

# **PRODUCTS AND SERVICES OFFERED TO MEMBERS**

NATIONAL RURAL LIVELIHOOD  
MISSION

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# SERVICES PROVIDED BY FEDERATION

As board members of the federation our primary responsibility is to address the needs of the members who have placed confidence and trust in us. We need to ensure that our federation is able to provide four different kinds of services to address different member needs:

**Social services** entail collective efforts of women to fight against social injustice, access to rights and entitlement of the members and ensuring that basic services in health and sanitation, education and legal counseling are provided to the members.

**Livelihood services** include livelihood promotion and diversification and marketing with focus on both off farm and on farm enterprises. The objective is to increase income with through skill enhancement and marketing of produce.

**Technical services** include capacity building of SHGs and VOs through training and exposure visits, audit, gradation and rating of federations, and registration and necessary legal compliances of federations. It also entails linking with government departments.

**Financial services** focus on collection of savings from the SHGs to PLF/VOs and VOs to SLF/ CLF and make available loans. Besides this, the CLF also provides insurance and pension facility to all its members as well as supports in creation of assets to strengthen existing or promote new livelihood

The details of social services and livelihood services are covered in the booklet on governance.

**This manual will focus on the financial services of the primary and secondary level federation.**

## FINANCIAL SERVICES

The federations provide the following financial services to the SHGs:

### 1. Savings

- Monthly savings from the SHGs to PLF and from PLF to SLF
- Special purpose or seasonal savings

- Fixed deposit services to the members if required.

## 2. Loans

- Need-based loans to the SHGs from community investment fund through Micro Credit Plan
- Support to the most destitute through Vulnerability reduction fund
- Linkages with banks and other financial agencies, Institutions etc.
- Interest subvention to all SHGs

## 3. Insurance and pension

- Provide services of Life, and asset insurance and health risk fund.
- Create a list and recommend all eligible persons in village for pensions

Let us understand the details of the products

# SAVINGS

There are various options of saving available to the members of the federation.

## MANDATORY SAVINGS POLICY: AMOUNT, REGULARITY, INTEREST, WITHDRAWAL OF SAVINGS

The SHGs can save monthly in the PLF as per the rules and the PLF is advised to save in the SLF. Savings is important to build ownership of the members to the federation. Regularity of savings and the amount deposited in the federation is also an important loan eligibility criterion.

### RULES AND REGULATIONS FOR SAVINGS

- ✓ SHGs will deposit a certain percentage of total monthly thrift/mandatory savings amount in the village organization or PLF.
- ✓ PLF will contribute the total savings received from the members to CLF/ SLF.
- ✓ In SLF the savings collection is from the institution only and not from members directly. The amount should come from SHG or PLF's own funds and not from individual SHG members directly.
- ✓ The thrift/ mandatory savings should be the same across of all the SHGs in a PLF and from the PLF to the CLF/ SLF.
- ✓ The savings amount of members to the SHG is to increase on an annual basis and there should be a corresponding increase in the savings amount deposited by SHG to PLF and PLF to CLF/ SLF.
- ✓ It is the responsibility of the respective representatives to get the amount immediately entered into the member passbook and get a receipt of the

amount deposited in federation. The entries should be made in the records of federation including the savings register.

- ✓ If the member (SHG or PLF) does not pay saving continuously for three months, a notice would be served. The member would be considered ineligible for loan or any other service from the federation till savings are regularized for six months.

#### DEPOSITING THE MANDATORY SAVINGS AMOUNT IN THE BANK

The savings collected in the PLF will be rotated internally as loans to SHGs and the balance amount will be kept in the bank.

The savings collected from the PLF to the CLF/ SLF can be transmitted through cheque or online transferred from VO/ PLF to CLF/ SLF account directly. The amount is to be used for giving loans to the PLFs.

#### METHOD OF SAVINGS REFUND

The savings is refunded only in case of withdrawal of membership. There is no interest paid if the refund is within one year.

If the SHGs demand a refund after one year, the VO shall pay the principle and interest as determined in the savings policy. The same rule will be applicable for VO savings vis a vis CLF. The savings amount can be used in case the SHG or PLF has any loan outstanding.

Every year federation must credit at least minimum interest gains to its members automatically.

