

Internal Policy Manual of PRAYAS

for

**Microfinance Programme
PRAYAS JAN VIKAS BHANDOL**

CONFIDENTIAL

Period: April'10 to March'11

Revised: 9th April'10

PRAYAS

(Organisation for sustainable Development)

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Director, PRAYAS

1 Prayas - Introduction

1.1 Inception of PRAYAS

PRAYAS was registered on 11th of November 1997 under the Trust Registration Act 1950 and the Society Act 1860. PRAYAS has permanent FCRA number, 80-G certificate and 12-a registration. The organisation was founded by Bhadresh Rawal and Dilip Dave both having academic background in agriculture. The two founder members have worked for more than eight years in the development fields of AKRSP (I) and KRIBHCO Indo-British Rainfed Project (KRIBP) funded by ODA. Both were responsible for field level management, community mobilization and later for state level coordination. Bhadresh and Dilip decided to start an organisation working on various development activities, however the focus was on right based issues. The two founder members were supported in their efforts by well-known consultants like Binoybhai Acharya (Unnati), Prof. Anilbhai Bhatt (IIM), and Tushaarbhai Shah (Director, IRMA). All three also agreed to be the Board members of PRAYAS. Finally, Memorandum, Rules, and Regulations were decided on for PRAYAS and the organization was registered.

1.2 Vision and Mission

Prayas has the following vision, mission, objective and strategy.

Vision:

“PRAYAS envisions a society where people have better social and economic opportunities, accessibility to financial services and awareness of rights and duties”

Mission:

“Unite socio-economically deprived people, empower through economical and social interventions to 150,000 households by 2015”

(Contribute to UN MDG)

Objectives:

1. To develop Community Based Organisation (CBOs) of mainly women, this will be the primary forums for majority of interventions of Prayas.
2. To establish a sound and professional micro finance programme to provide access to financial services to those who presently lack it.
3. To strengthen CBOs by making them aware of their rights and empowering them to assert these rights to protect themselves against any form of exploitation.

Approach/Strategy:

- To organize underserved, deprived, and destitute people - especially women - and unit them.
- Build up the capacity of CBOs to establish a self-sustaining system of CBOs for social and economic changes.
- Disaster preparedness is incorporated in all programs and activities as PRAYAS is working in disaster prone areas.
- Promote local self-governance for sustainability of the program's impact.

Programs:

The following programs are to be addressed with and by women and destitute people of working areas.

- Develop CBOs, mainly for the underserved women and vulnerable communities.
- Livelihood promotion – On and off the farm through CBOs.
- Microfinance – credit, savings (encouraging savings within community structure) and insurance.
- Awareness of basic rights.

1.3 PRAYAS' Financial Partners

PRAYAS has experienced to work with many financial partners like; Zilla Panchayat – Jhabua, Dahod & Kutchh, Cord Aid, CASA, IGSSS, Action Aid India, GEC, CARE India, OXFAM (GB), CONCERN World Wide, IOM, GSACS, Women and Child Development Department, WASMO, American India Foundation, Help Age India, Child Fund India (CFI) for the various development issues and HIVOS, fwwb, Basix, HDFC Bank, Indian Bank, Canara Bank, Nabard, SIDBI, Mass Finance for the microfinance program.

1.4 Prayas Board of Trustees

Prayas has a seven-member Board of Trustees. The list of Board along with their backgrounds is as follows.

S No.	Name	Designation in Board	Experience	With PRAYAS since
1	Ms. Jayshree Ashvinkumar Vyas	Chairperson	Director, Sewa Bank, Involved in social development activities in Gujarat for the last 20 years	July 2006-07
2	Bhadresh K. Rawal	Director	Working as Director of PRAYAS	Nov. 1997
3	Rahul Bist	Trustee	Partner, M2I consulting	Year 2008
4	Dilip B. Dave	Trustee	Working as a Project Director of PRAYAS	Nov. 1997
5	Mr. Arun. R. Joshi	Trustee	Head, National Livelihood, Resources Institute, Gramin Vikas Trust, Ratlam(MP)	Year 2004
6	Nilesh D.Desai	Trustee	Director, Sampark, Jhabua (MP)	Year 2006
7	Mrs. Anita Pandey	Trustee	Initiator, Kutchh Network for HIV Positive people	Year 2009

