validity and Authority

- The Credit Policy and Operational Manual is the guiding documents for the credit operations of the organisation.
- This policy will remain in force till the next revision.
- This policy will be read in conjunction with all other policies, circulars/master circulars /manual/ process guidelines issued from time to time

6. Credit Management Structure and Policy

6.1. General Principles

- Area Identification and Area Survey to be undertaken by special teams formed by the Management.
- Promotional Meeting, client identification and day to day management of the relationship with the client will rest with the field officer.
- To ensure timely approval, the field officer shall obtain complete information. Final decision of loan shall be communicated to the client with 15 days of completion of CGT (Continuous Group Training)

6.2. Credit Authorities and Approval Limits

6.2.1. Board of Directors

The Board has overall responsibility for the credit policy of the organisation and subsequent revisions of the same. Other specific responsibilities include the following:

- Approving significant revisions to credit policy
- Establishing portfolio distribution guidelines in conformity with existing Regulations.
- Approving organisation credit management structure.
- Establishing credit approval authorities including the level of delegation.
- Approving write-offs.
- Approving changes in the legal lending limits and risk limits used in the bank.

6.2.2. The Managing Director /CEO

The CEO is responsible for reviewing and recommending all credit items which are to be submitted to the Board and;

- Establishing guidelines for pricing of credit facilities to be approved by the Board.
- Approving all credits, which are within his/her approval limit
- Reviewing the portfolio diversification in line with guidelines given by the Board.
- Reviewing credit related systems and their implementation.
- Monitoring portfolio risk and managing decisions to improve.
- Reviewing and recommending write-offs based on the presentation and recommendation.
- Reviewing provisions for non-performing loans.
- Ensuring implementation of all credit policies and procedures by all staff

6.2.3. Management Committee

The Management Committee is the highest advisory body to the CEO on credit and other issues. The CEO chairs it or a member appointed by him/her. Members of the MC include CEO, COO, Head of Risk & Internal Audit , Finance Head, Administration Head, Client Grievance Head, HR Head. The Committee shall meet once every two weeks.

Other responsibilities of the MC include reviewing for referral to the CEO, all credit and credit related issues as follows:

- Credit related systems and procedural issues
- Issues affecting credit process efficiency and/or effectiveness
- Annual reviews of the Credit Policy to be conducted by the Risk Management.
- Credit process elements rated unsatisfactory by the Risk Management and Audit Departments.

Suggestions to the Credit Policy as may be submitted by any staff/Group.

6.2.4. Responsibilities of Operations Team

Activity	Goal	Tool to be used	Designation-wise monitoring responsibilities					
			BM	DM	AM	RM	ZM	COO
Client Identification Phase								
During GRT	Applicant meets the minimum eligibility criteria for obtaining loan as per MFSL and RBI guidelines.	GRT Approval sheet and Mobile Application.	All loans upto INR25000	10 GRT per month	8 GRT per month	8 GRT per month	4 GRT per month	4 GRT per month
				All Loans above INR 25,000	-All Individual Loans			
			In a newly established branch , <ul style="list-style-type: none"> - The 1st 5 GRT's are to be conducted by DM's only - GRT's for groups no. 6 to 10 are to be conducted by AM's only. - GRT's for groups no. 11 to 15 are to be conducted by RM only. - GRT's for group no. 15 to 20 are to be conducted by ZM only. 					
Disbursement	Branch Limit -100 clients on any given day. No disbursement on the last day of the month.	Expected Disbursement Sheet and Mobile App	3 groups or Rs. 12 lakh per day	DM presence in branch for monitoring in case branch disbursement for that day is >12 lakh or > 3 groups.	AM presence required in case disbursement is more than 6 groups			
			In a newly established branch : <ul style="list-style-type: none"> - The 1st 5 groups are to be disbursed by AM's only - Disbursement for group's no. 6 to 10 is to be conducted by RM only. - Disbursement for group no. 11 to 15 are to be done by ZM only 					

Activity	Goal	Tool to be used	Designation-wise monitoring responsibilities					
			BM	DM	AM	RM	ZM	COO
Group and Client Monitoring During the Tenure of the Repayment								
<ul style="list-style-type: none"> Loan Utilisation Check (LUC) 	To verify that the loan has been used for the purpose it was approved for and has been used for income generating activity as per MFSL guidelines.	Group Audit Tool on mobile by	100% groups within one month of disbursement.					
<ul style="list-style-type: none"> Group Audit and Client Verification 	<p>To audit the group performance and their grading.</p> <p>To do physical verification of active clients and confirming the loan amounts, business and match the loan cards with client ledgers (Loan Portfolio matching)</p>	<p>Group visit register in the branch &</p> <p>Group audit tool on the mobile &</p> <p>Client audit tool on the mobile</p> <p>(100% of groups and clients are to be audited and verified)</p>	<p>100% groups and clients in 16th-17th -18th meeting in case of 18/24 months loans and 10th -11th meeting in case of 12 months loan</p>	<p>100% of all groups and clients in the 2nd /3rd /4th meeting of all branches under supervision.</p> <p>Repeat for 50% in the 3rd last EMI for all branches under supervision.</p>	<p>25% of all groups and clients 6th- 10th meeting of all branches under supervision.</p> <p>Repeat for 25% in the 2nd last EMI for all branches under supervision.</p>	<p>All groups and clients not verified by BM / DM/ AM by 10th meeting.</p>	<p>All groups and clients not verified by DM/AM/RM by 11th meeting.</p>	<p>All groups and clients not verified by DM/AM/RM/SM by 12th meeting.</p>

Activity	Goal	Tool to be used	Designation-wise monitoring responsibilities					
			BM	DM	AM	RM	ZM	COO
				<p>The list of groups and clients to be visited by the respective managers (DM and above) will be shared by the Risk Management Department by end of each month.</p> <p>Every visit should be logged in the mobile app only. Failure of mobile app should be reported to the IT department from field itself and uploading done before leaving the field.</p>				
					<p>AM and above to ensure that they visit clients and groups which have not been verified by the DM till 5th meeting.</p> <p>Groups and clients not verified till 11th meeting to be verified by audit and reserve ops team.</p>			
OD Recovery and Delinquency Management	To prevent clients slipping to NPA and OD Recovery	OD collection module on the mobile app.	Recovery of all instalments which are more than 1 to 30 days overdue.	Recovery of all instalments which are between 30 to 60 days overdue.	Recovery of all instalments which are more than 60 to 90 days overdue.	Recovery of all instalments which are more than 90 to 120 days overdue.	Recovery of all instalments which are more than 120 days overdue.	Recovery of all instalments which are more than 150 days overdue
		To be monitored by the RMD.		<p>In case of Death cases the manager visiting should complete the pendency of the documents and ensure that the same is submitted to HO within 15 days of the visit.</p> <p>All Death cases which are more than</p> <ul style="list-style-type: none"> - 90 days past date of death intimation to be resolved and managed by RM within 1 month of crossing 90 day threshold - 120 days past date of death intimation to be resolved and managed 				

Activity	Goal	Tool to be used	Designation-wise monitoring responsibilities					
			BM	DM	AM	RM	ZM	COO
				by ZM within 1 month of crossing 120 day threshold - 150 days past date of death intimation to be resolved and managed by COO within 1 month of crossing 150 day threshold.				
Loan Foreclosure	To ensure all loan foreclosures are done at branch and recorded in software		To ensure all loan foreclosures are done at branch and recorded in s/w	To visit all loan foreclosure cases to cross check correct reporting by FOs	To visit atleast 75% of loan foreclosure cases to cross check correct reporting by FOs	To visit atleast 50% of loan foreclosure cases to cross check correct reporting by FOs	To visit atleast 25% of loan foreclosure cases to cross check correct reporting by FOs	To visit loan foreclosure cases on sample visit
					Note: Sampling to be done and approval taken in consultation with COO.			
Client Retention	To retain good members and understand the reasons for client exit.	Client Exit Survey form The list of such clients is to be taken from s/w (clients settled	To complete and upload the client exit form for all members who are	To visit all clients who have not taken loan even after 2 months of loan closure and complete	To visit all clients who have not taken loan even after 3 months of loan	To visit all clients who have not taken loan even after 4 months of loan closure and		

Activity	Goal	Tool to be used	Designation-wise monitoring responsibilities					
			BM	DM	AM	RM	ZM	COO
		by not disbursed report). RMD will be providing the lists to all managers for visits.	not borrowing at the time of re-lending of the group.	and upload client exit survey form.	closure and upload client exit survey form.	upload client exit survey form.		
Client Grievance	To address all the issues at the right time and to avoid leading of such grievances to bad loans or risk of reputation to the organization	The client grievance resolution allocation will be done by the grievance management cell / executive.	To resolve all allocated client grievances within 15 days and submit resolution / satisfaction report to the client grievance management cell / executive.					
Client Interface Meeting	To make the clients aware of the following processes & aspects: <ul style="list-style-type: none"> - Complaint submission and registration - Foreclosures - Credit discipline - Key loan terms (interest rates, 	CIF Register. CIF material / charts.	To ensure 1 CIF is conducted every quarter in his / her branch.	To conduct 1 CIF every quarter in all branches	To conduct 1 CIF in one district each month	To conduct 1 CIF in one district each month	To conduct 1 CIF in one district each month	To conduct at least 1 CIF each month.

Activity	Goal	Tool to be used	Designation-wise monitoring responsibilities						
			BM	DM	AM	RM	ZM	COO	
	EMI etc) In BC branches the name of the sponsoring bank should be made aware to the client.								
		COO to plan and allocate the responsibilities on quarterly basis.		Please ensure that branches being covered by DM during the quarter are not repeated and only those branches are covered where CIF has not been conducted in the ongoing quarter.					
Branch Visit and Monitoring	To monitor the branches and to monitor the following: <ul style="list-style-type: none"> - The processes as laid by the policies are followed - All required policies and documents are displayed - Adequate manpower is available in the branch - Conduct 3 hours of training of FO's and branch 	Branch Visit Report (word)		All branches with at least 4 days per month in each branch	-6 branches per month with at least two days spent in each branch. -All branches to be covered in at least once in a quarter	-4 branches per month with at least two days spent in each branch -All branches to be covered in at least once in 6 months.	-3 branches per month with at least two days spent in each branch -All branches to be covered in at least once in 6 months	-3 branches per month with at least two days spent in each branch.	

Activity	Goal	Tool to be used	Designation-wise monitoring responsibilities					
			BM	DM	AM	RM	ZM	COO
	executives on all key operational processes and record keeping.							
			Selecting of a particular branch by the supervisor will be based on the following parameters: <ol style="list-style-type: none"> 1. Branch with highest PAR will be visited for at least 2 days 2. Newly established branch will be visited for at least 2 days wherein promotion meetings to be organized. 3. Branch with an audit score of less than 60 will be visited for at least 2 days. 4. Branch with highest attrition rate, staff grievance and issues like low attendance etc. 5. Branch with highest client complaint or no complaint 6. Branch with highest slippage to OD 					
Branch Review meeting	Branch Review Meeting will be held on every Saturday of the month at the district office (Area Office) to review the performance of each branch and plan the disbursement of the week in advance. feedback from the team will be taken to			Organise weekly review of all branches under him	Participate in at least 2 Weekly Review Meetings in a month.	Participate in at least 2 Weekly Review Meetings in a month.	Participate in at least 1 Weekly Review Meetings in one months.	Participate in at least 1 Weekly Review Meeting in one month

Activity	Goal	Tool to be used	Designation-wise monitoring responsibilities						
			BM	DM	AM	RM	ZM	COO	
	improve the performance and resolve the issues of the branch								
FO /BM /DM/ AM/ RM score	<p>All staff in the Operations Department will be reviewed by their respective supervisors.</p> <p>All staff receiving low scores will be reviewed by their next immediate supervisor.</p> <p>This rating will be considered in the annual appraisal of the respective staff each year.</p> <p>Monthly scores will carry 70% weightage in the promotion interviews and annual appraisals.</p>	<p>FO /BM /DM/ AM/ RM scoring excel sheet</p> <p>Staff performance improvement plan (template provided)</p>	<p>To rate all FOs under him monthly and submit the scores on last working day of the month</p>	<p>To rate all BMs reporting to him monthly.</p> <p>To review the performance of all FO's scoring less than 80 under supervision</p>	<p>To rate all District Managers reporting to him.</p> <p>To review the performance of all</p> <ul style="list-style-type: none"> - BM's scoring less than 80 - FO scoring less than 60 	<p>-To rate all Area Managers reporting to him.</p> <p>- To review the performance of all</p> <ul style="list-style-type: none"> - DM's scoring less than 60 - BM's scoring less than 50 & - FO's scoring less than 40 	<p>-To rate all Regional Managers reporting to him.</p> <p>To review the performance of all</p> <ul style="list-style-type: none"> - AM's scoring less than 60 - DM's scoring less than 50 & - BM's scoring less than 40 	<p>-To rate all Zonal Managers reporting to him.</p> <p>-</p>	
			A 2 month performance improvement plan (PIP) for all low scoring employees will be developed as per the responsibility matrix given in the shaded portion above. The copy of the same is to be shared with the concerned employee, reporting officer and RMD / HR department.						

Activity	Goal	Tool to be used	Designation-wise monitoring responsibilities					
			BM	DM	AM	RM	ZM	COO
			<p>It is the responsibility of the reporting officer to submit fortnightly progress report to the departments and his / her supervisor / person who developed the PIP indicating the progress against the PIP.</p> <p>Any person scoring less than 70 in 3 consecutive months will be replaced and put into a different work responsibility. (To be monitored and managed by HR department)</p> <p>Any person scoring less than 70 in 5 consecutive months [in addition to 3 months given above] will be removed from the payrolls of the organisation.</p>					

6.3. Lending Exposure

In order to manage the credit and operational risk better and to ensure that the risks are effectively controlled and rightly managed, it has been decided to introduce ceiling/cap on the loan amount to be serviced/ disbursed.

Individual / Group/Centre Exposure

(a) In respect of group lending under micro finances the individual/group exposure shall be as follows:

For Single Borrowers	Rs.50,000
Group Exposure	Rs. 4,00,000
Centre Exposure	Rs. 7,50,000

b) In respect of individual lending under enterprise loan the individual/group exposure shall be as follows:

For Single Borrowers	Rs.3,00,000
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c) The exposure cap applicable for a particular branch shall be as under:

Branch	10% of the total portfolio of Margdarshak
District	15% of overall portfolio

6.4. KYC and Anti Money Laundering Policy

1.1 RBI has advised all the Financial Institution to follow certain customer identification procedure for monitoring the transaction of the suspicious nature for the purpose of reporting it to the appropriate authority. The recommendations made by the Financial Action Task Force (FATF) on Anti Money Laundering (AML) standards and on Combating Financing of Terrorism (CFT) standards have become the international benchmark for framing Anti Money Laundering and combating financing of terrorism policies by the regulatory authorities. Compliance with these standards both by the banks/financial institutions, including HFCs, has become necessary for international financial relationships.

1.2 RBI has issued the guidelines under Section 45K and 45L of the RBI Act, 1934 and Rule 7 of Prevention of Money-Laundering (Maintenance of Records of the Nature and Value of Transactions, the Procedure and Manner of Maintaining and Time for Furnishing Information and Verification and Maintenance of Records of the Identity of the Clients of the Banking Companies, Financial Institutions and Intermediaries) Rules, 2005 and any contravention thereof or non-compliance may attract penalties under Banking Regulation Act. The guidelines also incorporate aspects covered in the Basel Committee document on customer due diligence which is a reflection of the International Financial Community's resolve to assist law enforcement authorities in combating financial crimes.

This policy document is prepared taking into account the guidelines enumerated in the Master Circular dated July 2, 2012 issued by RBI on Know Your Customer (KYC, Anti Money Laundering Act, 2002, and other obligation of NBFC in terms of rules notified there under)

1.1. To lay down policy framework for abiding by the Know Your Customer Norms and Anti Money Laundering Measure as set out by Reserve Bank of India, based on the recommendations of the Financial Action Task Force (FATF).

1.2. The objective of KYC/AML/CFT Policy is to prevent MFSL being used intentionally or unintentionally, by criminal elements for money laundering activities.

1.3. To enable the MFSL to know / understand its customers and their financial dealings better, which in turn would help it to manage its risks prudently.

1.4. To lay down explicit criteria for acceptance of customers.

1.5. To establish procedures to verify the bona-fide identification of individuals/ non individuals customers.

1.6. To establish processes and procedures to monitor high value cash transactions and /or transactions of suspicious nature.

1.7. To develop measures for conducting due diligence in respect of customers and reporting of such transactions.

1.8. To put in place appropriate controls for detection and reporting of suspicious activities in accordance with applicable laws / laid down procedures and regulatory guidelines.

1.9. To comply with applicable law and regulatory guidelines

1.10. To take necessary steps to ensure that the relevant staff are adequately informed and trained in KYC/AML procedures.

1.11. To manage the risk associated with dealing with customers who are potentially in contravention of KYC and AML norms.

Scope of the Policy

1.12. This policy is applicable across all branches / business segments of MFSL and is to be read in conjunction with related operational guidelines issued from time to time.

1.13. The contents of the policy shall always be read in tandem/auto-corrected with the changes/modifications which may be advised by RBI and / or by any regulators and / or by MFSL from time to time.

Key Elements of KYC Policy

In view of challenges of obtaining /capturing KYC documents on a highly standardised basis and as per recommendations of MFIN, it has been decided to take a minimum two KYC documents from clients, **one of them necessarily being either UID (Aadhaar) or Voter ID.**

Therefore, for all loans disbursed it is to be ensured that:

- a. At least 2 KYC IDs are taken for the client from amongst 4 KYC IDs (Aadhaar, Voter ID, Ration and MNREGA Job Card). ^[L]_{SEP}
- b. First (or Primary) KYC ID has to be Aadhaar or Voter ID. *This means no loan can be given if neither Aadhaar ID nor Voter ID is available.* ^[L]_{SEP}
- c. Voter ID has to be captured for 90% of the loans disbursed.
- e. If either Aadhaar or Voter ID is not available for a client, secondary KYC document to be captured from Ration Card or MNREGA Job Card ^[L]_{SEP}

Note: Ration Card is accepted as KYC document for the borrower only if borrower name is mentioned on the Ration Card ^[L]_{SEP}.

The KYC Policy has the following key elements:

1. Customer Acceptance Policy

- 1.1. In the loan application/membership forms signatures are to be done in presence of the Branch Manager. Copies of documentary evidence obtained are to be verified from original documents and duly attested by the authorized official under his stamp and signature.
- 1.2. The decision to add new members of politically exposed persons (PEP) / his family members or close relatives shall be taken by the COO.

2. Customer Identification Procedure

For the purpose of member identification it is necessary to obtain sufficient information with the help of reliable, independent source, documents, data or information so as to establish and verify the identity of each new client, to the satisfaction of the organisation. For this purpose following information and documents are to be taken:

- 2.1. Introduction - The person giving introduction should be of some standing and she herself should be a client with Margdarshak for at least six months. The intention is to enable proper identification of the person coming for new membership so as to be able to trace the person later on if required. New members shall not be considered by the introduction of persons having default or the other process compliances are not satisfactory. In case of newly opened branches, introduction of respectable person residing in the local area of operation of the branch, shall be considered.
- 2.2. Address Proof - Branch shall satisfy itself about the correct and full address along with phone number etc. of the prospective member before filling the loan application of the member.
- 2.3. Photo ID: Every prospective customer shall produce his photo identification by way of valid documents as mentioned above.
- 2.4. Photograph of member-At the time of taking loan application of the member, it is mandatory to obtain joint photographs of the member with spouse. Photograph shall be recent and its cost to be borne by the member. The branch should obtain photograph in respect of Pardanashin (veiled) women also.[Two set of joint photograph is to be obtained in addition to mobile photo of the client-soft copy of which needs to be uploaded in the software.

3. Risk Management

- 3.1. Auditor should be advised to comment on the status of compliance of KYC norms/policies and their observations shall be placed before Audit Committee on regular basis
- 3.2. The staff may be adequately trained on ongoing basis in KYC procedures. KYC Policy to be covered as an essential part of all the training programmes.

Personal information collected from the members for complying KYC norms should not be used for cross selling of other products. Such information should not be supplied to outside agencies as it would amount to breach of customer confidentiality obligations. Branches should adhere to this stipulation very strictly.

Obligations under Prevention of Money Laundering (PML) Act 2002

Government of India, Ministry of Finance, Department of Revenue, vide its notification dated July 1, 2005 in the Gazette of India, has notified the Rules under the Prevention of Money Laundering Act (PMLA), 2002. In terms of the said Rules, the provisions of PMLA, 2002 came into effect from July 1, 2005. Section 12 of PML Act 2002 places certain obligations on every banking company, financial institution and intermediary, which include:

- a) Maintenance of records of transactions
- b) Information to be preserved
- c) Maintenance and preservation of record
- d) Reporting to Financial Intelligence Unit – India

In accordance with Section 12 of PMLA, MFSL will take appropriate steps to evolve a system for proper maintenance and preservation of account information in a manner that allows data to be retrieved easily and quickly whenever required or when requested by the competent authorities.

1.3. Further, the MFSL must also preserve and maintain all necessary records pertaining to the identification of the customer and his address (e.g. copies of documents like passports, identity cards, driving licenses, PAN, utility bills etc.) during the course of business relationship for at least ten years from the date of cessation of transaction between the MFSL and the customer, so as to provide, if necessary, evidence for prosecution of persons involved in criminal activity.

Information to be preserved

As per the PML Act, all necessary information in respect of transactions referred to in Rule 3 of PML Act has to be maintained properly, to permit reconstruction of individual transaction, including the following information:

- a) the nature of the transaction;
- b) the amount of transaction
- c) the date on which the transaction was conducted; and
- d) the parties to the transaction

Reporting to Financial Intelligence Unit-India

1.14. In terms of PMLA Rules, MFSL shall be required to report information relating to cash and suspicious transactions to the Director, Financial Intelligence Unit-India (FIU-IND) in respect of transactions referred to in Rule 3 at the following address :

Director, FIU-IND

Financial Intelligence Unit-India 6th Floor, Hotel Samrat Chanakyapuri

New Delhi – 110 021

Website – <http://fiuindia.gov.in/>

1.15. MFSL will ensure that the provisions of PMLA Rules framed and the Foreign Contribution and Regulation Act, 1976, wherever applicable, are adhered to strictly.

1.16. MFSL shall strictly comply with all formalities including timely submission of all applicable report and returns in the prescribed format with regards to cash & suspicious transaction qualifying under PML Rules directly to FIU-IND through the designated Principal Officer(s) of the company. However, as had been earlier advised, there is no need for submission of NIL report in respect to the above. Further, MFSL and its employees shall maintain strict confidentiality of the fact of furnishing/reporting details of suspicious transactions.

Appointment of Principal Officer

1.17. To ensure monitoring and reporting of all transactions and sharing of information as required under Rule 7 of the Prevention of Money Laundering (Maintenance of Records etc.) 2005.

1.18. Principal Officer for KYC will act independently and report directly to the concerned Director/MD/CMD or to the Board of Directors.

1.19. Principal Officer shall be located at the head/corporate office of MFSL

1.20. Principal Officer shall be responsible for monitoring and reporting of all transactions and sharing of information as required under the law.

1.21.He will maintain close liaison with enforcement agencies, MFSL and any other institution which are involved in the fight against money laundering and combating financing of terrorism.

1.22.Further, the role and responsibilities of the Principal Officer shall include overseeing and ensuring overall compliance with regulatory guidelines on KYC/AML/CFT issued from time to time and obligations under the Prevention of Money Laundering Act, 2002, rules and regulations made there under, as amended from time to time.