#### SPECIAL/ SEASONAL SAVINGS

Savings for health, education and marriage are promoted by the federation for which members can put additional/ special savings amount in federation. The special savings can also be for food security of the members in certain seasons, when it is scarce.

#### RULES AND REGULATIONS

- ✓ It is offered to individual SHG members by SHG federation – it is optional and voluntary.
- ✓ Minimum deposit is 500
- ✓ Period, amount and purpose of savings is to be decided by member at the time of account opening.
- ✓ The rate of interest is determined by the executive committee of the federation. It should not be less than the interest given by the banks in savings account.

- ✓ The savings amount can be withdrawn any time similar to the savings account of the bank. A written application should be made one month in advance for savings withdrawal.

#### SAVINGS REFUND

For special savings members may want to withdraw any time. Hence, we need to keep 25% of the total savings in the bank so that there is fund available to return savings. The security of our savings also depends upon regular repayment of loans.

#### TERM DEPOSITS

The members and/or SHGs can put term deposits in the PLF/VOs and they can keep term deposits in the SLF/CLF. The period could range from minimum 1 year to 5 years. An interest shall be paid as decided by the EC. It should not be less than the interest given by the banks in savings account.

The deposit can be returned with the interest before the end of the term only in case of emergency situation and as approved by the Executive Committee. Interest is to be paid in case of premature withdrawal is also to be decided by the EC.

**Table: Example of Savings Products**

Product Name	Range minimum	Rate of Interest (p.a.)	Refund Policy	Penalty Policy
Monthly Savings of SHG in PLF	1000 to 5000 not more than 20% of savings collection	6% p.a.	No interest is paid if the refund is within one year, or amount withdrawn before audit.	Rs. 50 payable if the savings are not made on time.
Monthly savings of PLF in SLF	5000 to 10000, but not more than 20% of savings	6% p.a.	No interest is paid if the refund is within one year.	Rs. 100 payable if the savings are not made on time.
Special/ Seasonal Savings	Minimum 500 and multiples of 500	5% p.a. on the surplus savings amount.	Interest is calculated on monthly basis and paid at time of withdrawal.	Not Applicable
Term deposits	Minimum 2000 and multiples of 1000	8% p.a. 3 to 5 years.	Not returned before the end of the term.	Not Applicable

# LOAN

For PLF, SHG is primary borrower and Individual borrowers are end users. Similarly, for CLF/SLF PLF is the primary borrower, SHG is the secondary borrower and individual borrowers are the end users.

Loan products can be categorized based on tenure or purpose as given below:

- a. **On-lending:** To on lend to its member organization
- b. **Specific activity:** To take up a specific initiative at organization (SHG/PLF) level ex (Milk procurement by PLF, Livelihood activity by SHG etc..)

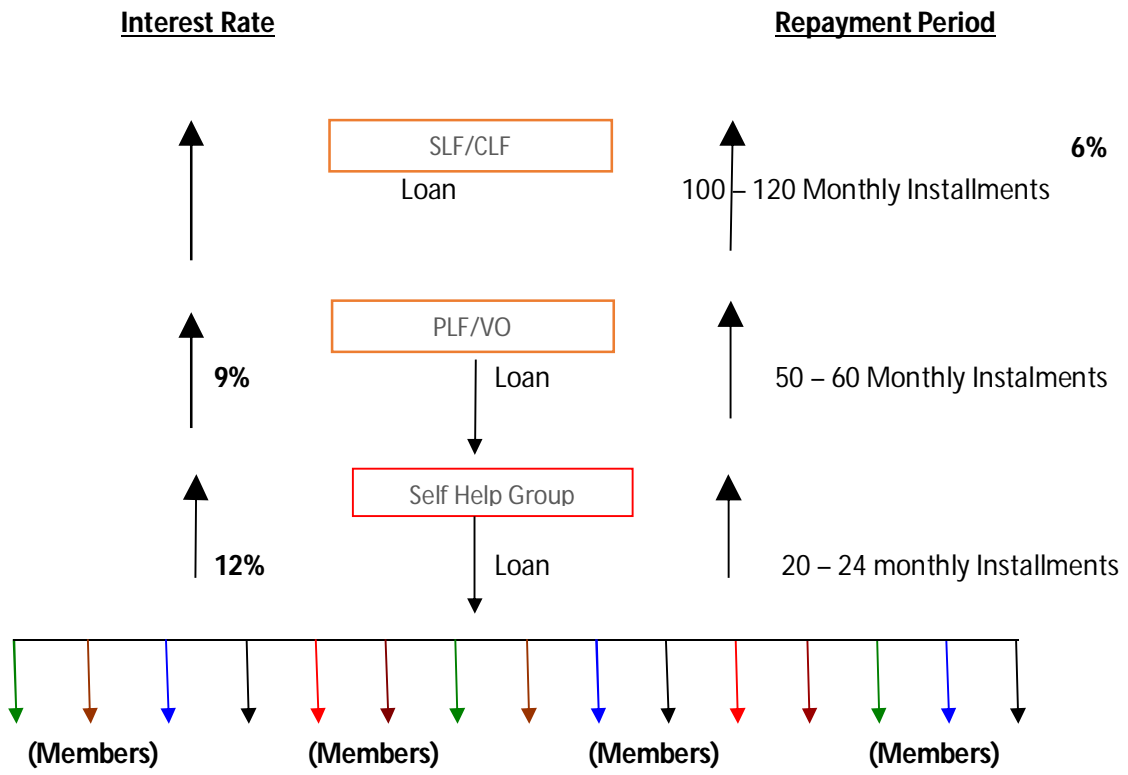
## KEY FEATURES, TERMS AND CONDITIONS OF LOAN PRODUCT:

1. Loan is given only to members
2. Rate of interest for internal lending is normally 12%-24% on reducing balance - a percentage of interest spread is shared with federations.
3. After the first CIF has been disbursed, the loan amount should be decided in the ratio of total savings amount deposited. At least 5% of the loan amount requested needs to be with the PLF or SLF.
4. In locations with high incidences of poverty and low per capita, it could be less than 5%.
5. Processing or documentation fee can be charged on loan amount but should not exceed 1% of the loan amount.
6. For all types of loans repayment of principal and interest is strictly on monthly basis.
7. The SHG applying for loan if more than one year old should have completed annual audit; PLF/VO applying for loan more than one year old also should have completed audit
8. SHG/ VO applying for loan should not have defaulted previous loan
9. Life and accident Insurance Policy is advisable to the woman taking the loan
10. If the loan is taken for property or cattle purchase, the property or cattle should be compulsorily insured.

Loan Cycle	Criteria	Mandatory deposit	Limit and Purpose	Rate of Interest (p.a.)
First Linkage	Loan only after 3 months of membership	Share capital, admission fee and membership fee and all mandatory fee Regular savings as per the rule	Maximum loan amount ----	9% by PLF to SHG and 6% charged by SLF to the PLF

Bank account and updated records mandatory			
Second Linkage	3 months after the first loan with regular repayment of first loan	5% of loan as term deposit Interest and saving payment should be regular	Maximum amount of loan that can be given Rs 100000/- for 3 to 5 members.

**CIF – Management**



When finalizing the interest spread of SHGs, VOs and CLF, the operational and financial costs should be considered. The difference between interest paid and interest collected is necessary to meet the cost of establishment and sustainability at each level.



There is a margin/ interest income of 6% at CLF level, 3% at VO level and 3% at SHG level for all Community Investment Fund. Interest is charged on reducing balance amount.