1.6 Prayas – Organisational Structure

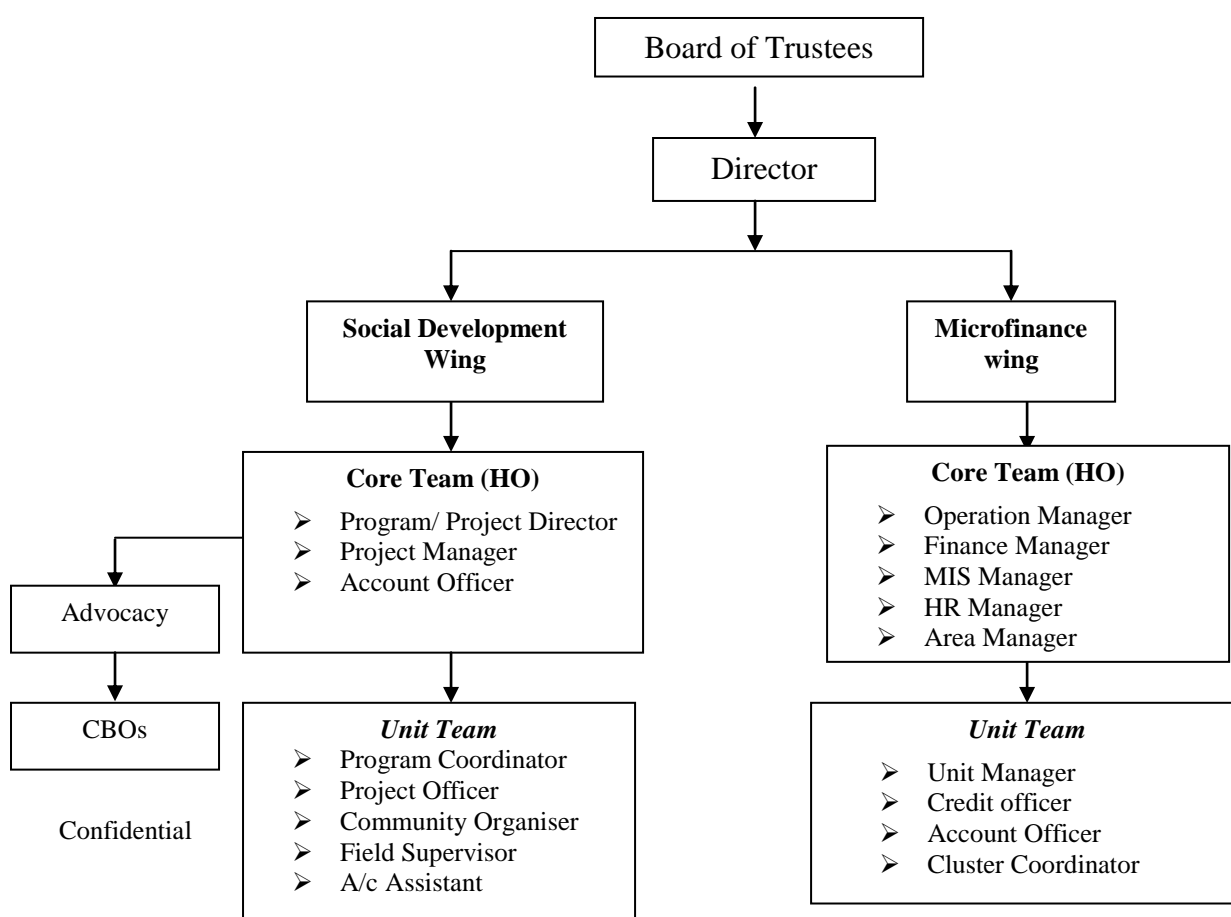
PRAYAS is presently involved in providing financial and non-financial services to its members. For carrying out the activities the organization is divided into two separate structure.