1.23. With a view to enabling the Principal Officer to discharge his responsibilities effectively, the Principal Officer and other appropriate staff shall have timely access to customer identification data and other CDD information, transaction records and other relevant information.

6.5. Pre settlement Policy

Pre-settlement is early repayment of a loan by a borrower. In case of clients’ need, the client can prepay/pre-settle a loan by paying the balance loan along with the interest due till that date. The pre-settlement process and guideline is reiterated and will be applicable till further notice:

- Pre-settlement is to be done at the branch.
- The client can come to the branch with the loan card for pre-settlement. MIS to check the pre-settlement amount from the software and convey to BM/Cashier. This amount needs to be collected from the client against receipt.
- BM to visit the group and verify the prepayment.

Please note the following:

- Part prepayment is not allowed.
- No prepayment penalty shall be charged from the client.
- Prepayment shall not be done for taking higher loan amount/next cycle loan and in a group, loan of all clients shall be FO-terminus.

6.6. Asset Classification and Income Recognition

6.6.1. Asset Classification

Loans to customers are classified as Standard and Non-performing assets on the criteria laid down below: -

Particulars	Criteria
-------------	----------

Standard Asset	The asset in respect of which, no default in repayment of principal or payment is perceived and which does not disclose any problem nor carry more than normal risk attached to the business.
Sub-Standard Asset	An asset for which interest/ principal payment has remained overdue for a period of 90 days or more.
Loss Asset	An asset for which interest/ principal payment has remained overdue for a period of 180 days or more.

6.6.2. Income Recognition

Income is recognised on accrual basis in respect of assets which are classified as 'standard'. In case of assets which are classified as a 'substandard' asset income should not be recognised on accrual basis and to be derecognised in case already booked. Income may be recognised in such accounts only on realisation on cash basis.

6.7. Loan Provision for Loan Portfolio:

The company follows the prudential norms for income recognition, asset classification and provisioning as prescribed by the Reserve Bank of India for systemically non-important Non-Deposit taking Non-Banking Financial Company-MFI (NBFC-ND-MFI) on micro finance loans.

The aggregate loan provision to be maintained by the company at any point of time shall not be less than the higher of:

Particulars	Provisioning Norms as per RBI guidelines
Standard Assets	1% of the outstanding portfolio
Sub-Standard Assets	50% of Sub-standard portfolio
Loss Asset	100% provision/ written off **

**All overdue loans including loans where the tenure of the loan is completed and in the opinion of the management any amount is not recoverable, are fully provided for/ written off.

6.7.1. Loan Write Off Policy

When a delinquent loan reaches a certain age in arrears, it may be written off. An accounting policy that under reports write-offs inflates the real size of the asset base. Conversely, an accounting policy that quickly removes delinquent loans from the books can unnecessarily

deplete the real value of the portfolio, while simultaneously overstating portfolio quality. When reviewing the quality of the portfolio, the analyst must look at the level of write-offs for bad debt as well as the level of delinquency.

6.7.2. Process of recommendation for loan write off from branch books

Steps in the process:

- a) Collection of information, observations and report from the subordinate. All pertinent data regarding the bad debt, such as the date of the transaction, the amount of the debt, the date it was determined to be uncollectible and the amount that is uncollectible.
- b) Analyze data for necessary action points and planning for field visits.
- c) Visit clients; understand the problems, system failures, person failures. Ensure to visit the indicated number of accounts as per day. Record the observations in the OD Account Sheet format given below.
- d) Verify the loan is indeed uncollectible. It must also be verified that all possible avenues of collection was used in order to prove the debt is indeed a bad debt.
- e) Take required decision on whether the case deserves write off in companies interest
- f) Forward recommendations for write off on loan accounts to the reporting officer with remarks.
- g) In all such cases where in, legal action is initiated to recover the loan, only the due in excess of amount decreed to be written off.

In case of write off over Rs. 5,000/-, **Head Office team headed by Internal Audit Manager and Audit Assistant must verify that the loan is** either partially or totally uncollectible. Once the Head Office team is convinced about the write off, the team may put up the case to the Write-Off Committee, giving detailed report on action taken, including dates of visits by HO team/Area Manager and then justifying the write-offs.

Note: OD Register is to be filled by staff visiting the accounts and kept in the Branch Office and should also be referred during write off process.

Format for recommending loans to be written-off

S. No	Name of the Borrower	Loan No.	Village	Amount Disbursed (Rs.)	Amount Recovered (Rs)		Amount Due (Rs) as on date		Over due days	No. of movement days
					Principal	Interest	Principal	Interest		

The write off decision should take the context and situation in the village/area. We need to take care by way of appropriate communication within and outside that there is no adverse impact on loan recovery rate in the village ahead. Hence, it is suggested that the village/area wise observations are made while recommending for write offs.

6.8. Loan Rescheduling or restructuring

Rather than loan write off, sometimes it may be decided to restructure loans. Often times, this decision comes when a client has experienced an unavoidable crisis, such as a major economical problems, natural disasters or any unexpected situations., which has prevented the normal repayment of the loan. In these cases, the client's will and ability to repay are almost certain to begin again after a recovery period. In these rare cases, a loan can be rescheduled.

Restructuring should be considered as exception, and not a norm, in dealing with delinquent loans. In such cases, the principal should be reported separately from the healthy portfolio. Provision for restructured loans should be 100% due to the increased risk for default in the restructured loan. At present rescheduling is done by shifting days that offsets all installments due by a number of days. No extra interest is charged during this offset days, Rescheduling can also be done by adding grace period before next installment. This grace period is defined in number of installments.

Debt Restructuring Guidelines

- Restructuring shall be taken up only if there is certainty of repayment from the client.
- Clients indulging in frauds and wilful defaults shall not be eligible for restructuring. Where strong justifiable reasons exist for considering restructuring the accounts of a wilful defaulter, it should be ensured that the client has taken satisfactory steps to rectify the wilful default.
- Restructuring cannot be done with retrospective effect.
- The repayment period of restructured advance including the moratorium, if any, does not exceed 2 years.
- MFSL should have the right to prepone repayment instalments.

6.9. Discouraged Loans

The MFI specifically discourages the following types of credit facilities:

- Loans that bailout or replace other lenders who wish to withdraw
- Loans to political candidates, parties or other political organizations loans to gambling enterprises
- Loans for drugs and alcohol related activities
- Loans relating to armament activities

6.10. Exclusion Policy

The clients applying for the loan from Margdarshak under income generation activities will not be financed for the following activities under sanctionable and Prohibited Practices. The Microfinance Exclusion List.

- Production or activities involving harmful or exploitative forms of forced labour/harmful child labour
- Production or trade in any product or activity deemed illegal under host country laws or regulations or international conventions and agreements
- Production or trade in weapons and munitions.
- Gambling, casinos and equivalent enterprises
- Production or trade in tobacco.
- Production or trade in alcoholic beverages (including beer and wine).
- Production and distribution of anti-democratic or neo-nazi media
- Trade in wildlife or wildlife products regulated under Convention on International Trade in Endangered Species of Wild Fauna and Flora
- Production or trade in radioactive materials
- Production or trade in or use of unbounded asbestos fibers
- Commercial logging operations or the purchase of logging equipment for use in primary tropical moist forest (prohibited by the Forestry policy)
- Production or trade in products containing PCBs
- Production or trade in pharmaceuticals subject to international phase outs or bans
- Production or trade in pesticides/herbicides subject to international phase out
- Production or trade in ozone depleting substances subject to international phase out
- Drift net fishing in the marine environment using nets in excess of 2.5 km. in length
- Production or activities that impinge on the lands owned, or claimed under adjudication, by indigenous peoples, without full documented consent of such peoples
- Businesses involved in the production, processing or distribution of illegal drugs
- Pornography or the provision of products or services of a substantially similar nature.

7. Operations Management and Delivery Methodology:

7.1. Lending Methodology:

MFSL follows group based individual (JLG) lending methodology. Its borrowers primarily consist of artisans, MSME's and entrepreneurs both in rural and urban areas. The borrowers are organised in groups of 5-10 and each woman takes joint liability for other group members. The groups are further organised into centres (upto maximum 5 groups in a centre). The centre meeting is held at pre-decided date, time and place where collection of repayment is taken and concerns and challenges of the clients are discussed with the Margdarshak official. The clients are provided 3 days training at the beginning so that they understand the products, processes and terms and conditions of various products.

To assist the company in any technical support (*rolling out a new product, research work etc*) company takes the services of technical consultants like MicroSave, Grameen Foundation etc. SIDBI and Dia Vikas have supported part of technical support to MFSL.

The borrowers are generally economically active women who need funds for income generating activities or for general / consumption purpose. They primarily consist of artisans, MSME's and entrepreneurs both in rural and urban areas.

The lending process and policy of MFSL has evolved over past 5 years and the processes are seasoned to address the local requirements and associated risks. The company's portfolio and outreach is strategically spread across urban, semi-urban and rural geographies to balance the growth and risks. MFSL follows moderate to conservative approach to microfinance where-in microfinance initiatives of the company are supported by livelihood development, financial literacy and social security initiatives which enables the organisation in creating multiple touch points with the clients.

7.2. Product Details:

7.2.1. Loan Eligibility Criteria:

- ❖ **Resident Status:** The applicant should be permanent resident of the area. No person staying on rental accommodation will be given loan.
- ❖ **One family – One Loan:** As per Margdarshak policy one-family can be provided with only one loan. A family means a nuclear or extended family depending upon one kitchen. In case an extended family stays within the same boundary but have different kitchens and different sources of livelihood and then they will be treated as different families, but not kept in the same group. No, of kin relationship allowed in the centre should not be more than the no. of groups provided the source of income is different
- ❖ **Marital Status:** Married. Unmarried women/ widow eligible for loan only if they are minimum 35 years of age.
- ❖ **Age:** 20-55 years.
- ❖ **KYC:** KYC documents (refer KYC) and 4 passport size latest photo to be submitted along with Membership form.
- ❖ It is mandatory to mention the client phone number, caste, loan purpose on membership form.
- ❖ **Occupation:** Applicant, Husband or any other family members must be engaged in income generating activities which fetches regular and assured income.
- ❖ **Income:** The annual household income of the borrower should not exceed Rs. 1,00,000/- in rural areas and Rs. 1,60,000/- in urban or semi-urban areas. *A self declaration of this effect will need to be given by the clients in the membership form itself.*
- ❖ **Exposure :** The total loan to a borrower in 1st cycle should not exceed Rs. 60,000/- and Rs. 1,00,000/- in subsequent cycles (*verification through credit bureaus*).
- ❖ **Total indebtedness** of a borrower should not exceed Rs.1,00,000/- from all sources taken together.
- ❖ tenure of the loan not to be less than 24 months for loan amount in excess of Rs. 30,000 with prepayment without penalty;
- ❖ loan to be extended without collateral;
- ❖ aggregate amount of loans, given for income generation, is not less than 50 per cent of the total loans given by the MFIs

Group related norms

- Group formation is the responsibility of the applicants.
- Each group should consist of minimum 5 to maximum 10 members.
- A group leader from each group must be nominated by the group members.
- **Group Leader:** It is the responsibility of group leader to ensure that all her group members attend the centre / group meetings regularly. If any member is absent, she should investigate the reason and inform the centre leader
- **Close relatives (kin relatives) are not allowed within the group.** The following are considered to be close relatives for the purpose:
 - Mother-Daughter
 - Mother in law-daughter in law
 - Wives of own brothers (Devrani – Jethani)
 - Own sisters
 - Sister and wife of same person (Nanad – Bhabhi)
- Group must attend the compulsory group training.
- Group members must be known to each other as well as their families and they must be ready to take joint liability of each other. If one member of the group does not repay, other members of the group will repay on her behalf.
- All group members should be residing in the same village and within close proximity (not more than 1000 meters) of each other and also the meeting place.
- Group leader must know all members of group as well as location of their houses.
- Field officers should ensure that agents/brokers are not involved in the process of group formation at any stage.
- Multiple lending to applicants should be avoided as per regulatory guidelines.
- Group formation may be allowed only after satisfactory house visits of all applicants by the field officers. House verification should be conducted by FO prior to Compulsory Group Training (CGT). The objectives of housing survey are:
 - To obtain a sense of economic status of the client.
 - To verify if the client owns the house.
 - To verify client family members awareness about the loan demand.

Center Related Norms

- **A center consists of 1-5 groups.** A centre can start from minimum 1 group. Subsequently groups can be added to the center. However, the maximum number of clients in a center should never exceed 30 members.
- All center members should be from same village.
- The center should nominate a center leader.
- **Center Leader:** The center leader must be nominated amongst the group leaders. Center leader will be responsible for 100% attendance, 100% repayment and loan utilization in her center without taking any bribe or other benefits. If center members have any complaints against field officers, the center leader should inform Branch Manager. It is the responsibility of the center leader that no agents are involved in loan disbursements. The center leader can also directly contact Grievance Cell of MFSL. Center leader must know each member of the center as well as location of their houses.
- The center will meet monthly at specified time and location.

- Center members must attend meetings regularly and punctually.

Number of kin relations (close relatives) allowed in a center should not be more than No. of Groups -1, provided the source of income is different. Eg. If there are 5 groups in a centre, then 4 Kins are allowed.

Others Norms:

- Applicant must be willing to join a group and must undertake to follow all rules and regulations of the group. Applicant must agree (with their spouse's consent) to attend all meetings regularly and punctually.
- Applicant must know how to sign their name or agree to learn to sign before Group Recognition Test (GRT).

2nd and subsequent cycles: Clients applying for 2nd cycle onwards should have at least 85% (70%- to change as per approval of Board) attendance and 100% on time repayment record in the previous cycles. In case a client does not meet these requirements, then she will not be taken into subsequent cycles.

7.2.2. Loan Products :

Loan Products				
	Income Generation Loan	Solar & Clean Energy Loan	Mobile/Cycle Loan	Support Loan (guidelines for this loan given in detail below the table)
Loan Amount	15000-35000 (Multiples of Rs 5000) BC 15,000-35000	1800-5000	4800-6200/3285	10,000-20,000 (Multiples of Rs 5000)
Purpose	Livestock, vegetable vending, Family enterprises, artisans etc Monthly Income – Between 7000-10000	Solar and Clean Energy Product	Purchase of Mobiles/ Cycles	Existing purpose, however, 25% of the loan may be allowed for consumption or health purpose
ROI	<ul style="list-style-type: none"> 25.36% for MFSL products* 24% for IDBI 	<ul style="list-style-type: none"> 25.36% 	<ul style="list-style-type: none"> 25.36% 	<ul style="list-style-type: none"> 25.36%

	Bank-BC • 26% for Reliance & Yes Bank -BC			
Duration	12/18/24 month (<i>Loan Amount and Loan Duration of members in a group will be same</i>) [If loan amount >30000 duration shall be only 24 months]	• Co-terminus with existing loan	• Co-terminus with existing loan	• Co-terminus with existing loan
Loan Processing Charges	• 1% of Loan amount with applicable taxes • For IDBI Bank –BC Nil	• 1% of Loan amount with applicable taxes	1% of Loan amount with applicable taxes	1% of Loan amount with applicable taxes
Repayment Frequency	Monthly/Fortnightly/ Weekly as mutually agreed with the borrower. <i>(In case of due date being Saturday or Sunday or a holiday then the due date will automatically be shifted to previous working day.All clients in a group to be disbursed in one day.)</i>			
Other Charges	Insurance Premium as per actual			

Please refer to latest circular for detailed Loan Repayment Schedule.

*Interest Rate of MFSL products is 25.36% for the quarter July-Sept 2017. Interest rate is reset quarterly as per pricing guidelines of RBI.

Support Loan details:

- Support Loan to be given to individuals within the group.
- Only 2nd and above cycle members will be eligible for Support loan.
- Joint Liability to be given by all the other members of the groups
- GRT to be done by District Manager and above.
- Support loan amount should not to be more than 50% of the existing loan amount.
- Support loan to be considered only after completion of 3 months of successful repayment of the group.
- Credit Bureau check and all other sanction formalities to be completed prior to sanction
- The member to necessarily have her own phone no. or no. of spouse/nominee.
- Client tele verification to be done before sanction by the MIS/monitoring team.
- Disbursement to be done through cheque at branch in the presence of spouse, Group Leader and one more member of the group. All formalities with rest of the members can take place in the Centre meeting

- Support loan for all clients desirous/ eligible in the group to be processed in single instance only.
- The disbursement under Support Loan shall not be more than 10% of the total disbursement amount during the year. [in branch and in total]

Home Improvement Loan:

Loan Amount: Rs. 50,000 to Rs. 75,000 (in multiples of Rs. 5000)

Loan Tenure: 3 years

Purpose of loan: For Home improvement, extensio, addition (except for new house construction) for e.g, toilet /bathroom repair or new construction, Roofing, buildindg staircase, flooring, doors, plastering etc.

Interest Rate : 23%

Loan Processing Fee: 2% + service tax

No Penalty on Pre-closure

Late Payment of EMI: Rs. 250 per month per EMI (grace period 5 days)

Loan Eligibility Criteria: (i) Existing clients (ii)>1 cycle loan with 100% on-time repayment record (iii) above 85% attendance (iv) 25-55 years (v) Maximum 1/3rd is the group can avail, (vi) Proof of house ownership (vii) 2 Reference check (ix) should have regular source of income (x) Good Past track record.

7.2.3. Loan Cycle

Branch	1 st cycle	2 nd cycle	3 rd cycle	4 th cycle	5 th and above
MFSL	15000 20000	20000 25000	25000 30000	30000 35000	35000 40000
Reliance BC and Yes Bank BC	15000 20000 25000	20000 25000 30000	25000 30000 35000	30000 35000 35000	35000 35000 35000
IDBI Bank-BC	20000 25000 30000	25000 30000 35000	30000 35000 35000	35000 35000 35000	35000 35000 35000
- BC Branch product as per product details of BC Bank/FI - Client with no credit history can avail loan of Rs: 15000 only.					

7.2.4. Loan Approval/GRT

Credit decision

Loan Product	GRT
Loan Rs.25,000 and below	By Branch Manager
Loan above Rs.25,000/-	By District Manager & above
Individual Loan	By AM & above

7.2.5. Loan Termination date:

Loan termination date of all clients in the group to be the same. Repeat loan in the group can only be disbursed when all the clients in the group are closed.

7.2.6. Insurance of clients and guarantors

For each client the spouse will function as a guarantor. In case the spouse is not there then father/ brother/son who is residing with the client and have substantiate / tangible source of income will be taken as guarantors. Life Insurance will be provided to the client as well as his/her guarantor. All documents such as ID proof and age proof needs to be submitted for both the persons being covered under insurance. Premium is paid upfront during the time of disbursement. Product wise premium is indicated in Loan Repayment Schedule.

Claim services:

- A claim register is to be maintained by each Branch Office.
- BM is responsible for communication and building claim form
- BM is responsible for making entry in the claim register and dispatch the claim to HO along with attested copy of death certificate and copy of ID proof and Age proof

It should be communicated clearly to the clients and the nominees that final decision on whether the claim will be admitted or not lies with the insurance company.

7.3. Delivery Methodology

7.3.1. General Principle for Appraisal and Loan Delivery

The Loan delivery mechanism is segregated into the following three separate processes.

- **Credit Appraisal to Disbursement**

Credit Appraisal of group loan viz. CGT and GRT involves evaluating the loan proposal /application to find out the repayment capacity of the borrower. The primary objective of credit appraisal is to ensure that the money is given in the right hands and the capital and interest income of the organisation is secured.

Credit Appraisal of group loans consists of four broad areas:

- Area Selection/Market Appraisal
- Promotional Meeting
- Compulsory Group Training
- Pre-GRT
- GRT
- Disbursement

- **Group Meeting and Collection**

The organisation will have separate team for collection of repayment in group meetings. It is important to understand that no organisation likes non-performing assets, or overdues or bad debts in their balance sheet. If the debt is unpaid for a month, the collection team shall be responsible for sending reminders or call the customer for recovery. [*Details mentioned in Delinquency Management ...*]. The collection team have 100% target to achieve and shall have incentives linked to the number and volume of collection. However the collection team at all times to follow the Code of Conduct.

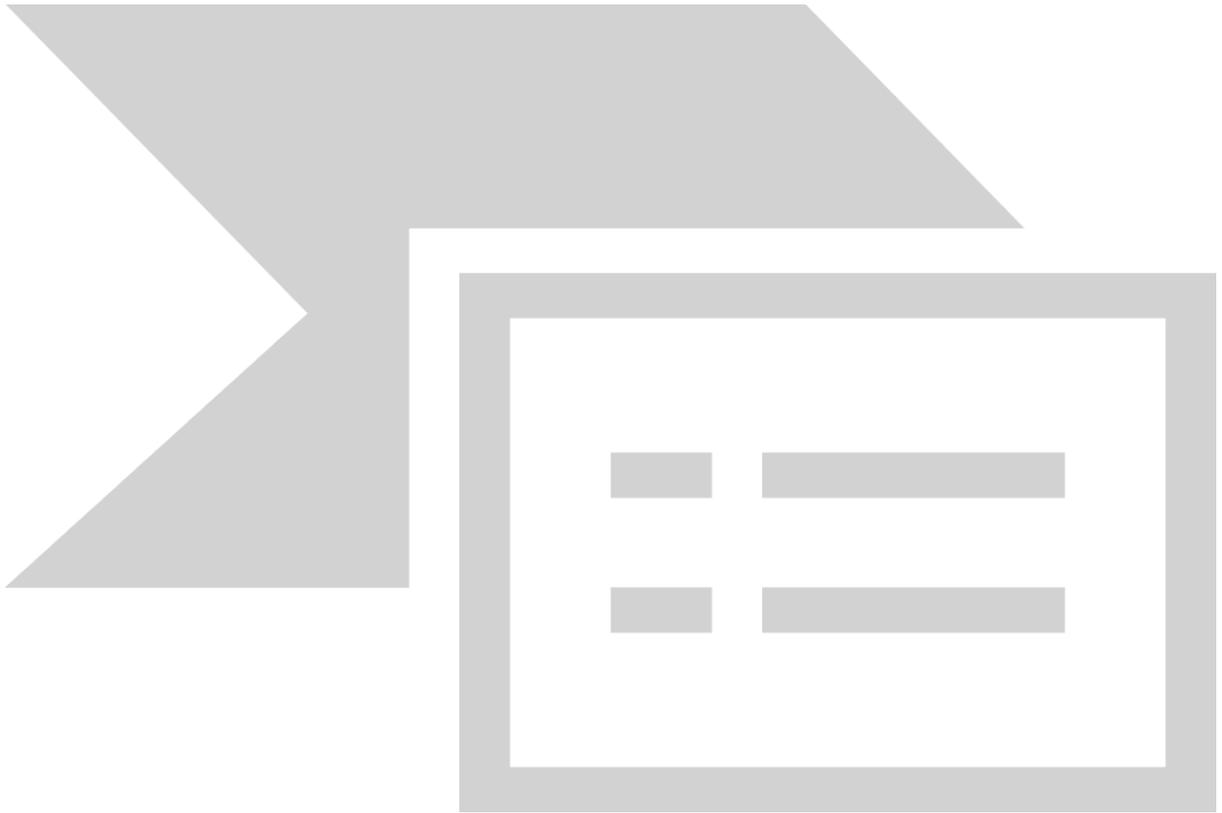
- **Quality Control and Monitoring**

The organisation is exposed to risks that are inherent to the lending business and the environment within which it operates. The organisation has a Risk Management Department and its goal in risk management is to ensure that its team as well as the Audit and Monitoring team understand, measures and monitors the various risk that arise and that the organisation adheres strictly to the policies and procedures which are established to address the risks. The Head of this vertical shall report to the CFO or the Head which is independent from the organisation business units. The Head of Risk coordinates with representatives of the business units to implement the risk methodologies.