#### PROCESS OF SANCTIONING OF LOAN APPLICATION

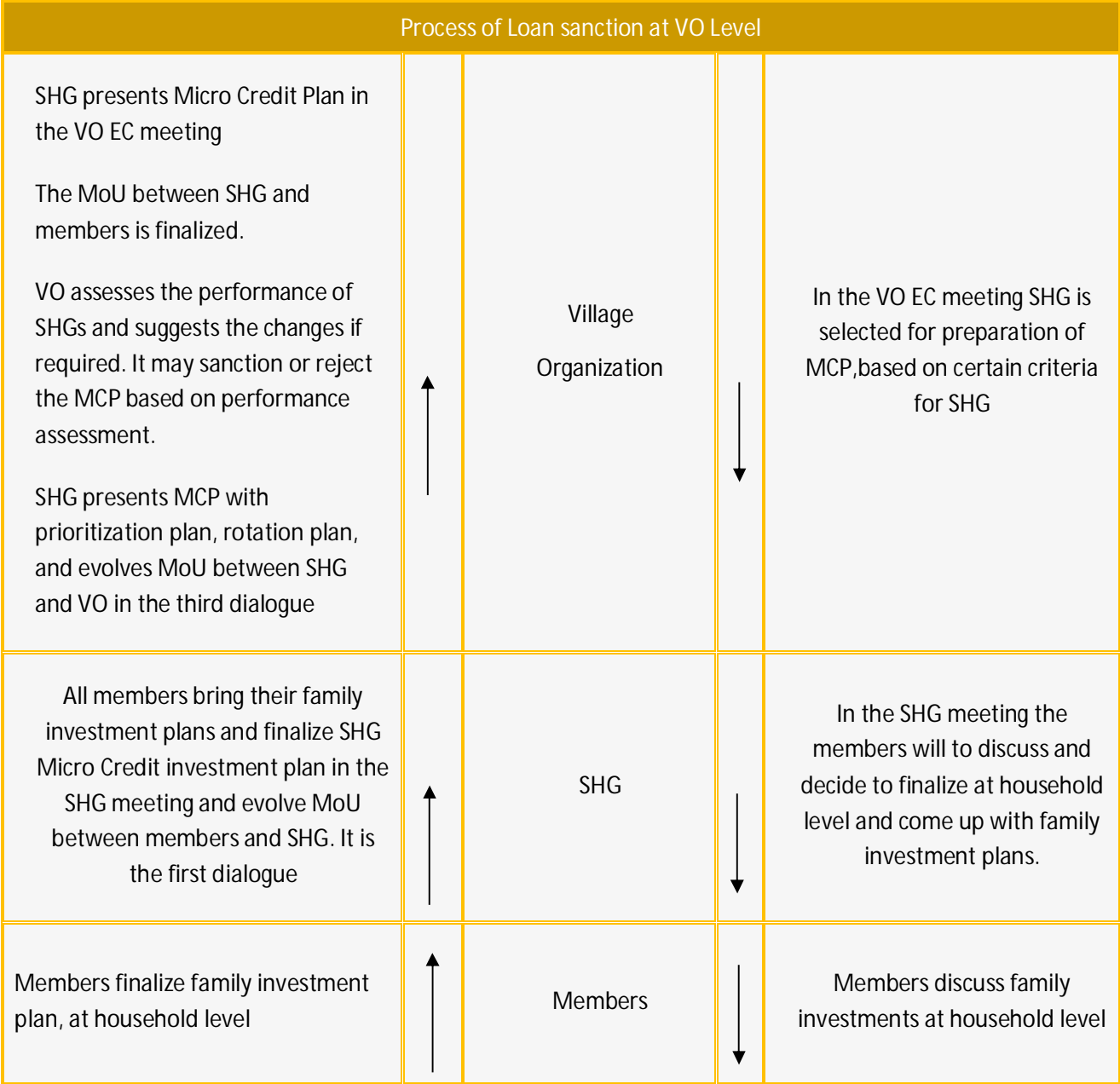
1. The individual member shall first make the loan application to the SHG.
2. If the amount is available at SHG it is approved and the deficit amount requested is passed to the PLF
3. SHGs need to submit MCP/ MIP with the loan application format. The MCP and the MoU is in a printed format which is to be filled up by the SHG signed by the President and then submitted to the PLF/VO. There is no application fee.
5. The application forms should be available at the PLF/VO level. Photocopy of application forms would not be accepted as each application will have serial number.
6. Proceeding or meeting minutes along with signature of all the members of SHG needs to be attached
7. Priority will be given to SHGs in grade A following panchsutra/ Dasasutra, unless there is emergency / priority requirement of some SHGs. For approval of loan to VO also these criteria would be applicable.
8. The grading should be done by PLF for SHGs. Grading can also be obtained from MIS report.  
In case the SHG meets the criteria and fund is available, the loan would be approved and disbursed at the PLF level.
9. In case fund is not available, the loan would be recommended by PLF and apply to SLF.
10. The SLF would undertake grading of PLF and based on grading and recommendation of PLF would approve or reject the loan.
11. Priority would be given to PLFs with higher grading score.