- **Social Development Wing (SD Wing):** SD wing carries out all the development activities of non-financial nature. The wing has several programme going under it such as natural resource management, water and sanitation, rights based programmes, Health, education, local self Governance, disaster relief and livelihood promotion etc. The staff and work is completely separate from the other wing of the organisation providing financial services.
- **Prayas Jan Vikas Bhandol (PJVB):** Jan Vikas Bhandol is the other wing of the organisation providing microfinance services. PJVB is the name of the microfinance programme and has completely separate staff.

The office and infrastructure is however, common and shared by the two programmes. In the Prayas office structure, there is a Corporate Office based at Anjar and total six unit offices:

Sr.	Unit	District	State
1	Bhabra	Alirajpur	MP
2	Jhabua	Jhabua	MP
3	Jesawada & Dahod	Dahod	Gujarat
4	Anjar	Kutchh	Gujarat
5	Rapar	Kutchh	Gujarat
6	Gandhidham	Kutchh	Gujarat
7	Adipur	Kutchh	Gujarat
8	Surendranagar	Surendranagar	Gujarat
9	Kamrup & Sivsagar	Kamrup & Sivsagar	Assam

Prayas Organogram



Parays Jan Vikas Bhandol (PJVB)
The Microfinance Programme of Prayas

2 Microfinance Programme

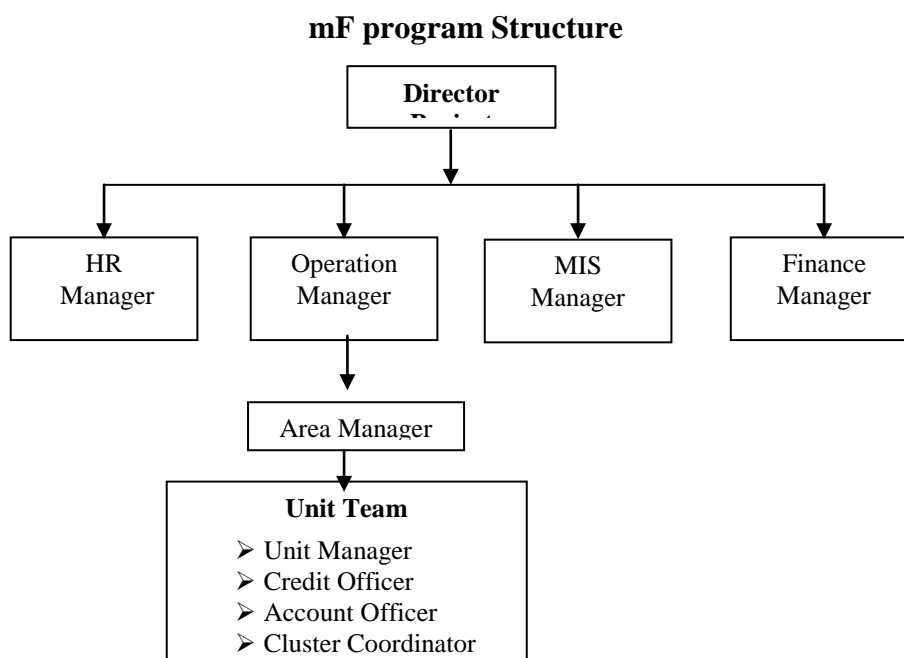
2.1 Origin and evolution

PRAYAS has been working on various development activities since 1998. Apart from the various non-financial development activities, PRAYAS since beginning is also active in mobilizing community for savings and credit services. It has been forming SHGs and encouraging them for savings and also internally revolving the savings. Since 2002, the organisation started linking its SHGs with various Banks. This was started as it was realized that internal savings were not enough to fulfill the credit needs of the groups. Internal savings of the groups had also reached the critical mass to attract bankers to lend to them.

Gradually, PRAYAS realized that linking SHGs to bank took a long time and as the bankers were still not very sensitized and comfortable in lending to SHGs, it altogether remained a difficult process. To counter the situation PRAYAS decided to have its own microfinance programme wherein it would borrow from the external sources and on-lend it to SHGs. Hence, it started lending in a small way in 2005 from Dahod but microfinance was taken up as a major activity only from April 2006. PRAYAS is also continuing with SHG-Bank linkage, although PRAYAS, as a policy, does not lend to SHG, which have been linked to Banks. This is just to maintain clarity of operations and avoid any confusion at the group level. In March '06 PJVB was doing microfinance in 3 unit offices of Dahod, Rapar and Anjar as a small program now, PRAYAS is running PJVB in 6 Units of Gujarat State.