All vertical shall be headed by Vertical Head whereas the first two vertical will be reporting to CEO and third vertical will be reporting to CFO/Risk Head.

7.3.2. Delivery Methodology:

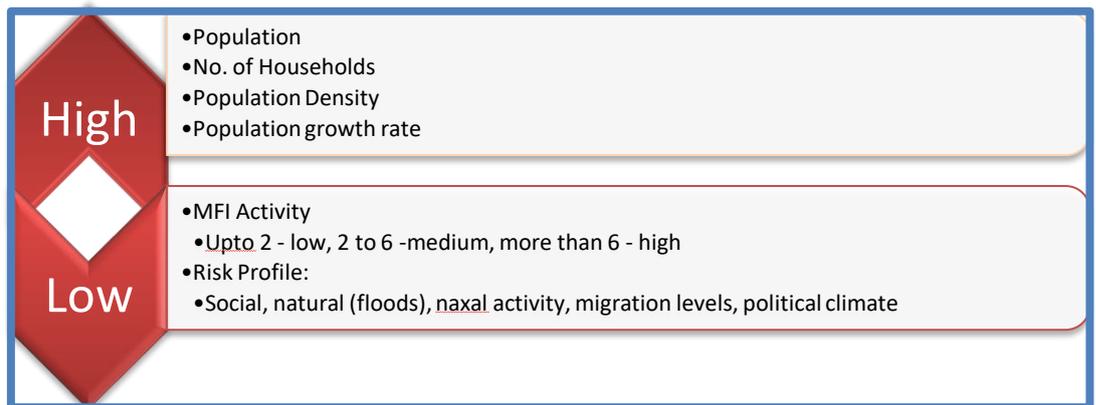
Origination process of the organisation is segregated into various well – defined sub-steps beginning with area identification and culminating in disbursement to the client. A brief overview of each of these sub-processes is provided below:



7.3.2.1. Area Selection

New areas can help in expanding the organization into high demand areas. However, if done carelessly or incorrectly the decision could lead to wasted time and resources for the organization. Area identification requires the field staff to assess hard facts as well as the ground reality of the area.

While identifying the areas for expansion, preference is given to areas having no or negligible microfinance intervention. Area Identification is primarily done by the senior management. The list of pre-identified areas has been developed as per the geographical expansion plan of the organization with specific timelines (year-wise.). The districts / areas, identified have been selected on the basis of having high population, high no. of household, high population density and high population growth rate. This has been clubbed with low micro finance activity and low natural, social and political risks. A graphical presentation of the area selection matrix is given below.



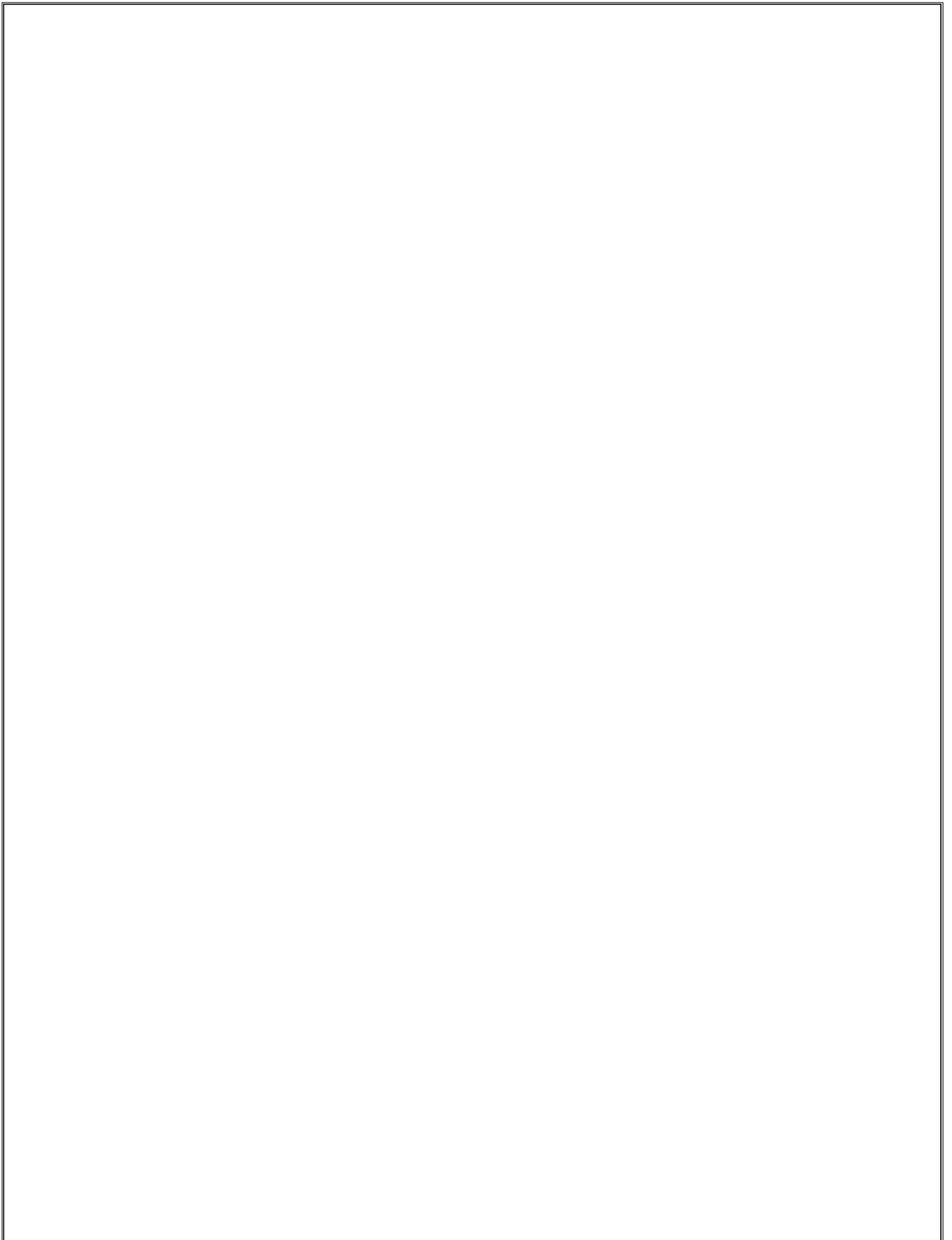
The list of districts approved for intervention is shared with the Area Managers for moving ahead with collection of primary & secondary information through survey. The organisation has developed a comprehensive tool for selection of new area of operations and branch establishment which comprises of:

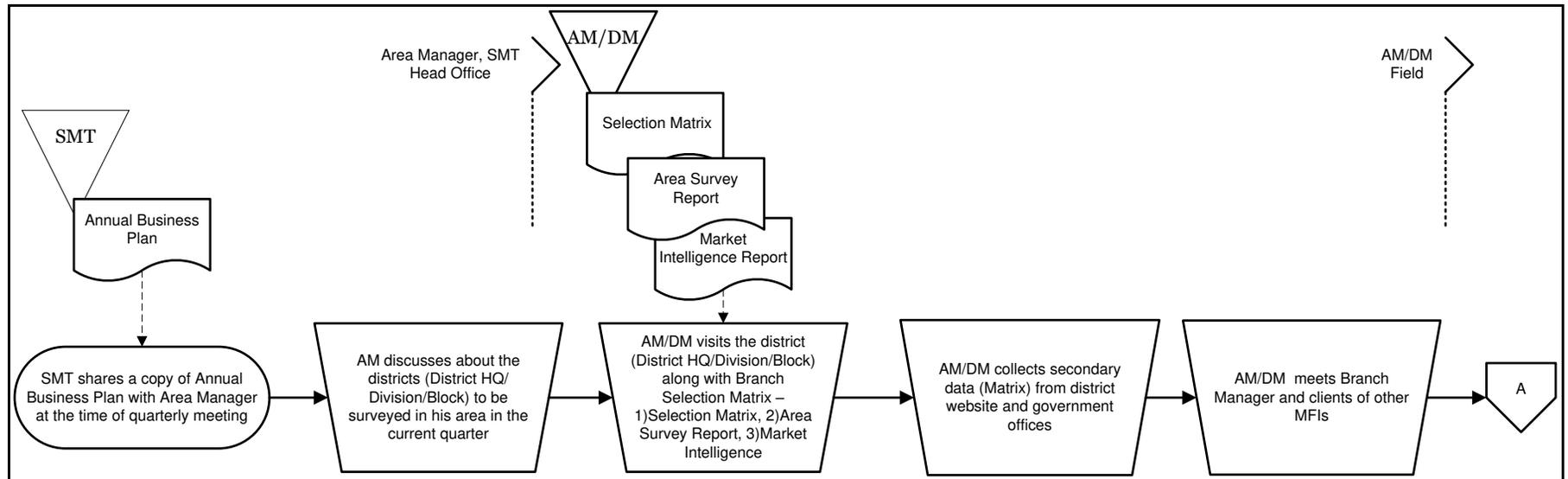
<p>Branch Selection Matrix (Annexure-I),</p>	<p>Gives the Score which is helpful in understanding the development level of the Identified City/Town. Also, it provides information about the different types of sources of credit availability, Migration pattern, Number of small enterprise clusters etc.</p>	<p>➤ Branch Location: The coverage area can be upto 30 km. However, operations should first start in the nearest villages which are up to 10 kms, only when the potential in first 10 kms is exhausted, villages in next 10 kms should be selected.</p>
<p>Market</p>	<p>Helps in understanding:</p>	

<p>Intelligence (Annexure-II)</p>	<ol style="list-style-type: none"> 1. Different sources of Credit availability in the area. 2. Portfolio Quality of existing MFIs in the region. 3. Portfolio distribution in the geography 4. Negative Areas for lending 5. Competitors' profile 6. Level of Market penetration by MFIs 	<ul style="list-style-type: none"> ➤ Estimated No of Household: No of Household in a village to be minimum 150. The potential of the branch should be 5000 borrowers in 3-5 years. ➤ Status of Banking Infrastructure: Details of Banks present in the area. ➤ Status of Road Infrastructure: Whether the villages are well connected by Roads/ Proximity to Highway, Road type and ease of transportation. ➤ Recent history of communal/caste conflicts/law and order issues ➤ No of Existing Banks/FI's Operating in the area and recent history of mas default by the borrowers or adverse action taken by/against FI/Banks. ➤ Details of Key people contacted (Panchayat members, Shop keepers and any other person)
<p>Area Planning Sheet (Annexure-III)</p>	<p>The sheet helps in understanding:</p> <ol style="list-style-type: none"> 1. The Growth plan of the BM/AM in the region. 2. Developing Branch Business Plan 3. Selection of Villages/Areas for conducting Village survey (Annexure-IV) and promotional meetings there on. 	

With all the Information in hand, the area managers take approval from the management for rolling out the branch. Only after approval by the management, area managers move ahead with recruitment of Field Staff and expansion in the region. The key factors considered while adapting a village or an area are – population, no. of households, population density and the distance from existing area of operation of the organization.

The following process map outlines the activities to be taken and in what order as well as the required forms:

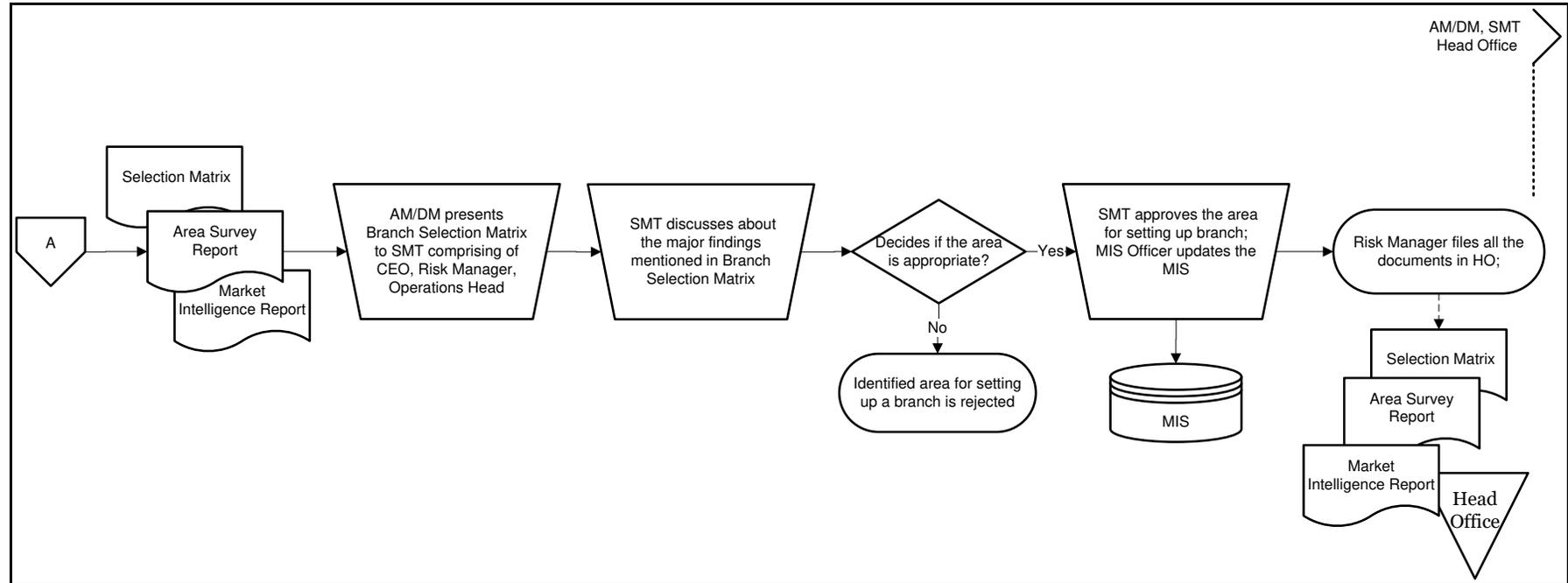




Description of Area Selection Process (1/2)

- SMT shares a copy of Annual Business Plan with Area Manager at the time of quarterly meeting (*Note: Branch selection process is guided by the business plan as it includes planning about number of branches to be opened by Area Manager in his area*)
- AM discusses about the districts (district head- quarter/division/block) to be surveyed in his area in the current quarter.
- AM/DM visits the district (District HQ/Division/Block) along with Branch Selection Matrix that includes Selection Matrix, Area Survey Report, and Market Intelligence Report. The aim of such visit is to collect primary data in order to fill up the pre-defined branch selection matrix.
 - AM/DM collects secondary data from district website and government offices.
 - In order to assess the level of competition and micro finance potential, AM/DM meets and collects information from Branch Manager and clients of other MFIs having branches in the same area.
 - RISKS: (i) Secondary data is not available on the district website (ii) Other MFI staffs are not cooperative

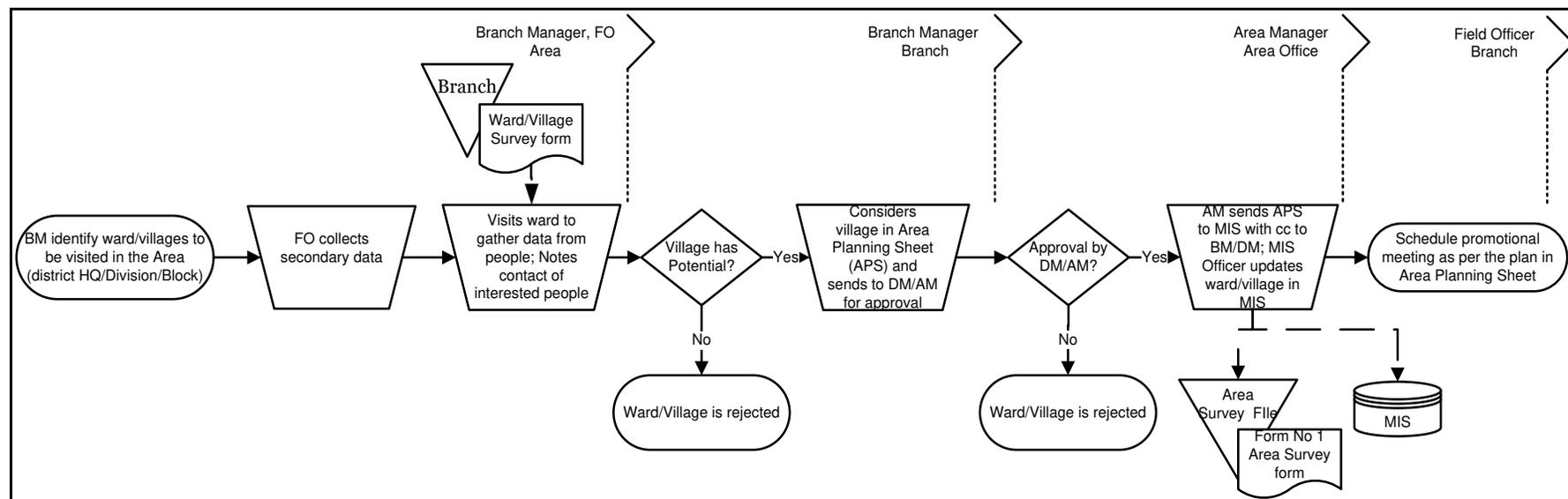
1.2 Area Selection Process (2/2)



- AM/DM presents Branch Selection Matrix to Senior Management Team (SMT) comprising of CEO, Risk Manager, and Operations Head.
- SMT discusses about the major findings mentioned in Branch Selection Matrix
- SMT decides if the identified area is appropriate for setting up a branch?
- If the identified area is not appropriate for setting up a branch, SMT rejects the area.
- If the identified area is appropriate for setting up a branch, SMT approves the area.
- MIS Officer updates the area in the MIS.
 - Risk Manager files all the documents in the HO,
- RISK (i) Branch Selection Matrix is incomplete (ii) SMT takes the decision to open a branch based on the secondary and primary research done by AM/DM. There is a risk of poor decision in case the information provided is incorrect.

- **RISK MITIGATION:** SMT should cross check the information provided in Branch Selection Matrix. SMT can crosscheck the information by making physical visit to the potential areas on a random basis

Ward/Village Selection Process:



Description of Ward/Village Selection Process

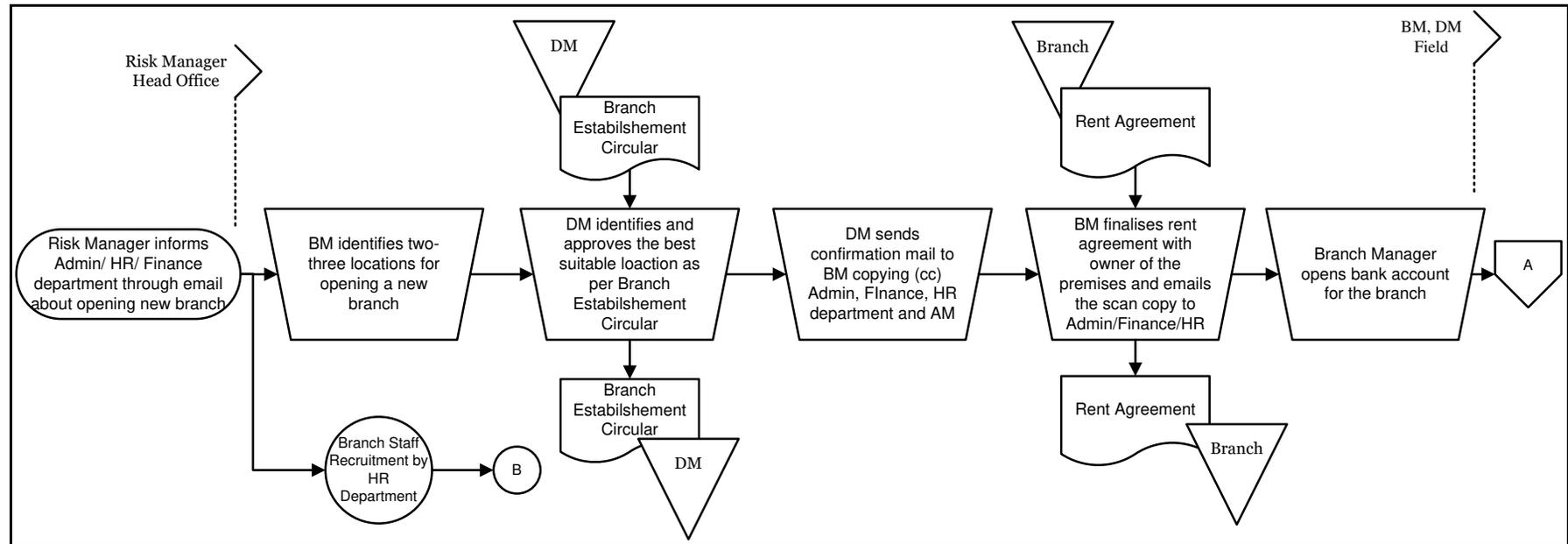
Description And Activities	<ul style="list-style-type: none"> • BM identifies new wards/villages for operations based on following : <ul style="list-style-type: none"> ○ Proximity to existing operational areas ○ Accessibility ○ Population density, ○ No. of target clients in the area • Recommendations from field officers, existing clients or some other person from staff. • Field Officer collects secondary data from various sources to fill out 	<ul style="list-style-type: none"> • Field Officer visits identified ward/village and gather data from local people and distribute fliers to interested parties. • Field Officer should include any other relevant information on the back of the form and add their comments to the form as well. <p>Note: The Field Officers should meet around 10-20 people in the area and supplement data for Ward/Village</p>	<ul style="list-style-type: none"> • BM sends Area Planning Sheet (APS) to DM/AM for approval • If BM is not convinced about the potential for microfinance operations in the ward/village, rejects the ward/village • If BM is convinced about the potential for microfinance operations in the ward/village, approves Area Planning Sheet • If APS is complete and correct,

	<p>the Ward/Village Survey Form:</p> <ul style="list-style-type: none"> ○ Population/No. of households ○ Agricultural Land Statistics ○ Major Crops ○ Other Sources of Income ○ Other Loan Sources ○ Other SHG's in the area <p>(Note: Secondary Data can be gathered from various sources such as the following:</p> <ul style="list-style-type: none"> ○ Government websites- District websites can be found on the internet. The website will generally have area population statistics and other information. ○ Panchayat offices ○ District Office, ○ Block Office Sarpanch or Pradan ○ NABARD Potential Linkage Plans or other publications <p>Two Field Officers should conduct the area survey. Out of the two officers, one officer must be a seasoned</p>	<p>Survey Form- (Points 7-10).</p> <ul style="list-style-type: none"> • Field Officer also needs to identify interested parties that will be able to spread the word about the organization and take a lead in bringing others to the promotional meeting. The contact information on these individuals should be kept on the back of the area survey form for later use. • BM goes through the information details in Ward/Village Survey Form and decides whether the ward/village has potential for microfinance operations? <i>(Note: Any areas beyond 15 km from urban branch and 30 km from rural branch should not be considered for approval. If the area is favourable but the distance is too far, the form should be forwarded to the Head Office for review. The Head Office can use the information to plan new branch offices or give approval. There should be a minimum of 150 households in the new area.)</i> • If BM is convinced about the potential for microfinance operations 	<p>DM/AM gives the approval and sends APS to MIS with cc to BM/DM</p> <ul style="list-style-type: none"> • MIS Officer feeds the Ward/Village details into MIS. • Field Officer schedule promotional meeting as per the plan in Area Planning Sheet and after contacting the contact persons in the village/ward.
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CLIENT GRIEVANCE REDRESSAL POLICY AND PROCEDURES

	employee and have more than one year's work experience.)	<p>in the ward/village, gives his/her approval and considers the ward/village in Area Planning Sheet</p> <ul style="list-style-type: none"> • If BM is not convinced about the potential for microfinance operations in the ward/village, rejects the ward/village 	
Risk	•	<ul style="list-style-type: none"> • BM takes the decision to start branch operations based on the secondary and primary research done by Field Officers. There is a risk of poor decision in case the information provided is incorrect or/and inadequate. 	
Risk Mitigation	•	<ul style="list-style-type: none"> • BM should crosscheck the information provided in Ward/Village Survey Form. BM can crosscheck the information by making physical visit to the potential wards/villages of the concerned FO on a random basis. 	