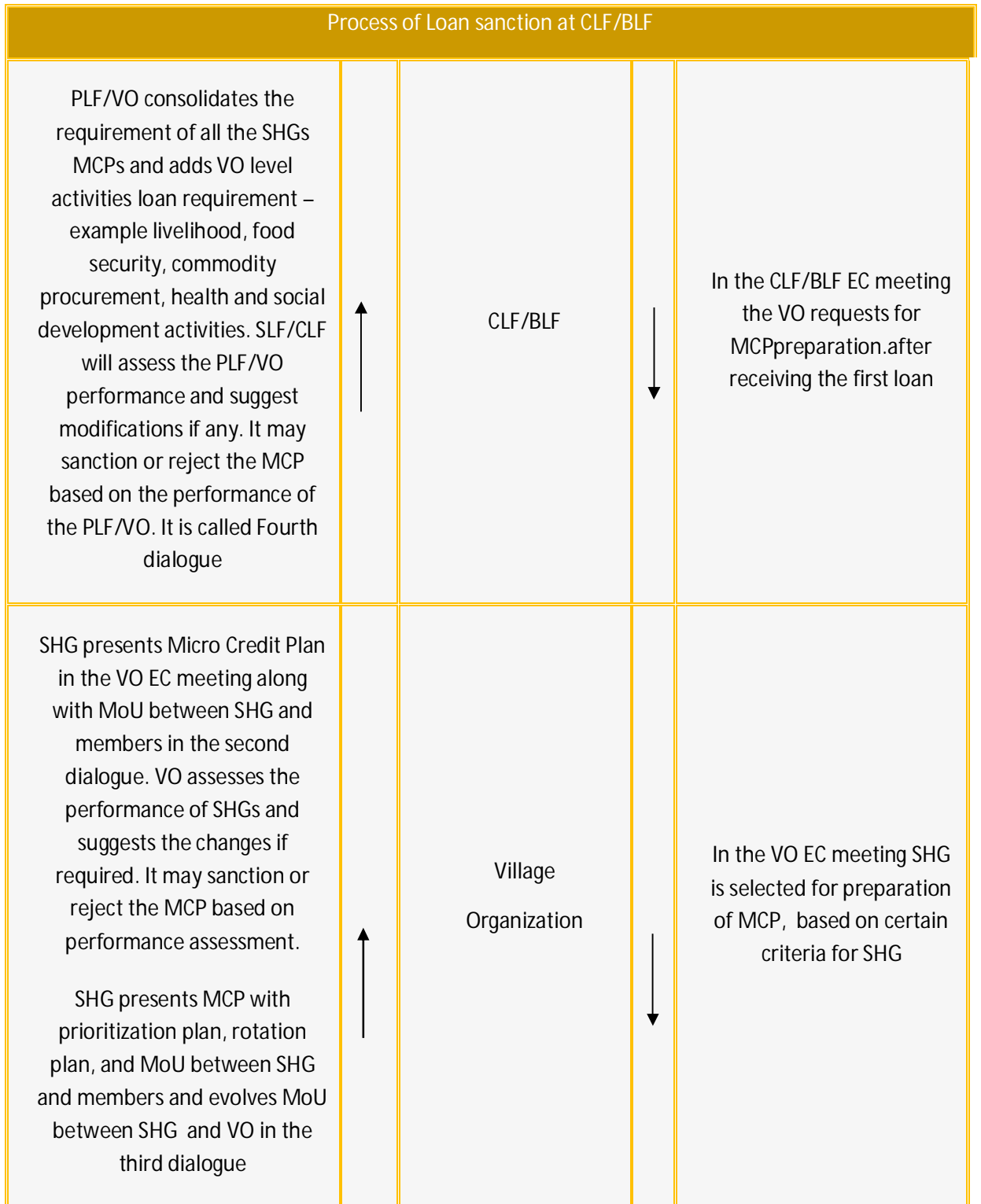
The loan process of Community Investment Fund is depicted in the figure below:

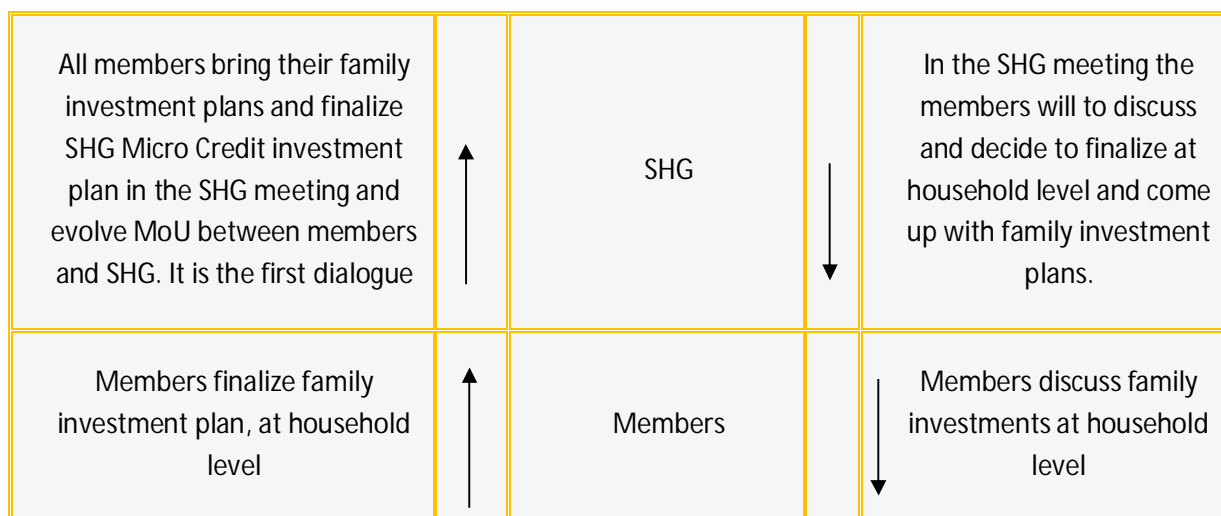
In some federations the PLF can only recommend loans to SLF which is responsible for disbursements. In such cases the SLF has the option of delegation some powers to PLF to sanction loan upto certain limit . It could be an amount of Rs. 50000 to 100000 per SHG. The SLF approves the amount in the meeting of the Executive Council.

It will be common for all PLFs within one CLF. The PLF however, has to share the information compulsorily.

However, the delegation powers given to the PLFs can be withdrawn based on resolution passed by majority EC members of SLF.







#### METHOD OF ASSESSMENT OF THE LOAN APPLICATION

The application should be checked for the following items:

- Date
- Bank account of applicant SHG or PLF
- Signature of the applicant - specimen signatures should be maintained at office level to verify the signatures
- The application should be signed by at least 90% of the members of the applicant and signatures of the office-bearers of the applicant institution.
- The application should mention the details about the outstanding amount with the member, insurance, share capital, membership fee, saving of the SHG, and the outstanding amount with respect to the PLF or SLF if any, and these details should be verified.

SHG Federations should be keen to observe the loan documents (micro credit plan) which includes:

Loan size	Size of the loan in terms of the amount
Purpose of Loan	Loan requested for the utilization – Consumption, health, purchasing livestock, agricultural inputs, etc.,
Installment Size	Tenure of the loan – repayment period – monthly, quarterly or half yearly or at lump sum.

Installment Frequency	Only monthly repayments are preferred. while fixing amounts cash flow of the member organization has to be seen
Rate of Interest	Interest charged for the loan on the diminishing balance method on outstanding principal amounts.
Borrowing livelihood	Major purpose of the loan should be utilized for the income generation activities – viz participating in any type of livelihood activities.

#### REASONS FOR WHICH LOANS SHOULD NOT BE GIVEN

- Loans should not be encouraged for wasteful expenditures like excessive expenditure on marriages, festivals, birthdays, parties, holidays, travel, etc.
- If the previously taken loan has not been utilized for the stated purpose or has been misused then the next loan should not be given. (For e.g. taking loan from the CLF at 1% and lending it to others at 3%).

#### METHOD OF LOAN DISBURSEMENT

The loan approved in the VO or CLF meeting should be disbursed only through cheque, which will be prepared by the accountant.

Printed loan disbursement vouchers and demand promissory note should be available at the PLF and SLF. On receiving the loan amount the voucher, demand promissory note and loan ledger with revenue stamp are signed by the office bearers of borrowing institution - SHGs or PLF.

#### TERMS OF REPAYMENT AND PROCESS OF COLLECTING INSTALLMENTS

The member has to repay the entire loan amount within 12 to 24 months to the SHG.