2.2 Micro Finance (PJVB) Programme structure

The microfinance programme has been separated out from other development activities of the organisation. Operational staff is completely separate at the Unit office while there are some overlaps at the Head Office. The Director, Project Director, Operational Manager and Finance Manager are common for the two programmes. The infrastructure and office space is also shared by the two wings. However, as far as the major field operations are concerned clear distinction has been maintained. The programme has been separated out to maintain credit discipline, create specialization in staff and also to facilitate clear evaluation of the programme to judge its viability and performance.



Microfinance (PJVB) Team

Designation	Anjar	Rapar	Dahod	S'nagar	Gandidham	Adipur
Director	Bhadresh Rawal					
Operation Manager			Dilip Dave			
Finance Manager	-----					
MIS manager	-----		Anand Chinnakarn			
HR manager	-----					
Area Manager	-----					
Internal Auditor	Jagdish Prajapati operational Audit		Ramesh Bhuria Account Audit			
Unit Manager	Paresh Patel	Maheebub Mansuri	Kanubhai	Pravin Solanki	Ratan Ninama	
Assit MIS Manager						Nitin Agrawal
Credit officer	----	----	Dinesh	Ranchod		
Account officer	Vikram	----	Faruq	Nilkesh	-----	
Cluster Coordinator	Dimple Sandip	Mohan M. Eqbal,	Sumitra Mukesh Jyotis Jayesh Mahesh Nagin	Minaben Jarinaaben Miraben		Arvind

2.3 Delivery model

Prayas will use SHGs & JLGs in rural, semi urban and in urban slums as means for delivering microfinance, Apart from SHGs, for urban market/business clients typically having petty shops or clients involved in trading and vending activities, Prayas will use Joint Liability Group model.

JLG model:

JLG of 5 women of targeted families will be developed through continuous group training. JLG will be recognised by credit officer/Unit manager through Group recognise test. One Cluster Coordinator is expected to handle between 450-500 clients organized into 90-100 JLGs.

SHG model: PRAYAS has started Microfinance activities with SHGs. SHGs developed through grant base projects. Functional SHGs who have large saving amount linked to Banks and non functional SHGs converted in to JLGs.

A full capacity branch will therefore have the following structure.

Unit Manager	1
Credit Officer	1
Cluster coordinator	4
Finance officer	1
Clusters	8
JLG	500
Members	2500
Active borrowers (at least)	2000

3 mF (PJVB) Products

PRAYAS offers two main financial products to the members Credit and Micro insurance.

3.1 PRODUCT:-

Prayas will be using the **SHG and JLG model** for delivery of its microfinance services. The organisation will have separate MONTHLY and WEEKLY products for SHGs and JLGs.

I. General Monthly Products for SHG & JLG

Members	10 women members
Loan size (to be given only in multiples of thousand)	First cycle: Rs3,000 – Rs5,000 Second cycle: Rs. 7,000 to Rs.10,000 Third cycle: Rs.10,000 to Rs 12,000 Fourth cycle and +: up to Rs. 12,000
Purpose	Income generation (business, petty shops, livestock, Agriculture,high interest loan repayment) Loan for Consumption & social functions purposes not preferred.
Interest rate	12% flat for 10 months, i.e. 14.4% effective rate for 10 months.
Loan processing fee	2% upfront non-refundable
Repayment frequency	Monthly in cluster meeting
Loan term	10 months.