Branch Set Up Process:



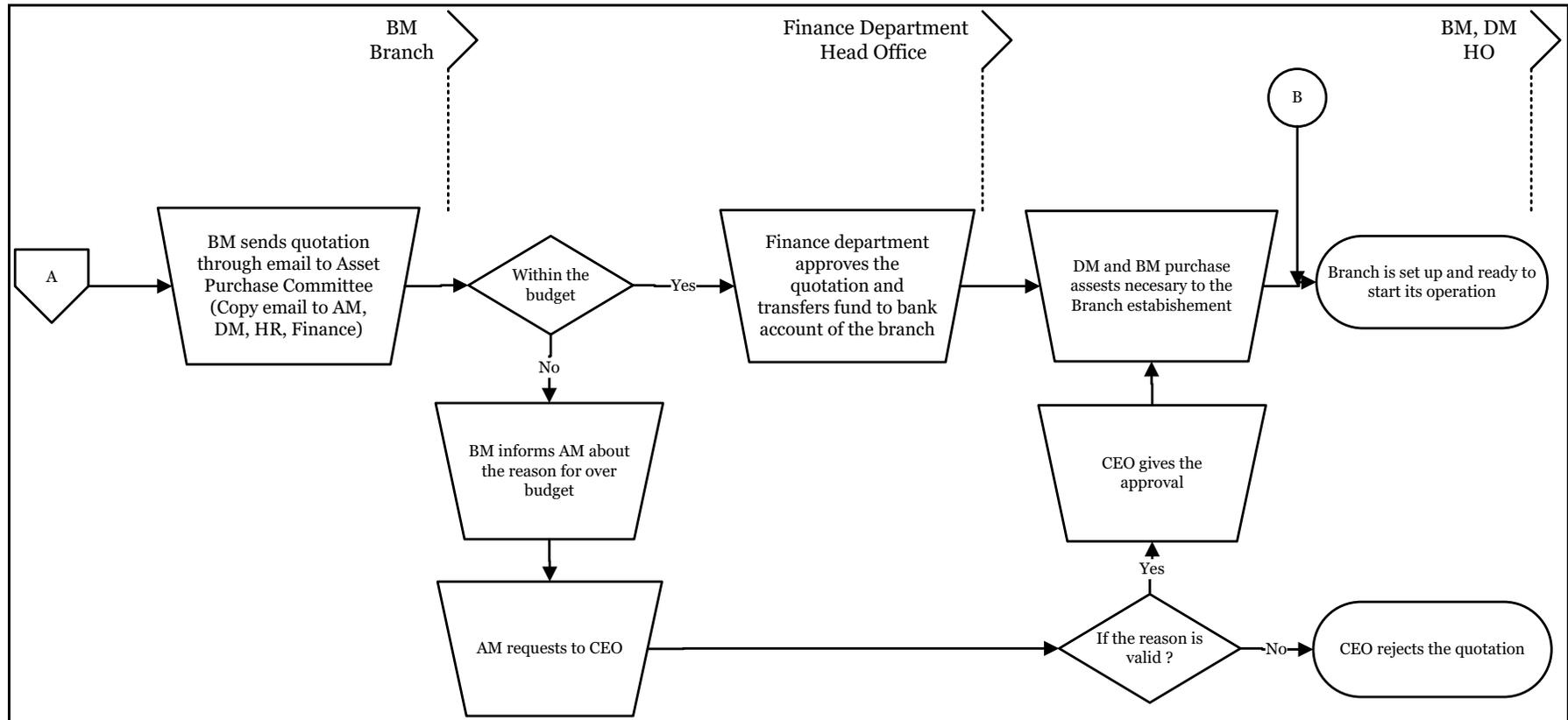
Branch Set Up Process (1/2)

Description And Activities			
	<ul style="list-style-type: none"> • Risk Manager informs admin/HR/finance department through email about opening a new branch • BM identifies two to three locations for opening a new branch 	<ul style="list-style-type: none"> • DM identifies and approves the best suitable location as per Branch Establishment Circular. • DM sends confirmation mail to BM and marks copy (cc) to Admin, Finance, HR and AM. 	<ul style="list-style-type: none"> • BM finalise rent agreement with owner of the premises and emails the scan copy of the same to the admin, finance and HR departments along with DM and AM • BM opens the bank account for the branch

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<p>Risk</p>	<ul style="list-style-type: none"> Expense to open the new branch are too high 		<ul style="list-style-type: none"> There is delay in opening the bank account of the branch. It is due to the reason that bank branch requires the CEO/Deputy CEO of Margdarshak to be physically present at the branch for documentation purpose.
<p>Risk Mitigation</p>	<ul style="list-style-type: none"> SMT sets a clear possible budgets for the opening of a new branch 		<ul style="list-style-type: none"> AM and BM can be made the authorised signatories of the cheque. Therefore, physical presence of AM/BM at the bank branch would be adequate to open a bank account of the branch.

Branch Set Up Process (2/2)



Description of Branch SetUp Process (1/2)

Description And Activities	<ul style="list-style-type: none"> • BM sends quotation through email to Asset Purchase Committee and marks copy of email to AM, DM, 	<ul style="list-style-type: none"> • If the quotation is within the budget, finance department approves the quotation and 	<ul style="list-style-type: none"> • Eventually the branch is set up and ready to start its operation
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CLIENT GRIEVANCE REDRESSAL POLICY AND PROCEDURES

	<p>HR, and finance department.</p> <ul style="list-style-type: none">• If the quotation is not within the budget, BM explains AM about the reason for over budget.• If AM is convinced with the explanation given by BM, makes a request to CEO to approve the budget.• In case the explanation given by BM/AM is valid, CEO gives the approval otherwise reject the budget.	<p>transfers fund to bank account of the branch</p> <ul style="list-style-type: none">• DM and BM purchase assets necessary as per the Branch Establishment Circular and budget approved.	
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Note: Before changing any branch location / address, the branch staff must inform to Head Office with new address and HO approval must be obtained for change in branch location / address.

7.3.2.2. Promotional Meeting

Promotion meeting is used to promote the financial services offered by the organisation in new operational areas.

Once an area is approved for intervention, the field officer along with Branch Head of the organization conducts promotional meetings for identification of the potential borrowers. As per company's policy one-family is provided with only one loan to permanent resident of the locality. The company follows RBI guidelines for borrower selection and therefore, annual household income of rural families should not exceed Rs. 1,00,000/- and Rs.1,60,000/- for urban families. In addition to the annual household income, company also ensures that the loan size does not exceed 60,000/- in 1st cycle and 1,00,000/- in subsequent cycles. During the promotional meeting, field officers are asked to gather potential people who may get converted into member in near future. The branch team addresses the gathering by giving their introduction & company's introduction thereafter distributes pamphlets to potential customers.

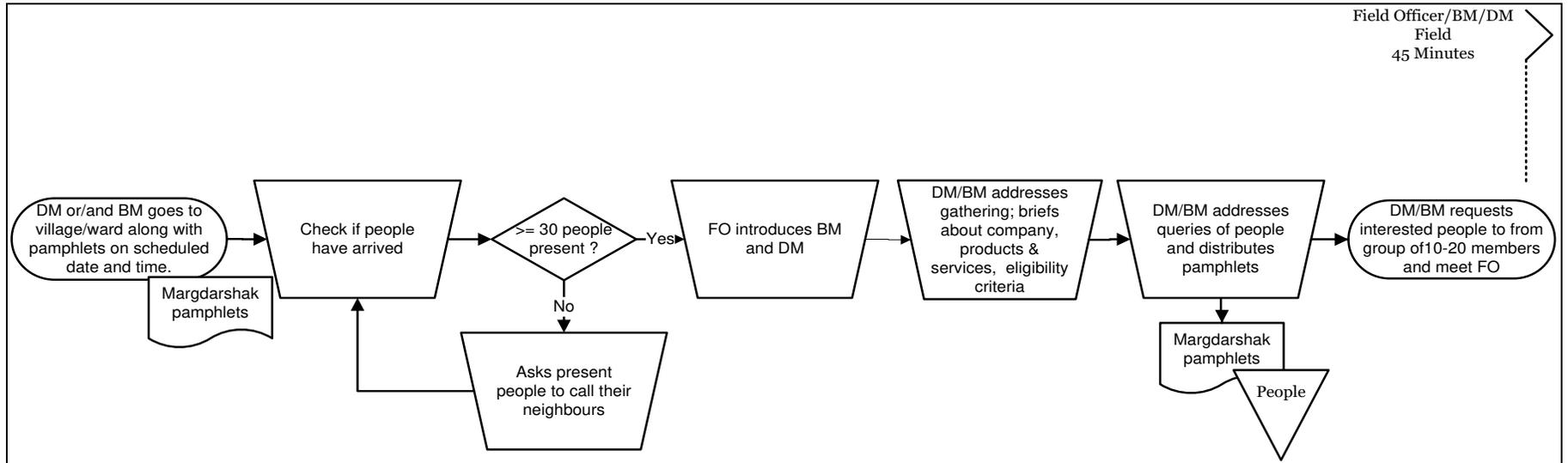
Apart from promotional meeting, house hold listing format is also filled by field officer for the particular Mohalla / Village. This information is filled during the door to door visit of field officer for the area where the no. of household are more than 150 or above in the following format.

Sr. no	House hold leader name	Mobile No.	Any existing loan running Yes/No	Interested in loan Yes/No	If yes Amount Interested	Pamphlet distributed Yes/No

The objective of filling above format is to-

- ✓ Get brief idea about credit history about Mohalla /village.
- ✓ Deep penetration level of promotion activity.
- ✓ Support in group formation.

CLIENT GRIEVANCE REDRESSAL POLICY AND PROCEDURES



<p>Description And Activities</p>	<ul style="list-style-type: none"> FO, DM, BM goes to the village/ward along with pamphlets on scheduled date and time. <i>(Note : DM has to be present for promotional meeting in case the branch is less than 3 months old. Prior to promotion meeting, FO should fix the venue and meeting time in consultation with the interested parties identified during</i> 	<ul style="list-style-type: none"> If ≥ 30 people are not present, FO asks present people to call their neighbours and friends. FO also walks around the area and request people to attend the promotional meeting. If ≥ 30 people are present, promotion meeting starts FO introduces BM and DM 	<ul style="list-style-type: none"> DM/BM addresses the gathering and briefs about the following <ul style="list-style-type: none"> Company's Mission & Vision Microfinance Products & services offered Group and Individual eligibility criteria DM/BM addresses queries of
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	<p><i>village/ward survey.</i>)</p> <ul style="list-style-type: none"> FO checks if people have arrived for the promotion meeting FO counts if ≥ 30 people present? 		<p>people and distributes pamphlets</p> <ul style="list-style-type: none"> DM/BM requests interested people to form group of 10-20 members and meet FO Meeting ends.
Risk	<ul style="list-style-type: none"> If not propagated properly, the turnout can be less 		
Risk Mitigation	<ul style="list-style-type: none"> FO should fix the venue and meeting time in consultation with the interested parties identified during village/ward survey. 		

Illustration of Discussion in Promotion Meeting

What is Margdarshak?

Margdarshak is a company not a bank. Margdarshak provides loans to the poor. *(Note: Provide information on number of clients and funds provided.*

Please provide information about the local branch address and branch staffs)

What is Microfinance?

Margdarshak offers loan of Rs.15,000 to 50,000 to clients in group for income generating activities at 26% for 12-24 months. Loan is not given for consumption purposes and social events such as weddings. Loan is provided for income generating activities such as small shops, vendors, buying livestock, purchase of business assets, trading of goods, and working capital for chikan/zardozi work etc.

What is the process?

- Group Training is conducted for two days.
- Interested person has to fill up the Membership Loan Application and give details about assets, family members and loan requirement.
- A test is conducted after two days of training and only after passing the test, the loan is approved.
- Repayment meeting is conducted monthly.
- Two members of the same family can't be part of the same group.
- Members of a group must be of the same locality and of the same socio-economic status in order to effectively enforce group liability.

Provide details on the start date of the group training.

The promotional meetings should be kept to a minimum of 30 to 45 minutes. The information should be conveyed clearly and as simple as possible. Details about the product and services is provided in group training. Write down the names of the individuals who are interested and request them to invite any other interested parties.

7.3.2.3. Group Formation Process:

After the promotional meeting, interested borrowers are given 3 day orientation on company policies and processes. Simultaneously, the group is formed and presented before Branch Manager on 3rd day for Group Recognition Test (GRT). The

role of BM in GRT is to do residence verification, business verification and also assesses the borrowing & repayment capacities of the borrower.

During Group Formation, the clients are informed about the organisation, product, processes and policies. Loan will not be extended to the members without successful completion of CGT (Compulsory Group Training) and GRT (Group Recognition Test).

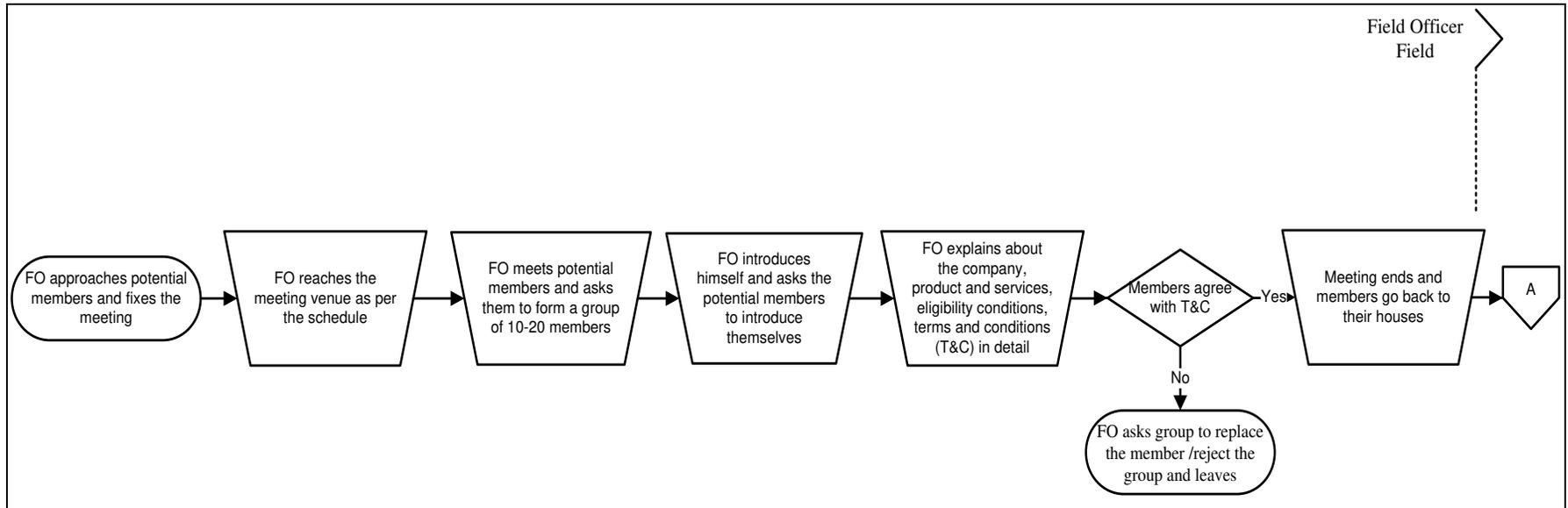
On the Day 1, FO forwards the KYC through mobile application for processing of credit bureau check at data centre. The report received from CB enables the organisation to take the decision on lending to the client. After analysing the CB overlap report, additional data of client eligible for loan is incorporated and clients are allocated in a group.

Detail of activities to be conducted at the CGT

The following table shows the list of critical activities / documents which must be complete by the end of each day.

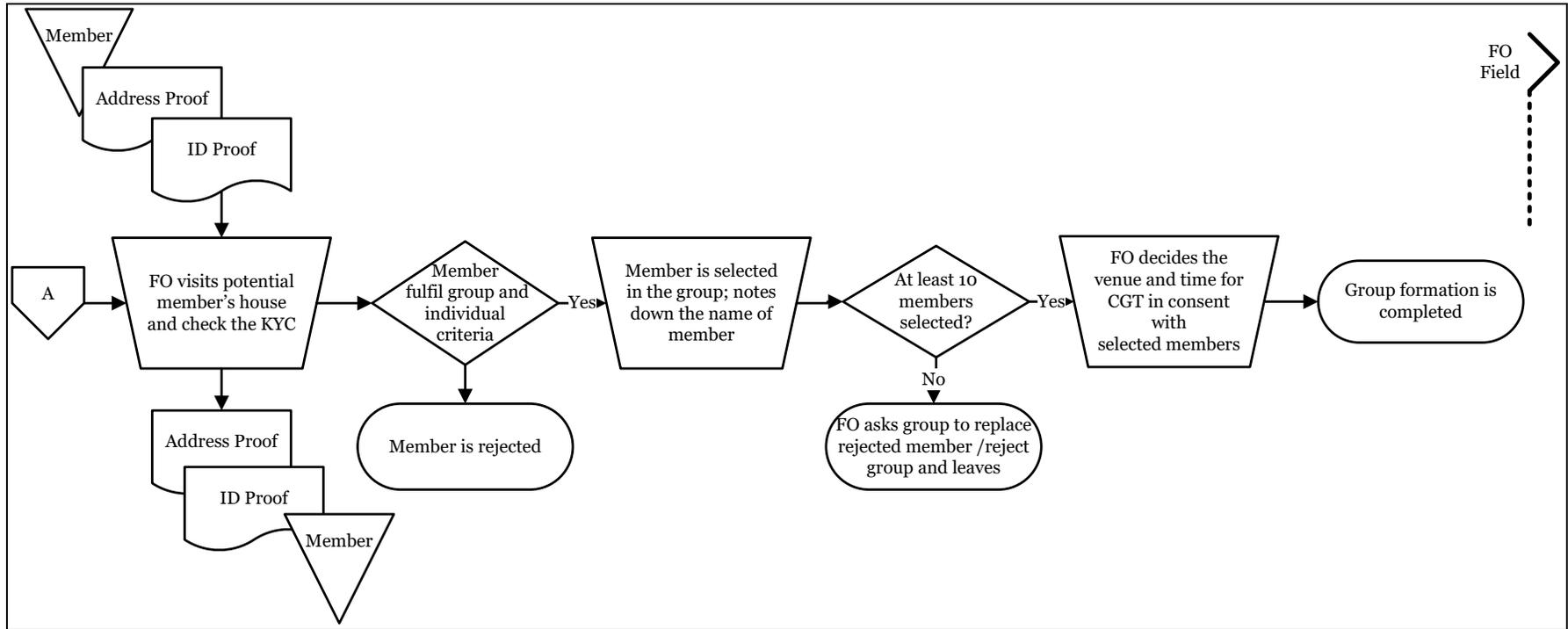
Day 1	Obtain KYC documents Credit Bureau Check
Day 2	Collect Photographs Complete Application Form CGT and verification Obtain signatures on KYC documents
Day 3	Conduct House Verification Obtain Husbands consent Conduct GRT

Group Formation Process (1/2)



<p>Description And Activities</p>	<ul style="list-style-type: none"> FO approaches potential members and fixes the meeting FO reaches the meeting venue as per the schedule FO meets potential members and asks them to form a group of 10-20 members 	<ul style="list-style-type: none"> FO introduces himself and asks the potential members to introduce themselves FO explains about the company, product and services, eligibility conditions, terms and conditions (T&C) in detail 	<ul style="list-style-type: none"> If members do not agree with terms and conditions of the loan, FO asks group to replace the member /reject the group and leaves If members agree with terms and conditions of the loan, meeting ends and members go back to their houses.
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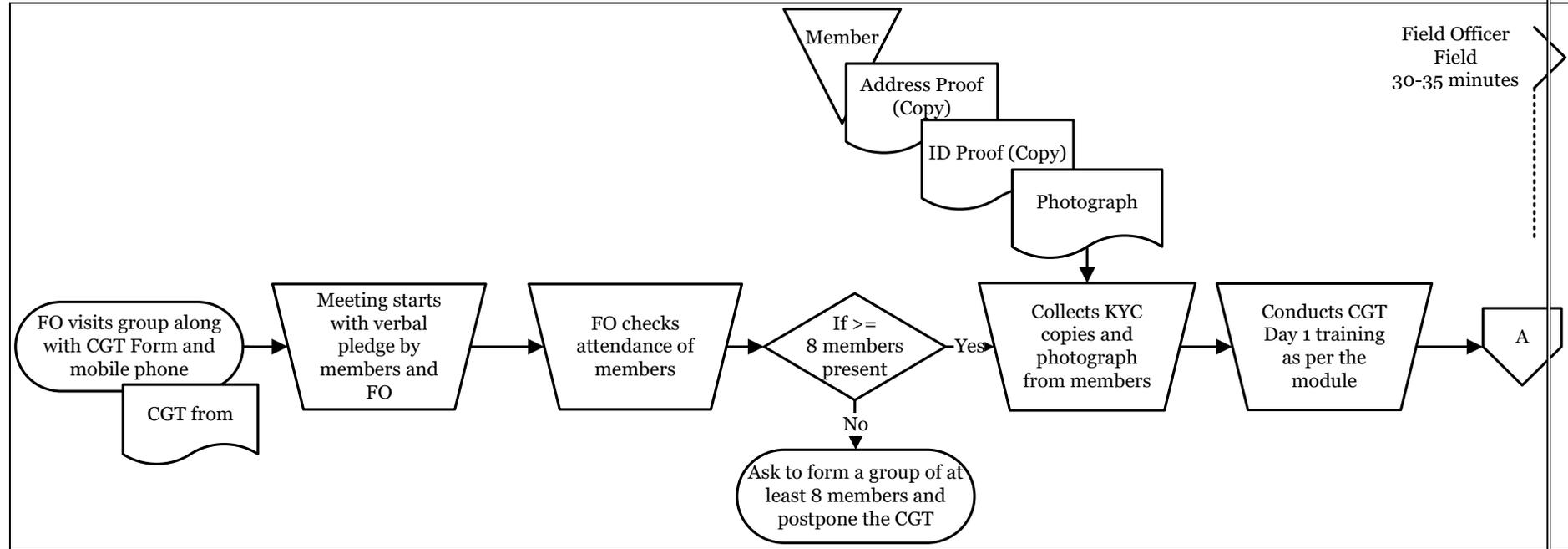
Group Formation Process (2/2)



<p>Description And Activities</p>	<ul style="list-style-type: none"> FO visits potential member's house and check the KYC documents : address proof and identity proof FO checks if the member fulfils group and individual criteria? If member does not fulfil group and individual eligibility criteria, FO rejects the member. If member fulfils group and individual eligibility criteria, member is selected in the group 	<ul style="list-style-type: none"> FO notes down the name of the selected member FO checks if at least ten members of the group are selected If at least ten members of the group are not selected, FO asks group to replace rejected member /reject group and leaves 	<ul style="list-style-type: none"> If at least ten members of the group are selected, decides the venue and time for CGT in consent with selected members Group formation is completed
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Compulsory Group Training –Day 1