The loan of PLF to SHG has to be repaid by the SHG within 40 to 60 months depending on the size of the loan and the tenure mentioned in the application.

The PLF is expected to repay the loan amount received from SLF in 80 to 120 installments as per the decision of the executive committee regarding the tenure of the loan.

The difference between the installment period of SHG, PLF and SLF is to ensure that there is balance fund with each institution for internal rotation. That is the reason the number of installments increases in higher order institutions.

#### LOAN UTILIZATION AND SUPERVISION

The CIF and loan utilisation committee should visit the member who has taken the loan after a three-month period. A format of loan utilization should be filled by the committee for all loans to SHGs given by VO and to VO given by CLF. In case of discrepancy in loan utilization they will be asked to correct it within one month and share the report in the meeting.

The demand collection balance sheet that captures SHG transactions with the VO and the loans received by the VO from the CLF should be referred to in monthly meetings to ensure collection is according to the demand.

#### SUPERVISION OF OUTSTANDING LOANS AND PENAL ACTION

If there is a delay in repayment, the reasons for the same should be considered and an extension can be considered for repayment. However, a penalty should be charged for this extended period.

Serious action is to be taken if the loan repayment does not happen for three months consecutively to ensure that the loan is repaid within the time frame agreed upon.

If the loan is not repaid even after the extension then the SHG or the VO would not receive any priority for loans. The repayment of interest amount should be collected first followed by collection of principal amount.

#### FUND MANAGEMENT

The more the fund revolves, more it grows. Hence, the lesser the fund is kept idle the better. The following things should be done for this purpose:

- Not more than 5% of the total amount should be idle in the bank account of PLF and SLF
- The surplus money should be invested in a term deposit by giving standard instruction to the bank to transfer amount above 10000 in fixed deposit.
- There should be no cash in hand with any of the office bearers of the PLF OR SLF. Maximum transactions should be through bank and cash transactions should be minimized.

*More details of cash and bank management is in the booklet on accounting policies.*

# INSURANCE AND PENSION

#### WHO CAN TAKE AN INSURANCE POLICY?

The insurance policy can be taken by individual members or the entire SHG. The SLF/CLF can be an insurance agent of any insurance company to protect its members from diverse risks. Life and accident insurance is highly recommended

with asset insurance in case of purchase of assets from SHG loans. Cattle insurance is mandatory as the risks are high. Health insurance or creation of health risk fund is highly recommended to cover huge expenses that arise in the event of one major illness.

#### METHOD OF GETTING THE INSURANCE POLICY

The bank linkage and insurance committee with the support of BimaMitra/ Bank Mitra should get the printed form filled from the member who wishes to take the insurance policy. If member is unable to write the BimaMitra/ Bank Mitra should fill the form and take her thumb impression or signature.

The BimaMitra/Bank Mitra should verify that the application is duly filled and all the information in all the columns has been correctly entered. The installment of insurance should be collected along with the application. If the policy is for the entire SHG, a cheque would be collected from the SHG to the VO and then transferred to the SLF. The application and the amount of installment is submitted to the Insurance Company by the SLF and the policy when issued, should be given to the member.

If the entire SHG has taken the policy it should be kept with the SHG. The members should be clearly explained about the duration of the insurance. The date of renewal of the policy should be displayed in large letters in a place visible to all.

#### PROCESS OF CLAIMS

When there is an emergency resulting in claim the intimation should be given by the member to the Bima/ Bank Mitra. The CLF shall have printed claim forms and it would be available with the bimamitra/ bank mitra who will have to make a visit along with the bank linkage and insurance committee members to verify the claim case.

The following documents need be attached with the claim form:

- A death certificate for a life and accident insurance claim
- Hospitalization of 24 hours is necessary for the health insurance claim. A doctor's certificate to that effect along with bills of the hospital charges, medicines and tests shall have to be attached along with.
- For cattle insurance claim the veterinary doctor has to certify the death of cattle and the certificate is to be issued for claim recovery

A proof of residence – Adhaar card along with the recommendation letter of the SHG or VO shall be required for the above claims. A recommendation letter from the SLF/CLF will have to be attached with the claim form. Hence, the CLF should ascertain the genuineness of the claim.