II. 25 week Product (started December 2007)

JLG member	5 women members
Loan size (to be given only in multiples of thousand)	First cycle: Rs 5,000
Purpose	Income generation (business, petty shops) Loan for Consumption & social functions purposes not allowed.
Interest rate	7.5% flat annually. i.e. 15% effective rate for 25 weeks.
Loan processing fee	2% upfront non-refundable
Repayment frequency	Weekly
Loan term	25 week
Insurance	Would try to offer Credit plus insurance products in association with established insurance companies. The low cost premium would be charged separately from the borrower for Life (Member and spouse) Health-Medicaid

III. 40 week Product (started from July'08)

JLG member	5 women members
Loan size (to be given only in multiples of thousand)	First cycle: Rs 5,000 Second cycle Rs 7,000 Third Cycle Rs. 10000 Fourth Cycle Rs. 12000
Purpose	Income generation (business, petty shops) Loan for Consumption & social functions purposes not allowed.
Interest rate	12 % flat annually. i.e. 15% effective rate for 40 weeks.
Loan processing fee	2% upfront non-refundable
Repayment frequency	Weekly
Loan term	40 week
Insurance	Would try to offer Credit plus insurance products in association with established insurance companies.. The low cost premium would be charged separately from the borrower for Life (Member and spouse) Health-Medicaid

3.2 Micro-insurance :

PRAYAS will be offering micro insurance to its members in collaboration with some external insurance agency. Micro insurance will be a voluntary decision for the members however; the insurance has to be compulsorily taken by those members wanting to take loan from PJVB. PRAYAS at present is offering insurance in collaboration with Met life Insurance company.

PRODUCT-

Product	Sum Insured	Period	Premium
Life Insurance of member & Dependent	10000	1 Year	100

5 Credit policy and processes

6.1 Selection of the village/Urban hamlet

New area or village will be selected where there is a need for credit and people lack access to credit from formal financial institutions. The villages also have to be selected to maintain concentration of operations. Areas closer to Unit office or existing areas of operations will be preferred over far off areas. The idea would be to maintain concentration and avoid scattering of operations unless necessary, which could be due lack of demand in a particular area.

6.2 Group formation and linking to cluster

Once the village/ area has been selected by the Unit Manager along with credit officer, cluster coordinator will start forming the groups. All groups formed have to be linked to clusters. Following process should be followed for group formation and linking to cluster.

- Contacting key resource persons: The CO with CC should first meet the village/ area *leader* and other key people in the village. CC should inform them about PRAYAS, its activities and microfinance programme.
- Generating list of potential clients: Based on the interaction with key persons a list of potential households should be generated. The CC should then call a common meeting of the households, which may require visits to individual households as well.

6.3 Eligibility for membership

- Only for WOMEN, aged between 18 to 55 years
- Only to women, formed into their own Joint Liability Group (JLG) of 5 members; credit is to be available only in groups, not individually
- At least three members of the group need to be a permanent resident of the village / area they are staying in; they need to have their own (or husband house). The other members could be having rented house, but need to be staying the same rented house for more than 2 years.
- All the members need to be of same social and economic status and background
- The monthly family income of the applicants' households may between Rs 3,000/- to 10000/- , at least at the time of availing first loan from MFI.
- Only one member from a house can become a member in a particular group; .
- The distance of members' houses from the proposed JLG should not be more than 5 minutes (approx 500 meters)
- All the members of the group need to take the responsibility and liability of other members of the group.

6.4 Group Training, Loan Application and Sanction

The women members, who form into a group of five for availing financial services from PJVB need to undergo a three days Continuous Group training (CGT) (at most one hour each day), one day for Group recognition Test (GRT) for loan sanction and one day for loan disbursement.

6.5 Documents required for registration and loan application

1. Two Passport size recent photographs of member & Husband
2. Proof of Identity (Election card) of member & Husband.
3. Proof of Residence (Election card or ration card)
4. Proof of Age (Election card)

6.6 Loan Disbursement

- Loan would be disbursed only in the office in the presence of Unit manager, Finance officer and Cluster coordinator
- One day in the Week. Loan disbursements would happen only between from 11 am to 5 pm. After the disbursement, the same need to be reconciled with the bank.
- Following items need to be collected from the group members
 - Loan Processing Fees
 - Pro note /RCLL/DPN/Agreement
 - Signed copy of Group resolution
- Following items need to be handed over to the group members
 - Sanctioned loan amount – cash
 - Loan card-Repayment Schedule, duly signed by the Unit Manager and the cluster coordinator.
 - Receipt of the Loan Processing Fees & insurance premium