CGT – Day 1 (1/2)



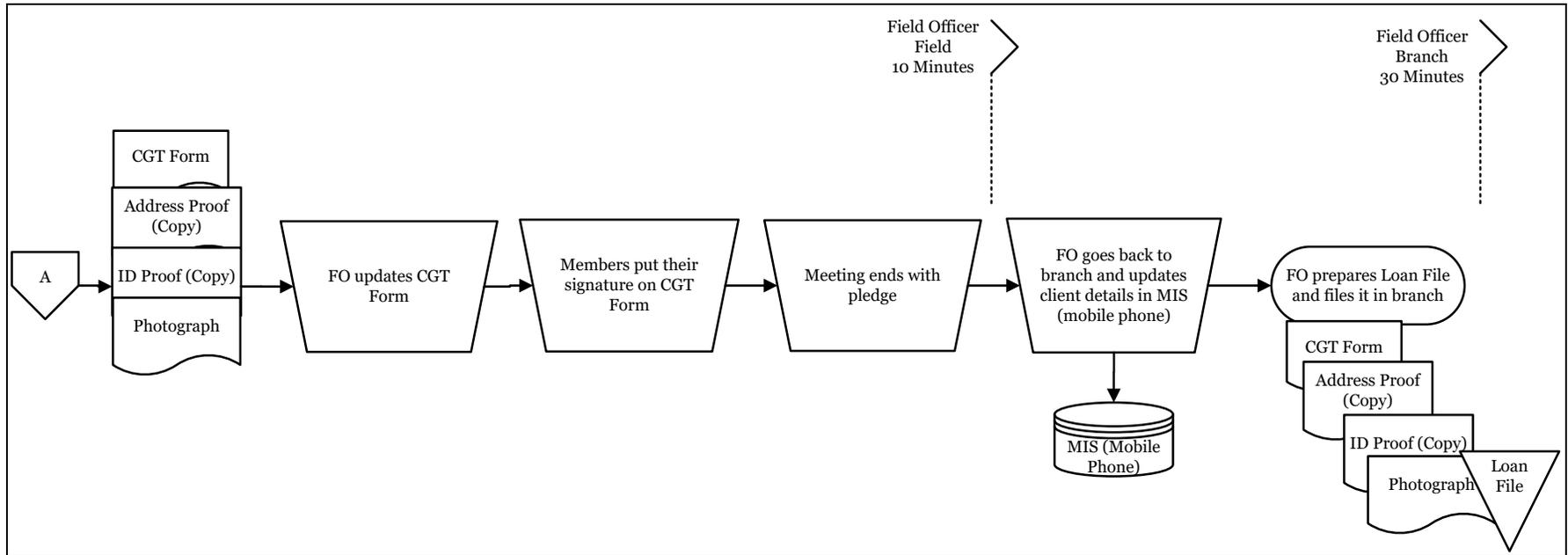
Description of Compulsory Group Training (1/2)

<p>Description And Activities</p>	<ul style="list-style-type: none"> FO visits group along with CGT Form and mobile phone. Meeting starts with verbal pledge by members and FO. FO checks attendance of members. 	<ul style="list-style-type: none"> If more than or equal to 8 members are not present, FO asks the interested persons to form a group of at least 8 members and postpone the CGT till it happens. If more than or equal to 8 members are present, FO collects KYC copies and photograph from members. 	<ul style="list-style-type: none"> FO conducts CGT Day 1 training as per module
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CLIENT GRIEVANCE REDRESSAL POLICY AND PROCEDURES

Risk	<ul style="list-style-type: none"> FO does not conduct CGT – Day 1 	<ul style="list-style-type: none"> Members might not come along with KYC copies or/and photograph on the CGT - Day 1 	
Risk Mitigation	<ul style="list-style-type: none"> DM/AM should monitor the CGT process and asks the new group members about CGT during the monitoring visit. 	<ul style="list-style-type: none"> FO should ask the members to submit KYC copies or/and photograph on CGT – Day 2. 	

CGT – Day 1 (2/2)



Description of Compulsory Group Training(2/4)

Description And Activities	<ul style="list-style-type: none"> FO updates CGT Form Members put their signature on CGT Form 	<ul style="list-style-type: none"> Meeting ends with the pledge by FO and members FO goes back to the branch and updates client details in MIS (mobile phone) 	<ul style="list-style-type: none"> FO prepares Group file/Group File and files it in branch. Group file/Group File contains the following documents: <ul style="list-style-type: none"> o CGT Form o Address Proof (Copy),ID Proof (Copy) o Client’s Photograph (Clicked along with spouse)
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Risk		<ul style="list-style-type: none"> FO fills up the client details such as name and profile of the client in the MIS incorrectly. 	
Risk Mitigation		<ul style="list-style-type: none"> The data filled by FO is cross checked by MIS assistant before sending for credit bureau check 	

Activity: Compulsory Group Training and Forms

Field Officer

The training can only commence under the following conditions:

- a. There are at least 8 individuals present.
- b. All members of a group are liable for the entire loan amount. Joint Liability requires that all members be responsible for all loan defaults. Members will have to split the cost if another member cannot pay. All members of a group must agree before they can be given training.

The CGT form is for taking attendance and each member's signature. This form should be filled for two days (CGT and Pre-GRT). Members should attend both days of training unless an unforeseen event has taken place or illness. If a member drops out of the training it must be noted on the form and their reason for doing so.

Training will include the following:

Day 1

- 1) Microfinance and Intro to Margdarshak
 - a) Margdarshak is not a bank but a company that provides loans for **income generation**.
 - b) Provide details on the district in the surrounding area that we serve.
 - c) Microfinance is a system of giving loans to the poor through group liability.
 - d) If the member has any complaints, the member can speak to the Head Office. The information is listed on the loan card.

- 2) Disbursement and repayment process
 - a) Disbursement will be made at the branch office.
 - b) At the time of disbursement a processing fee which is 1% of loan amount will be charged.
 - c) Repayments will be done in monthly instalments.
 - d) Effective Interest rate charged is 26%p.a. reducing balance basis
 - e) Take a vote and assign a group leader. Group members will hand over their collection to the group leader, who deposits the money to the Field Officer during the meeting.
 - f) A verbal contract will be recited at the beginning of each meeting. Then attendance and collection will proceed thereafter. Then member passbooks are filled out with the new payments. Any issues are addressed and the meeting is adjourned.

g) The verbal contract recited by the members is the following:

Client Pledge

- ge opu yrsrs gSa fd ge gj eghus lewg dh cSBd esa vk;saxsA
- ftl dke ds fy, geusa .k fy;k gS mlh dke esa yxk;saxs vkSj viuk .k fdlh nwljs dks ugha nsxsA
- gj eghus le; ls fd'r ykSVk;saxsA
- c<+h gqbZ vkenuh vius ifjokj dh HkykbZ esa yxk;saxsA
- ge ;g Hkh opu yrsrs gSa fd lewg ds ckdh lnL; Hkh ,slk gh djsaxs] vkSj ge lewg dh lkewfgd ftEesankjh yrsrs gSaA

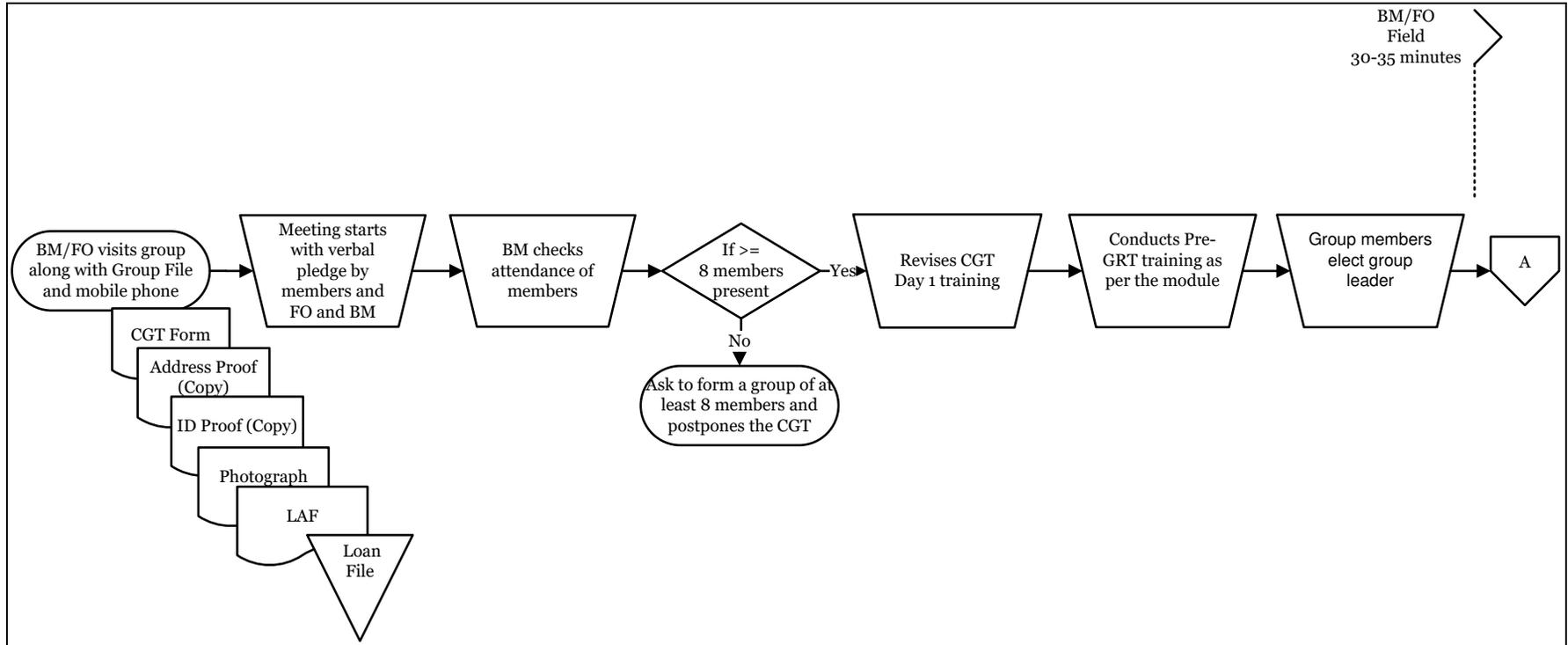
FO Pledge

;fn vki vius opuksa dk bZekunkjh iwoZd ikyu djrh gSa rks ge Hkh opu nsrs gSa fd vidks le; ls yxkrkj Loh—r vk; tud xfrfof/k;ksa ds fy, .k iznku djrs jgsaxsA

- 3) Teach members to sign documents –Please remember to bring paper and pencils to each day of training.
- 4) Members are requested to provide address proof and two pictures.
 - a) One picture will be used for the Loan Application Form and the second will be used for the loan card.
 - b) Picture of member should be a joint picture with a family member.
- 5) Members are informed of a house visit for the following day.
- 6) Loan sizes, interest rates and instalments.
 - a) Explain loans should be for income generation only.
 - b) Explain the annual and monthly interest rate.
 - c) Explain the portion of principal and interest that must be paid monthly.
 - d) The loan repayments are rounded off for easier payment. The last few weeks will have a different payment schedule. Please explain for each loan.

Pre-GRT Process:

Pre-GRT (Pre-Group Recognition Test) – Day 2(1/2)

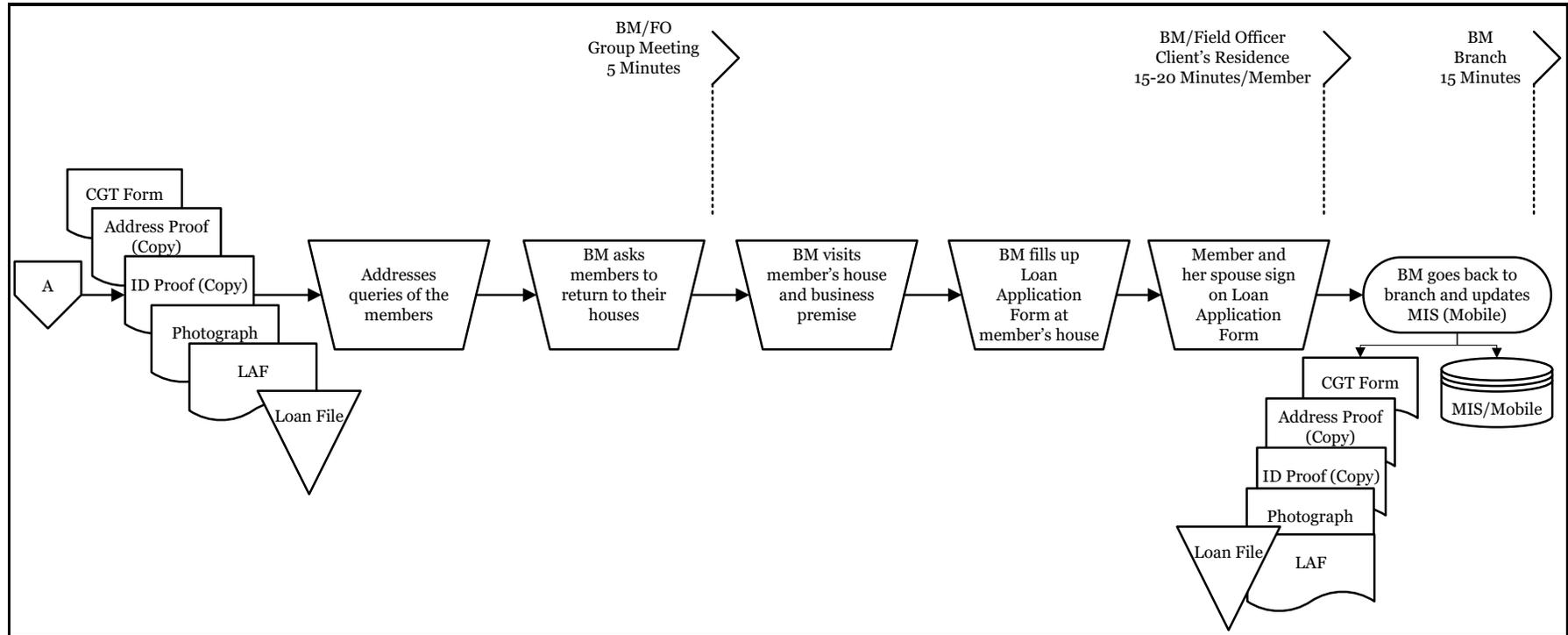


Description of Pre-GRT – Day 2 (1/2)

Description And Activities	<ul style="list-style-type: none"> • BM/FO visits group along with Group File and mobile phone. • Meeting starts with verbal pledge by members, FO and BM. • BM checks attendance of members. 	<ul style="list-style-type: none"> • If more than or equal to 8 members are not present, BM asks the interested persons to form a group of at least 8 members and postpone the Pre-GRT till it happens. • If more than or equal to 8 members are present, BM revises CGT Day 1 training. 	<ul style="list-style-type: none"> • BM conducts Pre-GRT training as per the module. • Group members elect their group leader facilitated by FO/BM.
Risk /Risk Mitigation		<ul style="list-style-type: none"> • FO misses the topics to be covered on CGT – Day 1. • FO is given handbook on topics to be discussed during CGT. 	

Pre-GRT (Pre-Group Recognition Test) – Day 2 (2/2)

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Description of Compulsory Group Training– Day 2 (2/2)

<p>Description And Activities</p>	<ul style="list-style-type: none"> • BM addresses queries of the members if any. • BM asks members to return to their houses. 	<ul style="list-style-type: none"> • BM visits member's house and business premise • BM/FO fills up Loan Application Form (LAF) at member's house and cross check KYC with original. 	<ul style="list-style-type: none"> • Member and her spouse sign on Loan Application after LAF is being filled up. • BM goes back to branch and updates Pre-GRT details MIS (Mobile)
<p>Risk</p>	<ul style="list-style-type: none"> • New member wants to join the group in the middle of training 	<ul style="list-style-type: none"> • BM/FO does not know to fill up the Loan Application Form properly. 	<ul style="list-style-type: none"> •
<p>RiskMitigation</p>	<ul style="list-style-type: none"> • No new member to join the the middle. 	<ul style="list-style-type: none"> • FO/BM should be given adequate training 	<ul style="list-style-type: none"> •

Activity: Pre-GRT – Day 2 **Branch Manager**

Day 2

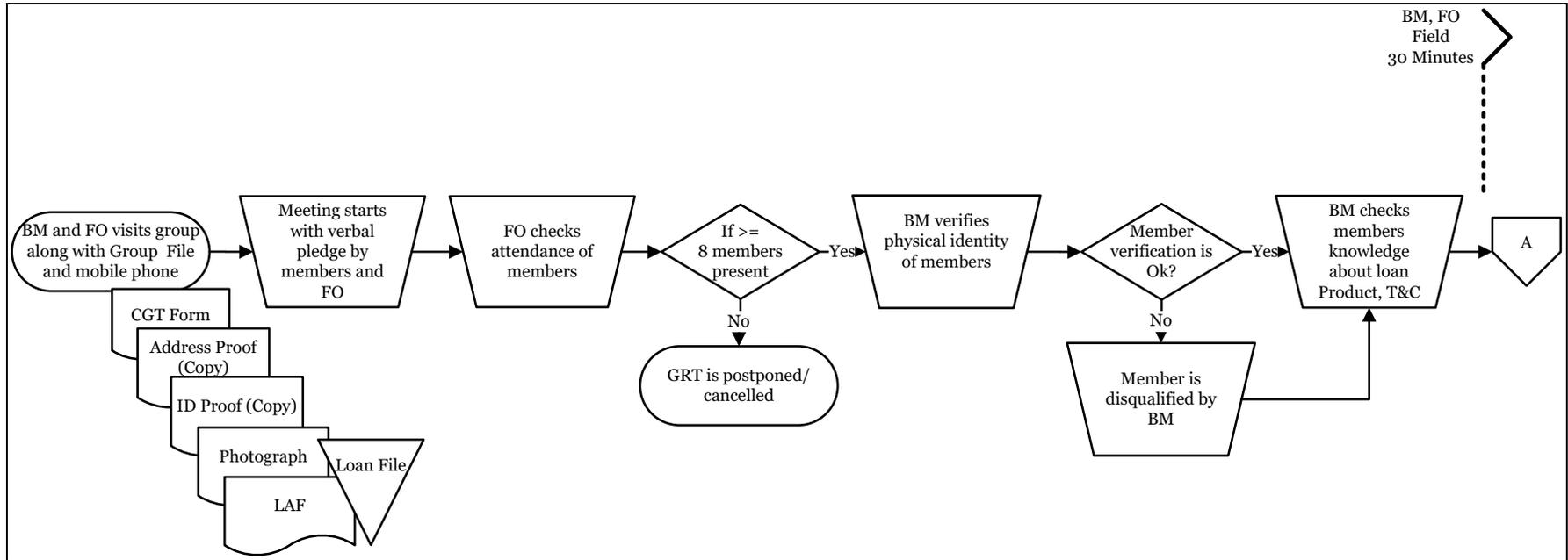
- Conduct house visits
 - a) Ensure family members are aware of the loan taken out by the client.
 - b) Make sure there is only one member from each family requesting a loan from the group.
 - c) Ensure group members are from the same locality and economic status group.
- Fill out Loan Application Form
- 2) Credit Discipline and the Loan Card
 - a) Members should understand their loan responsibility. The following tenets are on the loan card
 - i) Loan should be utilized for the purpose it was approved for.
 - ii) Members should attend every meeting. If the member must be excused they must ask the group leader for permission and leave their advance collection with the leader. A max of three excuses /absences will be allowed.
 - iii) Payments should be made during the scheduled team meeting decided by the group
 - b) Loan Card is for the member's personal records. Please read the information on the loan card to the members. The card has the following information:
 - i) Member personal details and contact information
 - ii) Loan details (ie; amount, instalment, first date of instalment, etc)
 - iii) Payment record and balance information.
 - c) Loan card replacement fee is 10 rupees. The card should be brought to every meeting.
- 3) Training should be from 45 minutes to one hour. An overview of five minutes should be conducted prior to the end of each day's meeting.

GRT Process:

Group Recognition Test

Group Recognition Test (1/2)

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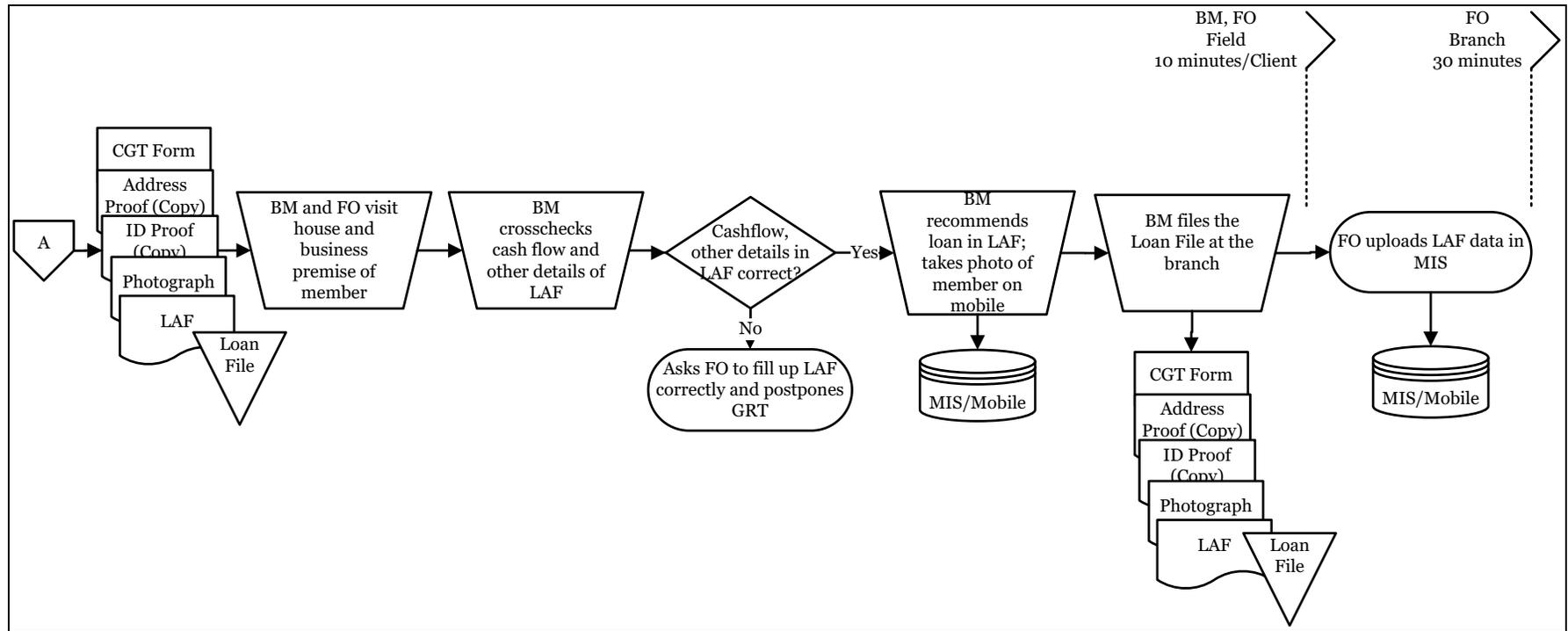


Description of Group Recognition Test(1/2)

<p>Description And Activities</p>	<ul style="list-style-type: none"> • BM and FO visits group along with Group File and mobile phone. • Meeting starts with verbal pledge by members and FO. • FO checks attendance of members. 	<ul style="list-style-type: none"> • If more than or equal to 8 members are present, FO postpones the GRT till group has 8 potential members who have completed CGT. • If more than or equal to 8 members are not present, BM verifies physical identity of member. 	<ul style="list-style-type: none"> • If member verification is not okay, BM disqualifies member. • If member verification is okay, BM checks member knowledge about loan product and terms and conditions.
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Group Recognition Test (2/2)

CLIENT GRIEVANCE REDRESSAL POLICY AND PROCEDURES



Description of Group Recognition Test(2/2)

<p>Description And Activities</p>	<ul style="list-style-type: none"> • BM and FO visit house and business premise of client. • BM crosschecks cash flow and other details of LAF at the client’s house and business premise. • BM checks if cash flow and other details mentioned in Loan Application Form (LAF) are correct? 	<ul style="list-style-type: none"> • If cash flow and other details mentioned in LAF are not correct, BM asks FO to fill up LAF of all the clients correctly and postpones the GRT. • If cash flow and other details mentioned in LAF are correct, BM recommends the loan in LAF. 	<ul style="list-style-type: none"> • BM takes photo of the member on the mobile and uploads it to MIS (mobile). BM also approves those members in MIS whose loans are being recommended by him/her. • BM and FO returns to the branch and BM files the Group file at the branch. • FO uploads LAF and PPI data of clients in MIS (mobile)
<p>Risk</p>	<ul style="list-style-type: none"> • Too much workload on Branch Manager might lead to GRT not being done on scheduled date 	<ul style="list-style-type: none"> • Personal biases of BM in disbursement 	<ul style="list-style-type: none"> • Improper filing • Errors in data entry in MIS

CLIENT GRIEVANCE REDRESSAL POLICY AND PROCEDURES

	<ul style="list-style-type: none"> • Rushed up GRT • Retraining a rejected group might add to work pressure to the Field Officer 		
Risk Mitigation	<ul style="list-style-type: none"> • Train the staff to train the group properly 	<ul style="list-style-type: none"> • During monitoring visit, DM/AM should check that branch staffs do not make any personal biases. 	<ul style="list-style-type: none"> • Train the staff to file the documents properly • Train the staff to make data entry in MIS

Conduct Pre- GRT and GRT

Branch Manager

Prior to conducting the Group Recognition Test, the Branch Manager should verify the data on the Loan Application Forms. The BM should verify the following on Loan Application Form:

- a) Address
- b) Verify the source of income.
- c) Type of house
- d) Verify the assets listed on the form as well as any assets that may have been missed.