6.7 Repayments of weekly product:

- Repayment Route Maps would be charted out well before, at the time of area approval, which would involve fixing up the Time, Days and Place of repayment in a particular area.
- Repayments:
 - Is a weekly affair
 - Would be collected by the cluster coordinator.
 - To be done at fixed five days of the week (Monday to Friday), fixed time and fixed place in a particular village. The whole process needs to be completed in a maximum of 3 minutes per JLG.
 - Repayments would start from 9 am in the morning and would finish by 11.00 am in the afternoon.
- A Cluster coordinator would collect repayments from 20-40 JLGs in a day lying on a particular Repayment Route Map.
- SATURDAYS would be fixed WEEKLY STAFF MEETINGS & loan documentation from 9.30 to 1 pm and from 3 to 6 pm, group formation, documents verification & CGT day, time and place fixation.
- The entire repayment amount collected during the day need to be deposited in the bank or loan distribution on the same day. The CC needs to deposit only the counterfoil of the bank deposit in the Branch office.

- One hour each of the afternoons of the Unit manager would be engaged in entering the daily repayment status in the computerized MIS,
- In afternoon, each working day, Cluster coordinator would be engaged in business development – forming new groups, group trainings, etc.
- Loans can be closed by prepayment only in the office.
- No Cluster coordinator is to come back from field without the collection of the due repayment amount from the cluster.

6.8 Repayments of Monthly product:

Loan repayment to Prayas has to be done in the cluster meeting or at Unit office. The Group Leader is supposed to collect the due monthly installment from each member of her group during the Cluster meeting. The Loanee members are supposed to bring the repayment amount along with loan card to cluster meeting to deposit the entire repayment amount of the group to the CC and get all loan card signed. It shall be the responsibility of the Group Leaders to see that all due installments from each member is collected and the group does not default. In case any client has problem Group Leader is supposed to collect deficit amount from other members including herself.

- Linking to cluster: once group formed should be linked to the Cluster, which is closest to the group area. Each Group physically close to each other will be put in one cluster to make attending cluster meeting convenient for the community.
- Cluster meetings will be held every month at convenient, center place of group members. The objective of cluster meeting is to collect repayment and address microfinance plus issues like insurance, awareness on social security net schemes etc
- Staff Meeting: Monthly meeting on 25th of each month for review & plan of loan demand and repayment collection.

4.1 Overdue follow up process:

In case a Group Leader does not bring the full amount due from the group members to the repayment schedule day, CC should enquire about the member who has defaulted from the leader. CC should enquire the reasons and the action/discussion taken place within the group on default. CO should also enquire why other members did not contribute to make up the deficit and how and when the default amount be repaid.

CC, should compulsorily visit the next group meeting of the defaulting group and discuss the matter with the group members and try to collect the default amount. If CO and CC are unable to collect default amount then Unit Manager has to intervene. Unit Manager according to own wisdom should guide him/herself as well as staff to handle/manage overdue in a fair manner.

4.2 Write up of Bad Loan Process:

When a loan repayment is more than 180 days overdue the unit manager will submit an application with details to the write-off committee. The write-off committee includes the Director, the operations manager, the financial manager and the unit manager of the particular unit. The Committee will decided to write-off or will come forward with another solution.

6 CGT & GRT Process

Points to remember while conducting the training

- CGT requires attention and interest of each member of the group. Therefore, the training should not stretch more than a half hour in a day.
- The training must be continuous for 4 days (not a single day gap)
- The training program should start in the presence of all the members. Not a single absenteeism should be allowed during the training, because it is a platform for creating discipline among the group members.
- All the members should be present by the decided time.
- Every meeting begins with a recap between CC and clients.

Day 1 :

- Signature on attendance Registers.
- Introduction of CC and women members.
- Introduction of PRAYAS Organization, head office location, branch office location.
- Aims and objectives of PJVB (mF program), total active members,
- Brief & check eligibility criteria to become member
- Members would be asked to bring in required documents (election card, ration card, recent 2 photos) for their registration.
- End of the first day.

Day 2 :

- Signing of the attendance register by the members
- Repetition of day 1 contents,
- Detailing the group- selection of leaders & members. Role & responsibilities of leaders and members. Develop JLG norms- meeting place, time, records.
- Introduction of PJVB process- loan & repayment
- Introduction of loan product.
- Insurance product- process & benefits.
- Close the day with thanks.

Day 3 :

- Signing of the attendance register by the members
- Repetition of second day learning;
- Loan application form would be filled in on this day.
- Visit to the loan purpose place of the members and the status of the house/business and do the counter party check

Day 4 : Group Recognition Test (GRT) would be conducted by the Unit manager for (first loan) and second & third loan by Credit officer, which would require checking all the documents, her eligibility for taking up our loan, adherence to the group norms, awareness and commitment while availing the loan. Passing the GRT would mean sanctioning of the loan to the members of the group.

- Brief about loan disbursement and repayment process
- Collective responsibility-Role of each members for repay loan.
- Explain legal steps, if verbal contract is breached by the member.
- Close the GRT with verbal contract.

Day: 05: Loan disbursement as per convenient of Unit and members at office.

Group Recognition Test (GRT):-

It is a process by which a Unit Manager or Credit officer checks the group formed by the CC. The process is recorded on a prescribed format, the GRT Form. The Credit officer ascertains the poverty status of the clients and their acquaintance with products and services offered by MFI, loan disbursement process and other terms and conditions.

The Process of GRT

The GRT process is conducted in order to ascertain the eligibility of the group, and its members, to become MFI clients, and subsequently avail its financial products.

Following is the process of GRT:

1. The GRT must be conducted by an authorized officer not below the rank of a Credit officer
2. The Supervisory Staff -UM/CO should accompany the CC to the JLG center.
3. The SS must go to each member's house to ratify the CHI that has been assigned by the CC, and confirm if the member is living below the poverty line.
4. While visiting the houses, the SS must ask the family members (Father, Husband etc) if they would be willing to take guarantee for the group member – the member is disqualified if there is no guarantor.
5. After covering all the houses, the group has to assemble at the centre where the SS asks each member, questions to verify group solidarity and their understanding of MFI, its policies, and the loan product:
 - a. What MFI is, and what is its mission?
 - b. What is the loan product, repayment terms and instalment amounts?
 - c. Is the group ready to take joint liability for all its members?
 - d. Would the group collectively repay the default amount, if any?
6. The SS has to ascertain if all the members know each other and are aware of their family details, income levels and repayment capacities in case a particular member avails a loan
7. Once the members answer the questions satisfactorily, and group solidarity is ascertained, the group may be passed
8. The SS has to then brief the group upon the importance of Joint Liability in availing a loan and must take verbal confirmation from the client. The same is ticked in the GRT form and each member signs against it.

Always remember the following points while doing GRT

- This is one of the most critical supervision functions of the Manager. It is the first but, surest form of quality control.
- Never delegate it to a CC, however senior, sincere or effective s/he is.
- This is your chance to have an interface with all the clients and all their future sanctions would be made on the basis of this one interaction. So, observe complete sincerity while doing GRT.
- You should not shy even from entering the houses of the clients to verify their status.

Result of the GRT: The GRT must be recorded in the GRT Format. The result must be announced verbally by the senior officer conducting it, immediately after the GRT is completed. There is to be no delay. Reasons should be given in case of failure of a potential

Group, and they should be encouraged to resume their CGT. The Group starts weekly meetings after passing GRT.

Replacement

As the group matures, some member may leave. There may be other undeserving members, who will have to be weeded out of the group to maintain its discipline. This will make the group smaller. In such cases the CC must make all efforts to include new members in the group. Addition of new members in place of those that have left is known as replacement.

Also, if the CC finds another Center coming up in the vicinity of an existing one, he should try to merge it in the existing group until the number of members exceeds 20.

The Process of Replacement:

1. The CC motivates the existing members to add new members to complete the group size.
2. The new members willing to join the group appear during the next Center Meeting.
3. The CC gives few sessions of training and motivation to them and asks the Center Leader to train them further.
4. The CC informs the CO and seeks his time for *replacing* the members.
5. The CO must verify the learning and status of the new members and fills another GRT form for them. This GRT form is added to the Center File.
6. The new members are added after the approval of the BM.
7. The CO should never delegate the responsibility of replacement to a CC
8. Replacement must be treated as another GRT and all the cautions prescribed during GRT are to be observed.