Once the house visits have been conducted satisfactorily, the BM should review the CGT form. The BM should ensure members have been attending the group training on a daily basis. The BM must take each member separately away from the group and ensuring the member does understand the organization, the loan, and the repayment process.

The BM should question the following below:

- 1) Does the member understand what Margdarshak is and the service it provides?
- 2) What is the interest charged on the loan?
- 3) What is the monthly instalment? Does the member understand how the loan should be repaid?
- 4) The member should recite a verbal contract to Margdarshak that they will utilize their loan for the reason they have noted on the Membership form and will repay the required amount on time.
- 5) Does the member understand the concept of joint liability?
- 6) The member should know where to go to report a complaint?
- 7) Does the member understand her ability to receive higher loan size through increasing loan cycles?
- 8) Does the member know the meeting place, date, and time?

The BM can only recognize the group if there are 8 or more members who have passed the test. If this is the case, the group can be recognized.

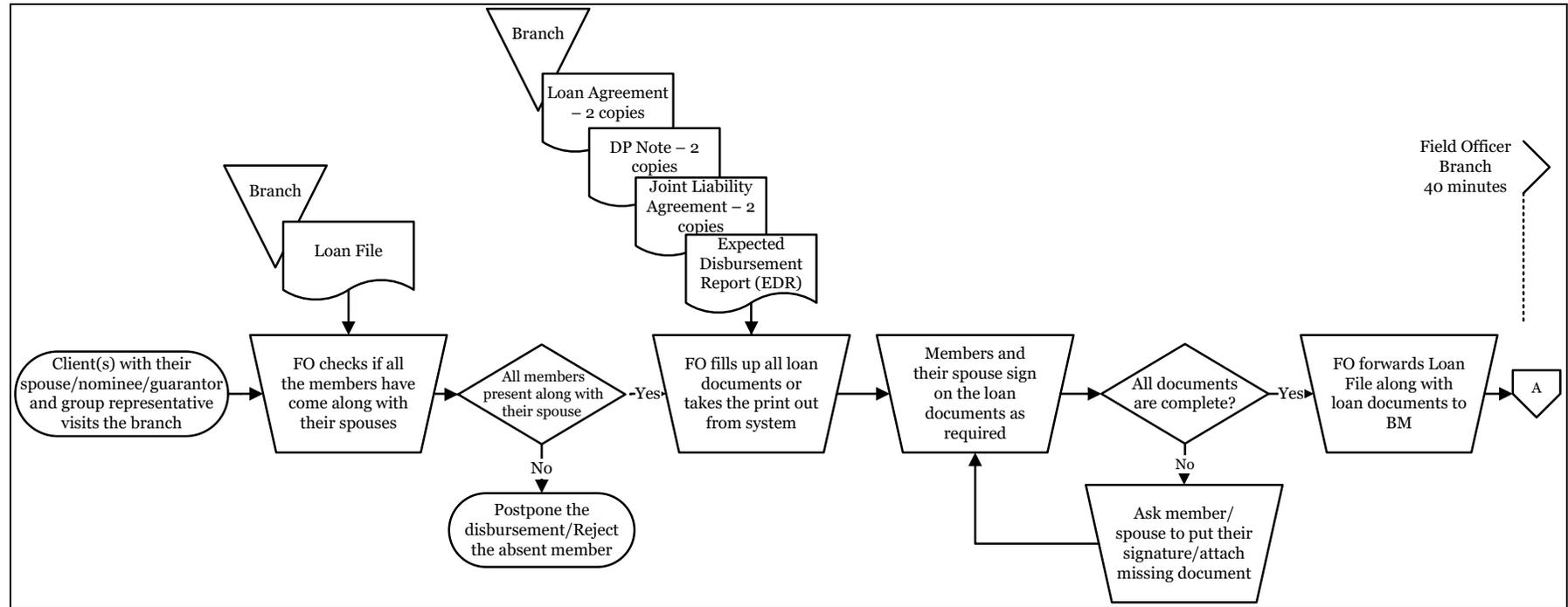
To recognize the group the BM will **signoff** on the Loan Application form under the loan proposal section.

7.4. Loan Disbursement Process :

All approved loan applications are disbursed jointly by the branch manager and concerned FO from a central location which is branch office. There is a gap of two days between the date of sanction and disbursement to ensure proper communication to the clients of a group. The responsibility of BM is to ensure that loans disbursed are utilised for income generation purpose and all other members

stand guarantee to repay the loan in case of delinquency by the client. During disbursement, apart from BM, the clients along with their co-guarantors (spouse), the group representative, the concerned FO are present. While handing over of cash to the client, BM asks to cross-count the cash and thereafter provides the loan card before disbursing to the other client. The company also complies with the RBI guidelines, where the organisation maintains a gap of 15 days between the disbursement and collection of first instalment

1.1 Loan Disbursement Process (1/2)



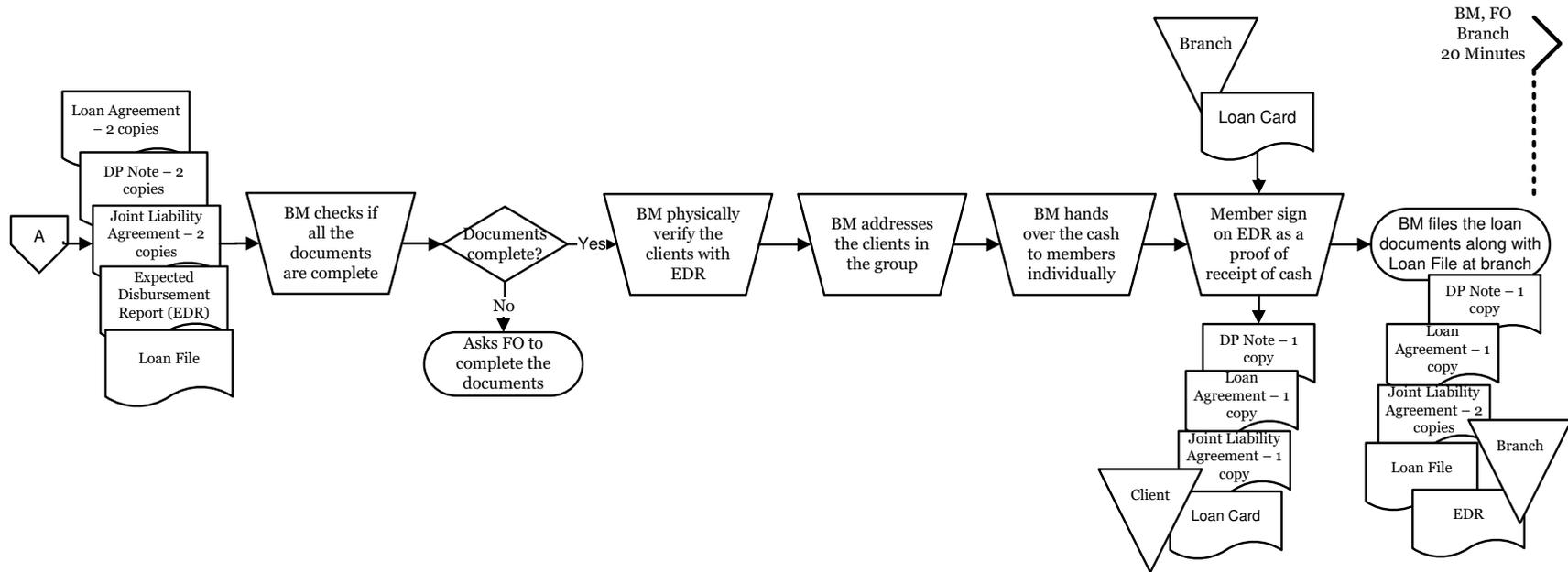
Description of Loan Disbursement process (1/2)

Description And Activities			
	<ul style="list-style-type: none"> Client(s) with their spouse/nominee/guarantor and group representative visits the branch. FO checks if all the members have come along with their spouses. If all members are not present along with 	<ul style="list-style-type: none"> If all members are present along with their spouses, FO fills up all loan documents or takes the print out from system. Loan documents are comprised of : <ul style="list-style-type: none"> Loan Agreement – 2 Copies DP Note – 2 Copies 	<ul style="list-style-type: none"> Members and their spouse sign on the loan documents as required. Before submitting the loan documents to BM, FO checks if all the documents are complete? If all the documents are not complete, FO asks member/spouse to put their signature or attach missing documents.

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	their spouses, FO either postpones the disbursement or rejects the absent member.	<ul style="list-style-type: none"> o Joint Liability Agreement – 2 Copies o Expected Disbursement Report (EDR) 	missing document/s. <ul style="list-style-type: none"> • If all documents are complete, FO forwards the File along with loan documents to BM.
Risk	•	• FO takes 30-40 minutes to fill up the loan documents	
Risk Mitigation	•	• MIS should make the provision to take the print out of all the loan documents such as EDR.	

1.2 Loan Disbursement Process (2/2)



Description of Loan Disbursement process (2/2)

Description And Activities	<ul style="list-style-type: none"> • BM checks if all the documents are complete? • If documents are not complete, BM asks FO to complete the documents 	<ul style="list-style-type: none"> • If documents are complete, BM physically verifies the clients with EDR • BM addresses the clients in the group • BM hands over the cash to members individually 	<ul style="list-style-type: none"> • Member sign on EDR as a proof of receipt of cash • BM files the loan documents along with Loan File at branch
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Operations staff members must consider the following policies with regard to loan disbursement:

- There should be a minimum two days gap between the date of sanction (sanction in s/w after Credit Bureau clearance) and date of disbursement to ensure proper communication to the customer.
- FO reschedules the loan disbursement on next meeting date in case all clients and their spouses have not come to the branch for loan disbursement.
- Part disbursement to group i.e. disbursing some group members today and some on other days is not allowed.
- There should be a minimum of one month gap between disbursement and first repayment.
- One branch can disburse loan to 100 clients on any given day. These clients should be given time slots to avoid stampede or rush at the branch. BM can disburse 2 groups in a day or upto Rs. 7.50 lakh whichever is higher. In case of disbursement of more than Rs. 7.5 lakh or more than 2 groups on a day then presence of DM is required in the branch. Similarly in case of disbursement of more than 4 groups presence of AM is required.
- There should be no disbursement on Saturday, Sunday and on the last week of the month.
- Branch should send weekly fund request to HO finance department every Saturday.
- The BM and concerned FO's presence is compulsory during the loan disbursement process.
- On receipt of expected disbursement sheet, cashier/other staff prepares cash bundle prior to loan disbursement process.
- BM to ensure that during disbursement apart from BM, the client and her spouse, the group representative, the concerned FO should be present. No other members should be present in the room where disbursement is taking place.
- BM to ensure that client signs on the expected disbursement sheet and also across the photo. BM to stamp the photo.
- For handing over the cash to the client, BM gives it to the group representative who in turn gives it to the client.
- After handing over the cash, BM to ask the client to count the cash and confirm the amount before leaving the room.
- BM to ensure that the FO hands over the Loan Pass Book to the client.
- FO to upload data of disbursement in mobile and BM to inform MIS data feeding the software.
- BM to ensure that disbursement is made to clients appearing in the expected disbursement sheet in mobile. No manual additions are allowed.

7.5. Loan Repayment/Group Meeting Process

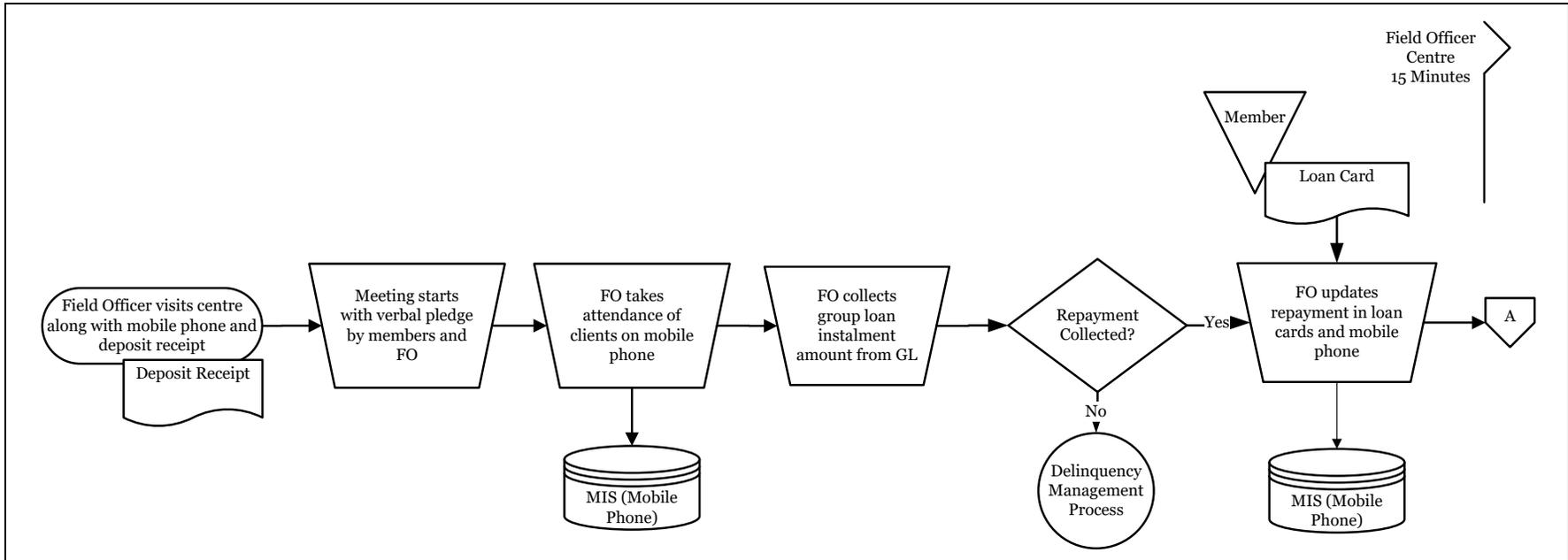
The Repayment Centre Meeting will focus on two aspects - collection of due repayment amount from group members and attendance of group members. The entire meeting should be completed within 30 minutes. The group leader collects repayment from group members and hands over the cash along with loan cards to FO during the meeting. The meeting starts and ends with the verbal pledge.

Responsibility for conducting the group meeting is given to field officer on monthly basis. As per the company's loan policy, it is mandatory for all the members of the group to participate in the group meeting for repaying their instalments. The group in return is

provided proper numbered receipt against the payment of the group instalments. The company also adheres to the RBI guidelines and collects all the dues in the group meeting itself. Door to Door recovery is only permissible only if client fails to appear at the group meeting place on two or more successive meetings.

1.1 Loan Repayment Process (1/2)

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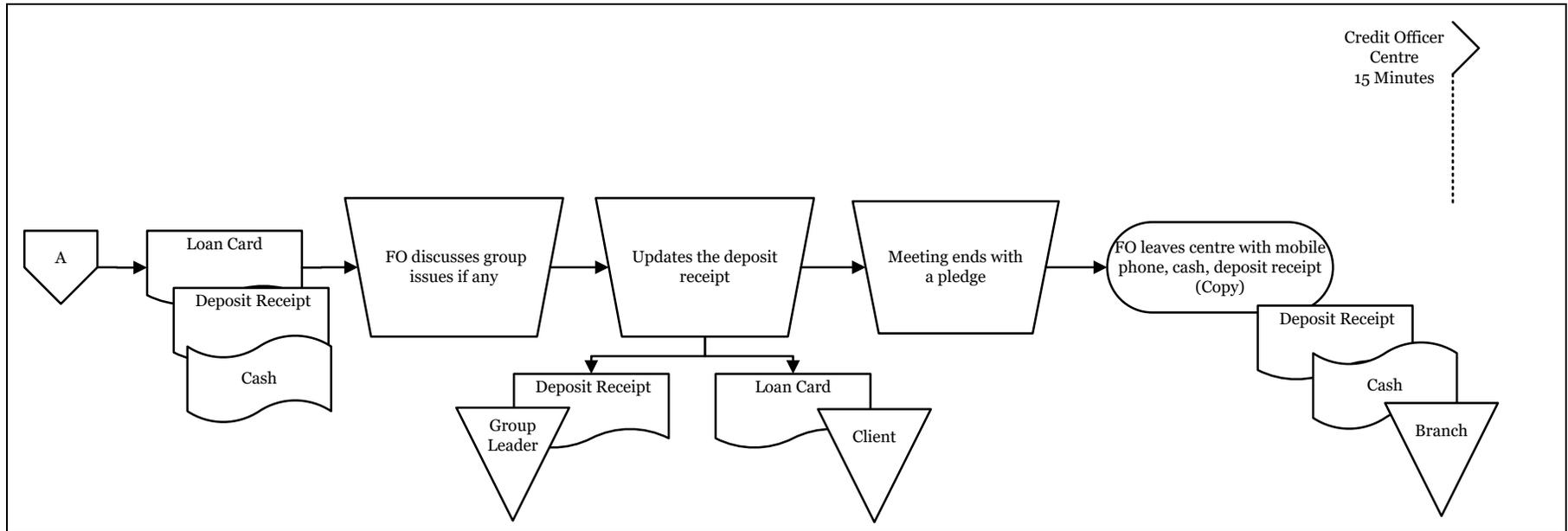
Description of Loan Repayment Process (1/2)

<p>Description And Activities</p>	<ul style="list-style-type: none"> Field Officer (FO) visits centre along with mobile phone and deposit receipt. Meeting starts with verbal pledge by members and FO. FO takes attendance of clients on mobile phone. <i>(Note: In case the members are absent, FO should enquire about the reason of their absence)</i> 	<ul style="list-style-type: none"> FO collects group loan instalment amount from group leader (GL) who in turn collects from members in the centre meeting. FO checks if the full repayment amount is collected from all the members? 	<ul style="list-style-type: none"> If the full repayment amount is not collected, delinquency management process starts. If the full repayment amount is collected, FO updates repayment in loan cards and MIS of mobile phone.
<p>Risk</p>	<ul style="list-style-type: none"> Clients come late to the meeting. Credit Officer is late to the meeting. Credit Officer does not bring mobile 		<ul style="list-style-type: none"> Client do not come with the loan card

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	phone with him.		
Risk Mitigation	<ul style="list-style-type: none"> • Credit discipline habits needs to be inculcated thoroughly to the clients. • Centre meeting should be monitored by DM/AM during the monitoring visit to the branch. • Disciplinary action against the Credit Officer who does not goes to the group along with mobile phone. 		<ul style="list-style-type: none"> • FO asks the client to bring the loan card in the same meeting.

1.2 Loan Repayment Process (2/2)



Description of Loan Repayment Process (2/2)

<p>Description And Activities</p>	<ul style="list-style-type: none"> Field Officer (FO) discusses group issues if any. 	<ul style="list-style-type: none"> FO updates the deposit receipt FO hands over the loan card to the clients while the deposit receipt to the group leader. <p><i>Note: Deposit receipt is prepared group wise not centre wise.</i></p>	<ul style="list-style-type: none"> Meeting ends with a pledge by members and FO FO leaves the centre along with mobile phone, cash and copy of deposit receipt
<p>Risk</p>	<ul style="list-style-type: none"> Field Officer does not discuss group issues 	<ul style="list-style-type: none"> Deposit receipt is lost by group leader. 	<ul style="list-style-type: none"> There is a risk of theft of cash and life of Field Officer while carrying cash from the field
<p>Risk</p>	<ul style="list-style-type: none"> Centre meeting should be monitored 	<ul style="list-style-type: none"> Margdarshak should moot over the 	<ul style="list-style-type: none"> Organisation should have life

Mitigation	by DM/AM during the monitoring visit to the branch.	<p>idea of sending automatic SMS to individual loan client as soon as the repayment data is uploaded in MIS (Mobile) by FO.</p> <ul style="list-style-type: none"> • Proper filing of all loan related documents and receipt should be done by the group leader. The Credit Officer should teach them and insist on filing 	insurance policy for FO. And, it should moot to have cash-in-transit insurance policy to cover for loss of money in transit between field/bank and insured's premises.
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- BM to ensure all FOs submit the cash collected from groups to BM/Cashier along with the FO voucher. One copy to be maintained by branch for record and verification of audit.
- To match cash collections with expected repayment amount. Any excess cash received from FO/BM to be separately vouchered and recorded/reported.

All collection to be reported to MIS before 5 pm or before closure of books whichever is earlier

7.6. Delinquency Management Process:

The delinquency management process described below should primarily be used to deal with wilful delinquent client. And, RBI Code of Conduct¹ must be considered while approaching the delinquent client. Code of Conduct mentions “field staff shall be allowed to make recovery at the place of residence or work of the borrower only if borrower fails to appear at central designated place on 2 or more successive occasions”

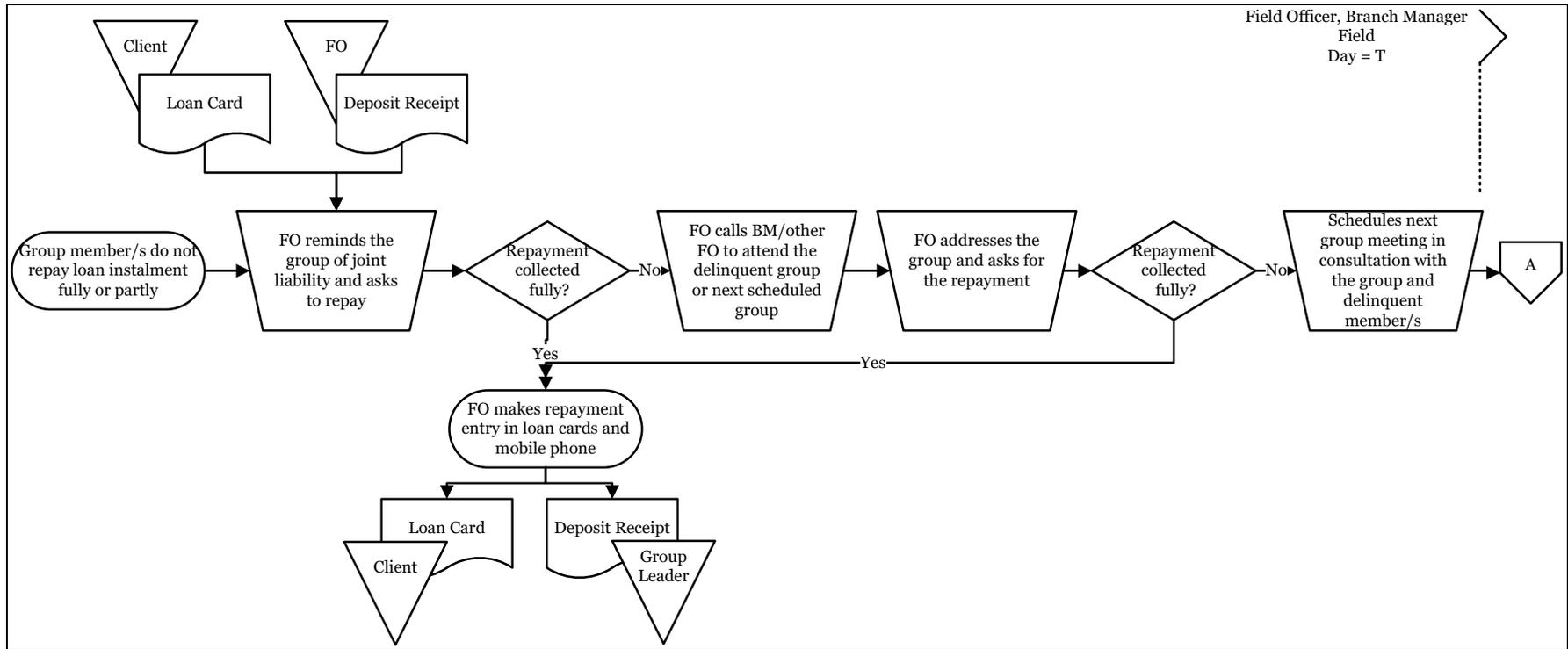
The organisation has a standardized and well established delinquency management process which is detailed below:-

¹ Source: RBI Master Circular – Introduction of New Category of NBFCs – (NBFC-MFIs) – Directions, dated July 1,2013

- During the group meeting, if any client of the group is not able to pay the current dues, the field officer responsibility is to cross-verify with the client and discuss within the group meeting the reason for not repaying the instalment. If the reason is genuine, the group members are asked to jointly contribute towards the current instalment and thereafter FO updates the details in the loan card .
- In case of willful default, FO discusses within the group for repaying of default payment for a particular client and simultaneously informs the branch manager regarding the default. The assistant branch manager (ABM) thereafter visits the group and continues with the group meeting where the ABM motivates the defaulting client to repay and asks group to exert peer pressure. If the group is ready to pay then FO updates the details in the loan card.
- If joint liability is not exercised, then ABM and FO leave the group meeting and return to the same group after end of all group meeting for the day for concerned FO. The ABM/FO tries to motivate all the clients of the group and inform them there will be no extra interest charged in case of any delinquent payment but the track record of the group will not be satisfactory.
- If the client/group members are not ready to repay, then ABM updates the Branch Manager on the same day regarding delinquency in the group. During the visit of BM, group meeting is organized and reason of delinquency is discussed in detail. If the reason is genuine then the group members are asked to contribute to delinquent client installment. In case of willful default, the delinquent client is asked to submit the default installment. If the delinquent client submits the default payment loan card is updated and a proper numbered receipt is provided.

If the group and Client are not ready to pay for delinquent client, then the FO is being instructed to keeps on following up every day till the recovery of default installment.

1.1 Delinquency Management Process (1/4)



Description of Delinquency Management Process (1/4)

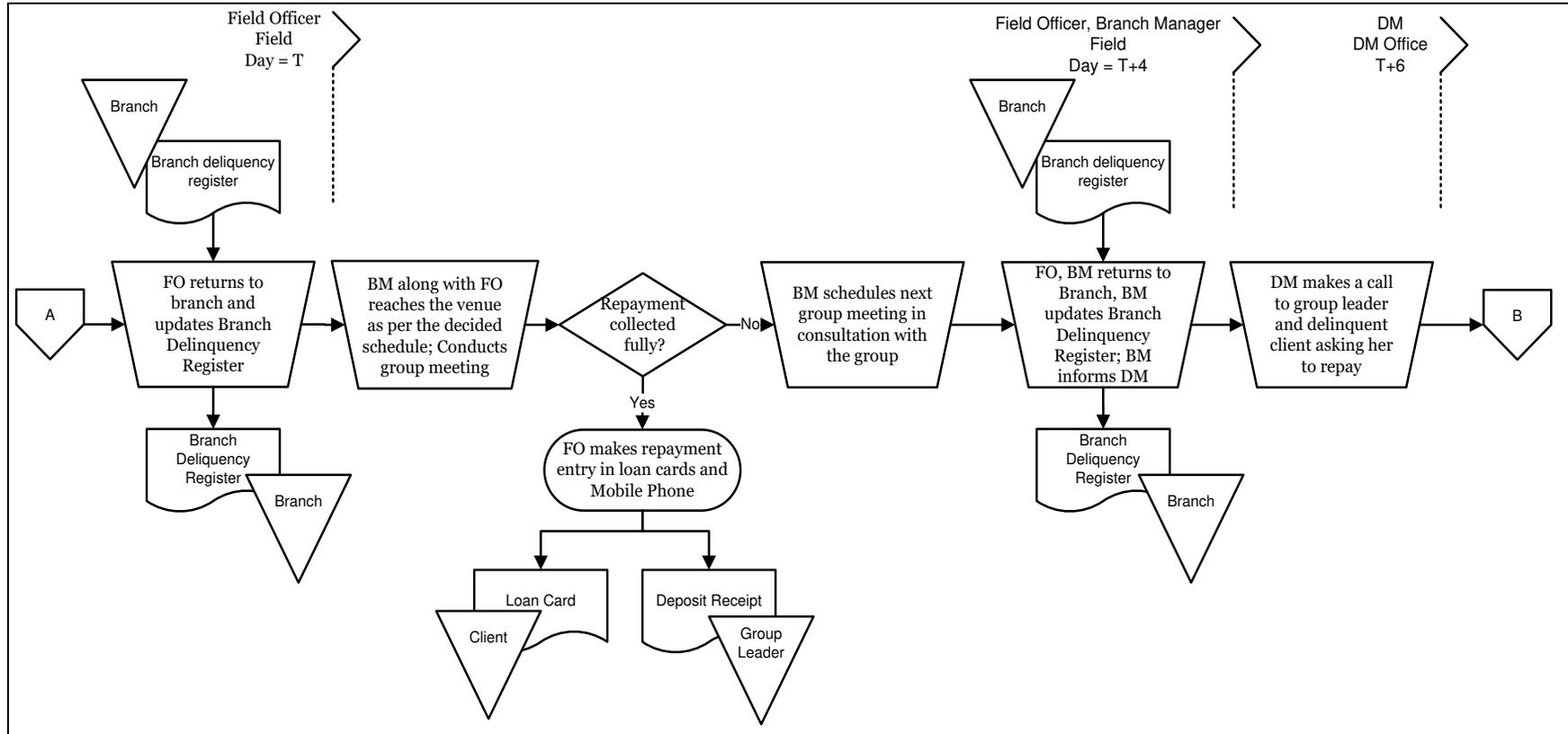
<p>Description And Activities</p>	<ul style="list-style-type: none"> • Group member/s do not repay loan Instalment fully or partly • FO reminds the group of joint liability and asks to repay • FO checks if the delinquent 	<ul style="list-style-type: none"> • If the delinquent member/s does not make the repayment fully, FO calls BM/other FO to attend the delinquent group or next scheduled group • FO addresses the group and asks for the 	<ul style="list-style-type: none"> • FO checks if the delinquent member/s make the repayment fully? • If the delinquent member/s make the repayment fully,
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	<p>member/s makes the repayment fully?</p> <ul style="list-style-type: none"> • If the delinquent member/s makes the repayment fully, FO makes repayment entry in loan cards and mobile phone. FO also prepares the deposit receipt and hands it over to the group leader. 	<p>repayment. <i>(Note: FO stresses upon the importance of maintaining 100% on-time repayment from the perspective of future loans from MFI)</i></p>	<p>FO makes repayment entry in loan cards and mobile phone</p> <ul style="list-style-type: none"> • If the delinquent member/s does not make the repayment fully, FO schedules next group meeting (First Delinquency Meeting) in consultation with the group and delinquent member/s. <i>(Note: Prior to fixing the schedule of meeting, FO should consult BM to check his/her availability)</i>
Risk		<ul style="list-style-type: none"> • Field Officer visits the borrower's house or business premise as soon as the loan becomes delinquent. 	
Risk Mitigation		<ul style="list-style-type: none"> • RBI Code of Conduct ² must be considered while approaching the delinquent client. It quotes "Field staff shall be allowed to make recovery at the place of residence or work of the borrower only if borrower fails to appear at central designated place on 2 or more successive occasions" 	

² Source: RBI Master Circular – Introduction of New Category of NBFCs – (NBFC-MFIs) – Directions, dated July 1,2013

1.2 Delinquency Management Process (2/4)



Description of Delinquency Management Process (2/4)

<p>Description And Activities</p>	<ul style="list-style-type: none"> Field Officer returns to the branch and updates Branch Delinquency Register Within 4 days of event of delinquency, BM along with 	<ul style="list-style-type: none"> If the delinquent member/s makes the repayment fully, FO makes repayment entry in loan cards and mobile phone. FO also prepares the deposit receipt and hands it over to the group leader. 	<ul style="list-style-type: none"> DM makes a call to group leader and delinquent client asking about the reason of delinquency and also asking her to repay.
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CLIENT GRIEVANCE REDRESSAL POLICY AND PROCEDURES

	<p>FO reaches the venue as per the decided schedule to conduct the group meeting (First Delinquency Meeting)</p> <p><i>Note: BM has to visit the delinquent group within 4 days of event of delinquency.</i></p> <ul style="list-style-type: none"> FO conducts the group meeting FO checks if the delinquent member/s makes the repayment fully? 	<ul style="list-style-type: none"> If the delinquent member/s does not make the repayment fully, FO schedules the next group meeting (Second Delinquency Meeting) in consultation with the group and delinquent member/s. (<i>Note: FO should also consult BM to check his/her and DM availability</i>) BM and FO returns to Branch. BM updates the Branch Delinquency Register giving details about the delinquent client. Within 4 days of event of delinquency, BM informs DM about the delinquent group and the reason of delinquency. 	
Risk		<ul style="list-style-type: none"> MFI staffs behave rudely with delinquent clients 	
Risk Mitigation		<ul style="list-style-type: none"> MFI must have clearly defined guidelines for employee interactions with clients <p><u>As per MFIN Code of Conduct³:</u></p> <ul style="list-style-type: none"> Staffs use courteous language, maintain decorum, and are respectful of cultural sensitivities during all interaction with clients 	

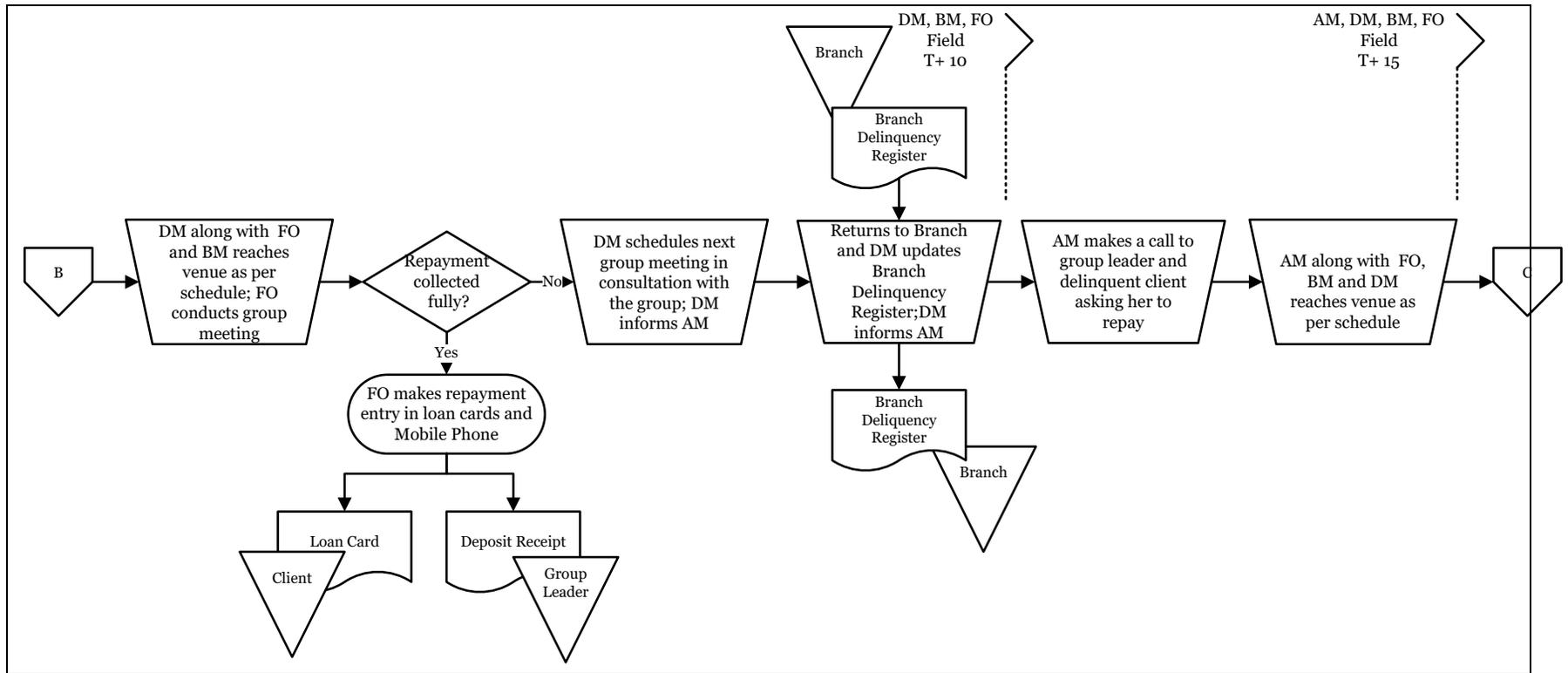
³ Source: Sa-Dhan/MFIN, Code of Conduct For Microfinance Institutions in India

CLIENT GRIEVANCE REDRESSAL POLICY AND PROCEDURES

		<ul style="list-style-type: none">• Staffs do not indulge in any behavior that in any manner would suggest any kind of threat or violence• Staffs do not contact clients at odd hours, as per the RBI guidelines for loan recovery agents• Staffs do not visit clients at inappropriate occasions such as bereavement, sickness, etc., to collect dues	
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1.3 Delinquency Management Process (3/4)

CLIENT GRIEVANCE REDRESSAL POLICY AND PROCEDURES



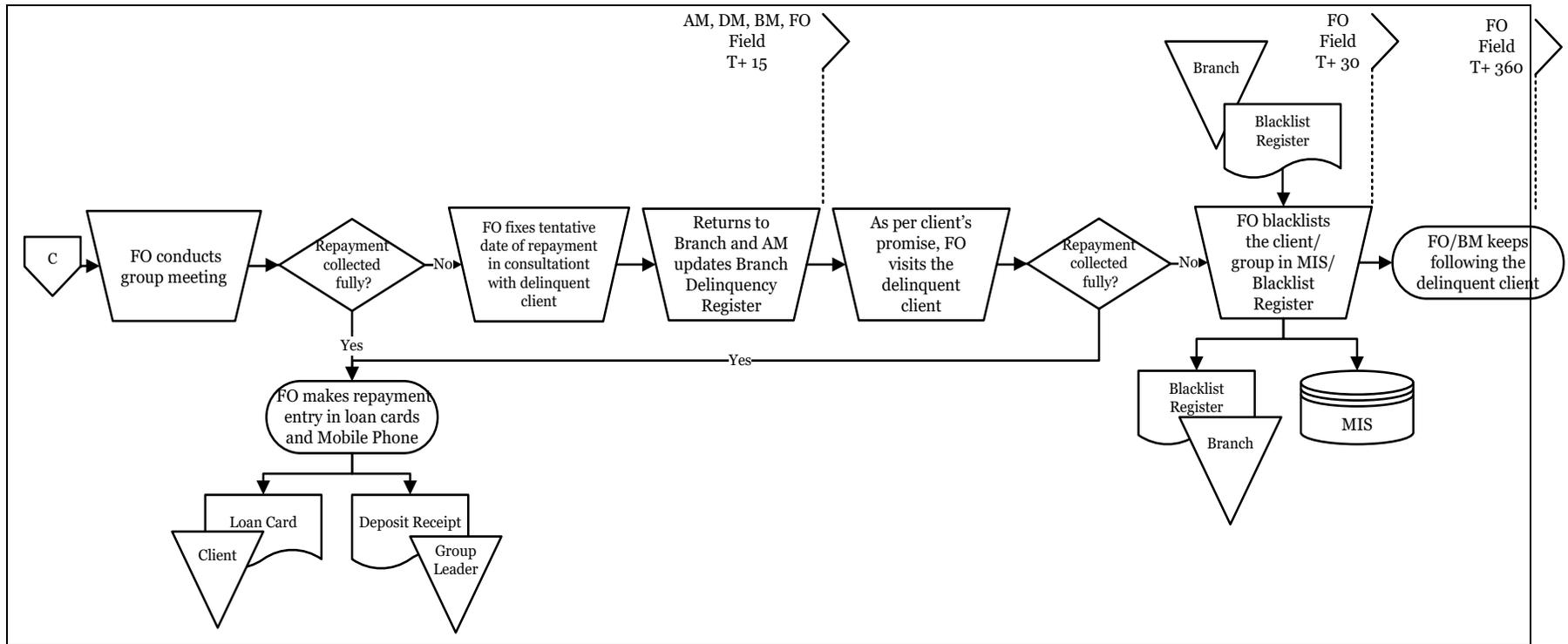
Description of Delinquency Management Process (3/4)

Description And Activities	<ul style="list-style-type: none"> • Within 10 days of event of delinquency, DM along with FO and BM reaches venue as per schedule to conduct the group meeting (Second Delinquency Meeting) • FO conducts the group meeting • FO checks if the delinquent 	<ul style="list-style-type: none"> • If the delinquent member/s does not make the repayment fully, DM schedules the next group meeting (Third Delinquency Meeting) in consultation with the group and delinquent member/s. <i>(Note: Prior to fixing the schedule, DM should also consult AM to check his/her</i> 	<ul style="list-style-type: none"> • AM makes a call to group leader and delinquent client asking about the reason of delinquency and also asking her to repay. • Within 15 days of event of delinquency, DM along with FO and BM reaches venue as
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	<p>member/s makes the repayment fully?</p> <ul style="list-style-type: none"> • If the delinquent member/s makes the repayment fully, FO makes repayment entry in loan cards and mobile phone. FO also prepares the deposit receipt and hands it over to the group leader. 	<p><i>availability)</i></p> <ul style="list-style-type: none"> • DM, BM and FO returns to Branch. • DM updates the Branch Delinquency Register giving details about the delinquent client. • Within 10 days of event of delinquency, DM informs AM about the delinquent group and the reason of delinquency. 	<p>per schedule to conduct the group meeting (Third Delinquency Meeting)</p>
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1.4 Delinquency Management Process (4/4)

CLIENT GRIEVANCE REDRESSAL POLICY AND PROCEDURES



Description of Delinquency Management Process (4/4)

<p>Description And Activities</p>	<ul style="list-style-type: none"> FO conducts group meeting FO checks if the delinquent member/s makes the repayment fully? If the delinquent member/s makes the repayment fully, FO makes repayment entry in loan cards and mobile phone. FO also prepares the deposit receipt and hands it 	<ul style="list-style-type: none"> If the delinquent member/s does not make the repayment fully, FO fixes tentative date of repayment in consultation with the group and delinquent member/s. AM, DM, BM and FO returns to branch. AM updates the Branch Delinquency Register giving details about the 	<ul style="list-style-type: none"> If the delinquent member/s makes the repayment fully, FO makes repayment entry in loan cards and mobile phone. FO also prepares the deposit receipt and hands it over to the group leader. If the delinquent member/s does not make the repayment fully and the loan remains past due for 30 days, FO blacklists the client/group.
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CLIENT GRIEVANCE REDRESSAL POLICY AND PROCEDURES

	over to the group leader.	delinquent client and group. <ul style="list-style-type: none">• As per client's promise, FO visits the delinquent client on fixed date and time.• FO checks if the delinquent member/s makes the repayment fully?	<ul style="list-style-type: none">• FO updates the Blacklist Register and MIS• FO keeps following the delinquent client for one year. FO must update the Branch Delinquency Register every time he/she visits.
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CLIENT GRIEVANCE REDRESSAL POLICY AND PROCEDURES

8. Loan Utilisation Check :

Within one month of disbursement, all BMs are required to do loan utilization check by visiting the groups to check whether the loan has been utilised as per loan purpose mentioned in application form.

and checking the name of the group, name of the client, whether loan has been utilized for income generation activity and what is the utilized amount. BM should also indicate the purpose for which the loan was applied and the purpose for which the loan has been utilized and the balance amount, if any. All BMs should enter the details of all LUC done in the Audit Module-LUC of BM in the software and give monthly certificate.

9. Operations Monitoring and Evaluation Framework:

In order to streamline the monitoring process and ensure adequate supervision, a monitoring and evaluation (M&E) framework has been developed to guide the managers in monitoring and proactively addressing the risks. The monitoring framework is enclosed and has been designed as per roles and responsibilities of the respective employees at various levels of operational hierarchy keeping in mind the expected performance from them.

It will be the responsibility of the Supervisory staff to escalate the risky or potentially risky groups to the management for taking appropriate action. Further, all supervisory as well as field staff are required to assist the Management by providing any developments in the field and provide support to the:

- internal audit team in conducting internal audit of the branches,
- HR and training team in recruitment, training and capacity building,
- IT and systems team in effective information management systems,
- management in business and process planning.

The monitoring tool is to guide the managers and is indicative and not exhaustive.

10. Client Relationship and Grievance Management :

10.1. Client Grievance Policy:

Preface

- Margdarshak Financial Services Ltd recognizes the need for protecting the interest of its clients. Establishing an effective and efficient Grievance Redressal Mechanism will contribute in building a long term relationship with its clients and overall sustained development of the organization. Timely redressal of grievance results in higher customer satisfaction which in turn leads to increased outreach of the clients and also helps in retaining the existing ones. It also serves as a Risk Management Tool in providing early warning signals for Operational Risks. Hence the Client Grievance Redressal Policy and Procedure document is aimed at minimizing incidences of client complaints and grievances through proper service delivery and review mechanism and to ensure its prompt redressal.
- The Code of Conduct of MFSL lays down guidelines for general ethical behaviours of staff and professionalism. All employees of MFSL should adhere to professional behaviour in interaction both within the organisation as well as with the clients and external parties.
- The Fair Practice Code of MFSL lays down guidelines for fair practices with respect to Loan Application and its processing, loan appraisal, disbursement, disclosures on interest rate and terms and conditions in loan card/loan agreement and loan recovery.
 - Towards this end , MFSL has put in place Client Grievance Redressal Policy which is based on the following principles:
 - To provide clients a channel of communication of their grievances / complaints/ feedback/ suggestions.
 - To educate the customers on the grievance redressal mechanism.
 - To ensure that the clients are treated fairly at all times.
 - To ensure that clients are protected against fraud, deception or unethical practices.
 - To resolve complaints speedily.
 - To consistently assess the impact to improve the services.
 - Accordingly, the Client Grievance Redressal Policy has been formulated with a view to provide mechanism for clients of the organization to approach Grievance Redressal Officer of the Company.
 - The policy is not the route for taking up a grievance about a personal situation.

Coverage of the Policy

- Client Grievance can be filed in case of client dissatisfaction/complaint as described below:
 - Pilferage of confidential /personal information of the client
 - Staff Related- Field Officer coming late for collections, giving inadequate information about the products, staff using unauthorized agents or demanding personal favors, receipts not provided to clients , mistreatment or misbehavior with clients.
 - Breach of Code of Conduct of the company

- Breach of Fair Practices of the company
- Insurance related such as delay in insurance, insurance claim refused, etc.
- Group Centre/Meeting place related issues like Group Leader being too dominant, demanding bribe or other favours or influencing credit decisions disproportionately. There could be other issues like meeting place or time related issues etc.
- Incident/possible incident of sexual harassment of client at the workplace
- Query related - Loan, Insurance, recruitment, BC ,MFI related queries
- Policy should not be used to bring to light personal matters of another person which are no way connected to the organization.

Procedure for filing Grievances

Every attempt must be made by the field staff that client complaint does not arise. However, all field staff must clearly inform the clients about the client grievance procedure. The field staff must make every attempt to resolve grievances at their level.

- **Center Meetings/Branch (3daysFO/BM+3daysDM/AM):**
 - Clients can make complaints to Field Officer: These enquiries will be forwarded to the branch manager for follow up and resolution. The issues raised by the clients are resolved during the meeting itself or within 3 days at branch level. If the complaint is against the Field Officer it should be reported to the Branch Manager.
 - The complaints are recorded in the Client Complaint Register along with name, group no. and phone no. of the client and are addressed at the Branch Level. If unaddressed and in case it is beyond the scope of his authority the Branch Manager forwards the request to the District/Area Manager. The District/Area Manager forwards it to the Grievance Redressal Committee at the Head Office if it is beyond the scope of his activities.
- **Written Complaint:**
 - The clients can also give a written complaint and drop it in the Complaint Box at each Branch. These drop boxes are opened once in 15 days by the Area Manager/DM or the audit team and complaints are carried to the HO where the Grievance Redressal Committee does the investigation into the matters raised by the client.
 - The client can write a complaint and post it to the following address:
 - Grievance Redressal Officer
 - Margdarshak Financial Services Ltd.
 - 118, Dayal Farms, Ganeshpur-Rehmanpur
 - Chinhat-Dewa Road
 - Lucknow-226019 (Uttar Pradesh)
 - The client can also email the written complaint to complaints@margdarshak.org.in.
- **The clients can call on the Toll Free Number provided in the Loan Card i.e. 18001231088 or phone no. 7232999222. The same is recorded by the person**

responsible which is reviewed and presented to the grievance redressal committee for redressal of grievances.

- In case, client is not satisfied with the resolution then the client can call **Grievance Redressal Officer at MFIN** (Self Regulatory Association for MFI's) on 18002700317/ 0124- 4212570. In case, resolution is not provided to client within one month then the client can appeal to RBI, Regional Office, Civil Lines, Kanpur-208001 or call at 0512-2333266.

Communication of Grievance Redressal Mechanism

Client Grievance Redressal Mechanism, is prominently displayed in the Branch Offices.

- Field Officers inform clients about the Client Grievance Redressal Mechanism during CGT.
- Supervisors also inform clients about the Grievance Redressal Mechanism everytime they visit clients on Monitoring visits.
- Name of the GRO, email id and Toll free number is printed on Loan cards
- Staff is trained about the need to ensure that all clients are aware of the Grievance Redressal Mechanism.

Process of Client Grievance Redressal Mechanism/ Escalation process

- **Branch (FO/BM):**
 - Field Officer records the complaints in the branch Complaint Register. BM during his center visits carries Complaint Book and record all complaints/Grievances notified by the client during his center visits in the complaint register and take steps to resolve the same timely and efficiently.
 - If complaints not resolved it needs to be to be escalated to the Area Office level within 7 days.
- **Area Office (DM/AM)**
 - District Manager will have the overall responsibility of addressing Client Service issues/ complaints/grievances in their respective districts. DM contacts the aggrieved Clients as and when necessary, meet her personally with the Branch Manager, for ensuring timely redressal of the complaint/grievance. Wherever deficiencies are noticed, accountability is fixed and action is taking against the complaint immediately.
 - AMs during their Weekly Branch Monitoring check the branch complaint/grievance book and take suitable steps to timely resolve all grievances and complaints.
 - The District/Area Manager forwards it to the Grievance Redressal Committee at the Head Office if it is beyond the scope of his activities within 7 days of receipt of complaint. All complaints needs to be resolved within 30 days.

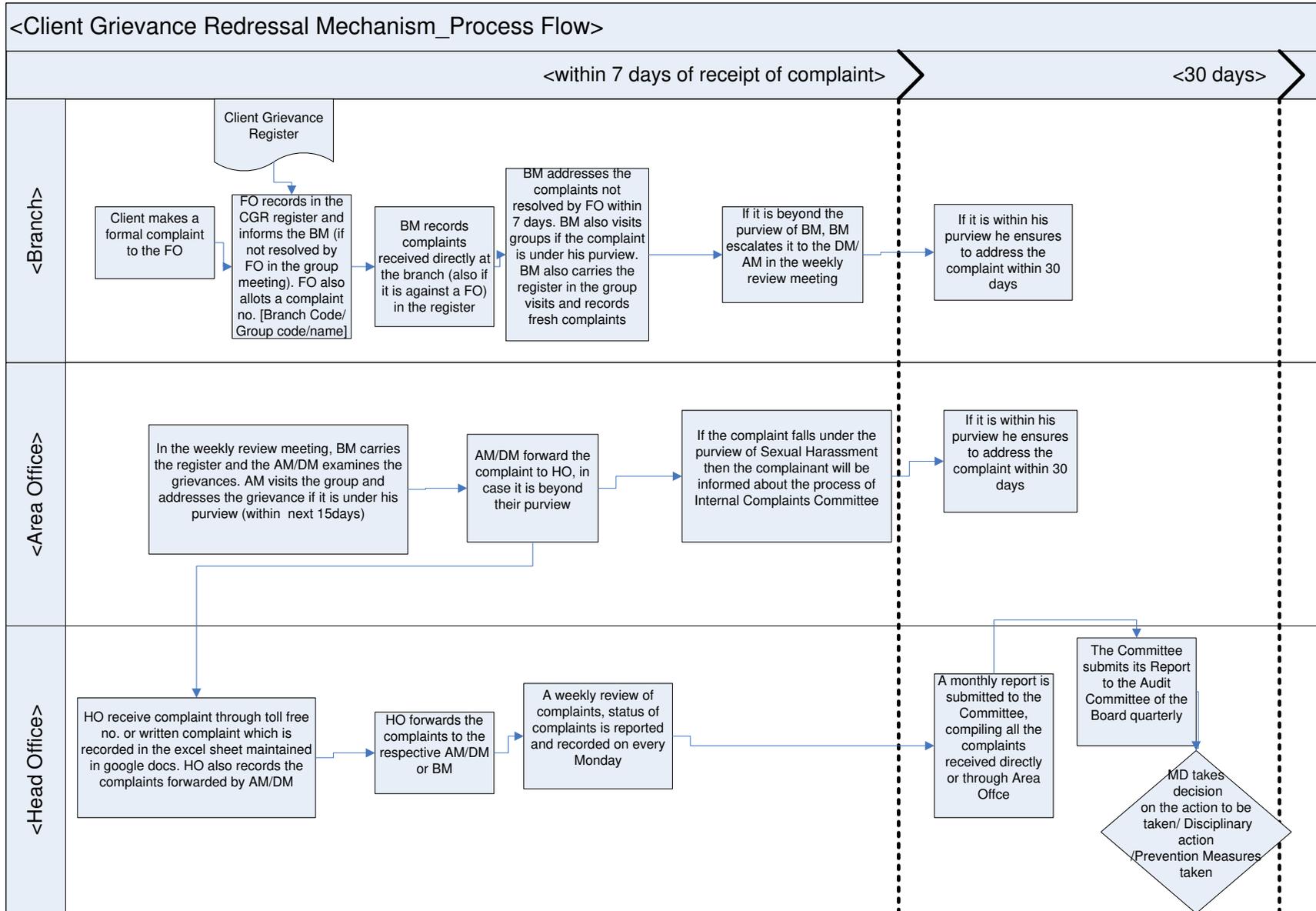
- A monthly report of Grievances received, addressed and unresolved needs to be submitted to Head Office by Area Manager as per format given in Annexure 1 by the 3rd of the following month.
- **Head Office:**
 - All complaints directly received at Head Office through letter, email, phone call or through Area Office to be addressed weekly by a team consisting of Audit Head, Company Secretary and MIS Incharge. They would be responsible to do thorough analysis of the complaints and ensure necessary instructions are given to AM/DM/ Branches for speedy redressal and follow up till final redressal of the complaint.
 - Each client is given a complaint id for easy retrieval of complaints and follow up. HO to ensure that all complaints received directly or through Area Office needs to be resolved within 30 days.
 - They are also responsible to compile the monthly Grievance Redressal report received from branches/Area offices and Head Offices and present it to the Grievance Redressal Officer in the Committee held monthly tentatively on the second Saturday of the month.
 - A quarterly report on the complaints received and the turnaround time for redressing those complaints is submitted to the Audit Committee of the Board.
 - All complaints related to sexual harassment to be forwarded to the sexual harassment committee. Please refer to the Policy against Sexual harassment of women at workplace.
 - All fraud/suspected fraud related issues are escalated for further investigation to the Head of Audit/Risk Management and action is taken against erring employees. The complaints should be forwarded to audit@margdarshak.org.in.

Closure of the Complaint

All complaints ensured to be closed within one month.

CLIENT GRIEVANCE REDRESSAL POLICY AND PROCEDURES

CLIENT GRIEVANCE REDRESSAL POLICY AND PROCEDURES



10.2. Tele-calling Code of Conduct

TELE-CALLING A PROSPECTIVE CUSTOMER

A prospect is to be contacted for sourcing MFSL product or MFSL related product only under the following circumstances:

- 1) When prospect has expressed a desire to acquire a product through MFSL's internet site/call centre/Branch or through the Relationship Manager at MFSL or has been referred to by another prospect/customer or is an existing Customer of MFSL who has given consent for accepting calls on other products of MFSL.
- 2) When the prospect's name/telephone number/ address is available & has been taken from one of the lists/directories/databases approved by the Service Provider Owner / Manager/Team leader, after taking his/ her consent. This means that the said data has been checked against the MFSL DNCR (Do not call register).
- 3) The executive should not call a person whose name/number is flagged in any "do not disturb" list made available to him/her.

WHEN YOU MAY CONTACT A PROSPECT ON TELEPHONE

- 1) It may be ensured that a prospect is contacted only when the call is not expected to inconvenience him/her.
- 2) Calls earlier or later than the prescribed time period may be placed only when the prospect has expressly authorized executive to do so either in writing or orally.

DISCUSSING PROSPECT'S INTEREST WITH ANYBODY ELSE

Margdarshak Financial Services Limited should respect a prospect's privacy. The prospect's interest may normally be discussed only with the prospect and any other individual/family member such as prospect's accountant/secretary /spouse, authorized by the prospect.

LEAVING MESSAGES AND CONTACTING PERSONS OTHER THAN THE PROSPECT.

- 1) Calls must first be placed to the prospect. In the event the prospect is not available, a message may be left for him/her. The aim of the message should be to get the prospect to return the call or to check for a convenient time to call again. Ordinarily, such messages may be restricted to:
- 2) "Please leave a message that XXXXX (Name of officer) representing MFSL called and requested to call back at ZZZZZZ (phone number)". As a general rule, the message must indicate that the purpose of the call.

NO MISLEADING STATEMENTS/MISREPRESENTATIONS PERMITTED

The executive should not -

- 1) Mislead the prospect on any service / product offered;
- 2) Mislead the prospect about their business or organization's name, or falsely represent themselves.
- 3) Make any false / unauthorised commitment on behalf of the organisation for any facility/service.

TELEMARKETING ETIQUETTES

Pre Call:

- 1) No calling on lists unless list is cleared by team leader

During Call:

- 1) Identify yourself, your company and your principal;
- 2) Request permission to proceed;
- 3) If denied permission, apologize and politely disconnect;
- 4) State reason for your call;
- 5) Always offer to call back on landline, if call is made to a cell number;
- 6) Never interrupt or argue;
- 7) To the extent possible, talk in the language which is most comfortable to the prospect;
- 8) Keep the conversation limited to business matters;
- 9) Check for understanding of “Most Important Terms and Conditions” by the customer if he plans to buy the product;
- 10) Reconfirm next call or next visit details;
- 11) Provide your telephone no, your supervisor's name or RMs contact details if asked for by the customer;
- 12) Thank the customer for his/her time.

Post Call:

- 1) Customers who have expressed their lack of interest for the offering should not be called for the next 3 months with the same offer;
- 2) Provide feedback on customers who have expressed their desire to be flagged as “Do Not Disturb”;

11. Financial Monitoring and Management

The organisation being involved in the field of micro finance has very stringent policies and procedures to manage the microfinance programme effectively and to the best advantage of the investors/funders and the beneficiaries. Financial monitoring is done simultaneously with the microfinance programme monitoring so as to ensure that it is managed according to the policies and procedures. Financial Monitoring is also done to ensure that the funds received are utilised effectively and efficiently as per the RBI guidelines and as agreed upon in the loan agreement with the lender.

The organisation covers financial risk in broad aspects, where primary emphasis is given on monitoring of loan disbursement through tele-check as well as post disbursement monitoring at four levels (FO's, BMs, AM and Internal Audit). In addition to this, loan card are provided to the clients which has pre-printed repayment schedule and accordingly the repayment made by the clients are monitored. This enables the organisation to monitor expected collection on daily basis against the expected dues. Further, the accuracy of this reports from branches become the major source of monitoring income and expenditure through support documents. The organisation has put limit on expenses for any misuse of funds. The organisation also keeps a close eye on cash flow (from and to branches) on weekly basis. For daily monitoring of cash and bank transactions, each branch has a bank

account where the collection received on a particular day is deposited on the same day in the bank account. Further, the collection amount is not used for filling the gap of disbursement. The request for disbursement from branches is submitted to the data centres one week prior to disbursement (on every Saturday). The amount to be disbursed is credited only on the day of disbursement in the bank account.

Apart from cash and bank transactions, the organisation closely monitors the documents like cash book/cash balance book, bank statement/bank book, ledgers and journals, disbursement and collection sheets, payroll records (timesheets/attendance and salary verification) and other supporting documents such as expenditure bills, cancelled checks, receipts, invoices and payment requests.

Financial Monitoring also involves timely repayments to lenders, timely submission of reports, daily closing of branch and checking for any problems where cash is being held for more than 3 days. If required, narrative explanations are asked from branches for having excessive cash balances.

12. Internal Control and Cash Management Process:

12.1. Internal Control:

Internal control consists of all the related methods and measures adopted within the organisation to (a) safeguard assets from employee theft, robbery, and unauthorized use and (b) to enhance the accuracy and reliability of its accounting records by reducing the risk of errors (unintentional mistakes) and irregularities (intentional mistakes and misrepresentations) in the accounting process.

- The responsibility for safeguarding assets such as mobile phones, laptop etc allotted to employees or computers given to the branch would jointly vest with the employee having the physical custody of the asset or the branch staff and the BM. In case of Area Office the responsibility will be with Area Manager.
- Fixed Asset Register to be maintained and kept updated. Any transfer of asset or purchase to be recorded with date of such instance and approval for such transfer or purchase.
- All assets such as mobile phone, computer, laptop allotted to employees are to be safely handed over in case of absence of more than 3 days to the person to whom the work responsibilities have been handed over before proceeding on leave.
- Computers/laptops should be password protected.
- The User ID and password to the web based software is not to be shared with anyone within office or outside office.
- The settings of mobile should not be changed and SIM not to be replaced.
- Cash receipts are issued for all collection/cash received at the branch. The branch manager needs to verify the cash receipts /bank deposit receipts and compare total cash received and deposited in bank on a daily basis. All cash and bank deposit receipts to be kept under lock and key.
- Cash collected towards loan recovery not to be used for administrative or salary payment.

- Store cash in safes and limit access to the storage area.
- Store blank cheques received for withdrawal of cash in safes with limited access.
- Storage cabinets for inventory and records should be locked.
- Cash is disbursed to clients as per Loan disbursement policy. Disbursement to be done on the meeting day in the presence of all group members and group leader. Please refer to circular dated 16.07.13 for Policy on Loan Disbursement for detail guidelines.

In case of purchase of assets, original quotations obtained (minimum three) for all items, approval note and invoice to be properly filed for record

12.2. Petty Cash:

Petty cash fund is the cash used for payment of relatively smaller amounts. All other cash payment to have proof of payment i.e all cash payments of more than ₹ 200/-should be supported by proper bills. Documents provide evidence that transactions and events have occurred. The copy of documents (scanned copy) should be promptly forwarded to the accounting department to help ensure timely recording of the transaction and event.

The following guidelines to be followed strictly:

- The initial fund of ₹ 3000 to Branch Offices and of ₹ 6000 to Area Offices would be created by issuing a cheque at the beginning of every month.
- Petty cash, therefore, shall be used at branches and Area offices to make payments for expenses of small amounts of less than ₹200.
- Salary and conveyance expenses or any type of expense which is more than ₹ 200 shall be paid by online net transfer/ cheque/transferred in respective bank accounts.
- Petty cash expenses shall be transferred to the bank account of respective Branch Manager/AM. The amount needs to be withdrawn and kept in office for petty cash expenses.
- In case the money in the petty cash fund reaches a minimum level and the fund needs to be replenished, the request for replenishment is to be initiated by the BM and forwarded to ca@margdarshak.org.in along with scanned copy of the petty cash statement and copy of bills of all the expenses made. Without the copy of statement and bill, replenishment shall not be processed. [Bills provide evidence that transactions and events have occurred. The original bills should be filed and kept in respective offices for record and audit purpose.
- All expenses for purchase of stamp paper shall be made for Savings Cash Book. All cash received towards stamp paper purchase shall also be recorded in Savings Cash Book. All savings amount received from clients, paid to clients and received from Head Office for refund to clients shall also be entered in this Savings Cash Book. The Cash Balance in this Cash Book needs to be deposited in bank account once in 2-3 days, however, reported to MIS and entered in s/w on a daily basis.
- Any balance amount in the petty cash to be deposited in Bank account on the last working day of the month.
- Cash shall not be paid on any other days. Travel imprest to District Managers, Area Managers and auditors to be paid at the beginning of the month. All other travel expenses shall be settled on reimbursement basis.[PLEASE REFER TO TRAVEL CIRCULAR].

12.3. Maintenance of Books of Accounts/other records:

- Maintenance of Cash Book (Note: Petty Cash Register has been discontinued w.e.f September 01, 2017 due to implementation of GST related compliances)
- The Cash Book to be up-dated and balanced daily. Failure to keep account books up-to-date is a serious offence and may lead to disciplinary action.
- All entries in the Cash Book to be supported with documents/bills.
 - a. Collection to be supported by Collection Report (to be filed in Collection file)
 - b. Disbursement to be supported by Expected Disbursement Sheet (to be filed in disbursement file)
 - c. Inter branch cash transfers to be supported by Local Branch Advice
 - d. All Petty Cash expenses to be entered in Cash Book and supported by bills/invoices and filed in expenses file.
- Errors in financial books and documents are not to be erased, written-over or covered with “whitener” or in any other way. They must be crossed out neatly with two parallel lines, the correct figure must be written clearly nearby and the initials of the person making the correction must be affixed.
- Maintain cheque stock register with details of cheques issued and cheques encashed. All cheques received but not encashment to be kept in safe custody.
- Maintain group monitoring register (pre-printed register provided by HO). Generate weekly disbursement report from the MIS software and update the same in group monitoring register on a weekly basis.
- To maintain stock/inventory register and to ensure custody of all stock and inventories and ensure that the closing stock matches with the physical stock in the branch.
- To maintain Fixed Assets Register. To ensure that the assets mentioned in the Fixed Assets register matches with the assets in the branch

12.4. Cash Vault:

- BM to ensure that the cash vault is operated in the presence of one more official.
- Cash in the box/vault to match with the figures in the cash book and that the denominations match those in the cash book.
- to ensure that the cash box keys are with the persons named in the Key Register.
- to ensure that the cashier jointly with officers in charge immediately make-up any difference from their own funds and the matter is to be reported to the next superior officer as soon as possible.
- There should be no unaccounted cash in the cash vault

12.5. Important Financial Rules:

- In branches, where the cashiers are not available, the BM will assign duties of the FO for functioning as cashiers for collection. The duty calendar will be made by BM and submitted to AM for approval. AM is to ensure that the duty calendar is submitted to Accounts Dept –HO promptly .
- Surprise checks will be carried out at any time by the Internal Audit Department. These are not to be taken personally, and full FO-operation is to be given to the audit staff, as such checks are essential in a financial institution. **Staff who do not give full FO-operation to officials who conduct surprise visits or internal/Statutory audit visits or do not provide requested documents in reasonable time, will invite disciplinary proceedings against them.** To ensure that the staff is not in violation of any important financial rules, observe the following:
 - Dual Custody: Involve two people in critical cash handling task. Dual custody encourages cash handler to check each other reduces the risk of robbery and theft if loss occurs, protects cash handler from unwarranted suspicion.
 - Report any losses (including over and short cash): BMs are to be required immediately to make-up any difference from their own funds and the matter is to be reported to the next superior officer as soon as possible. Failure of the officer-in-charge to make up the difference by the end of the day will result in initiation of disciplinary proceedings.
 - Daily closing of cash and bank, check that cash in the box matches with the figure in the cash book, that the denominations match those in the Vault Register, and that the cash box keys are with the persons named in the Key Register.
 - No staff member is allowed to keep/carry office money over night. Violation of this rule will result in serious disciplinary action.
 - Any misuse of organisational or client’s money is considered a serious offence that will result in dismissal

13. Conclusion:

Efficient credit delivery is the key to quality portfolio build up and provides the framework for making consistent and well informed credit and collection decisions which are compatible with the company’s strategic objectives and goals of microfinance operations. It is to be ensuree that the internal policies governing risk concentrations are adhered to at all times.

The internal policies to be reviewed regularly in order to remain current, adequate and appropriate at all times. Senior management are responsible to

- establish and implement internal policies, processes and procedures governing risks.
- Clearly communicate and monitor compliance with internal policies
- Establish adequate systems that are able to identify, measure, monitor concentration risk if any in a timely manner.
