

1. Introduction

In the 2nd Board of Trustees meeting held on 19th February, 2020 and in 3rd Board of Trustees meeting held on 19th June, 2020, the Foundation is assigned work of micro lending for the benefit of marginal section of society including persons with disabilities under group finance structure formally known as Joint Liability Group/ Disable Persons Group (DPG as Joint Liability), Self Help Group (SHG), Producer Group / other Groups by whatever name called. These groups may be targeted by NHFDC Foundation for micro loan disbursements.

2. Objective

To provide need based financing for the vulnerable members of the society including persons with disabilities.

3. Eligibility Criteria

- i. A Group, with minimum 4 and maximum 15 persons.
- ii. Every member of the Group should either be running a micro enterprise or has decided to start a new micro-enterprise subject to following conditions:
 1. Not more than one member of such new microenterprise will be permitted in a Group of 5 members or below upto 4.
 2. Not more than two members of such new microenterprises will be permitted in a Group of more than 5 membersFor the purpose of clarity, Self-Employment will also be included in the definition of Micro-Enterprise.
- iii. The micro-enterprises of the members of the Group can be Farm based or Non-Farm based and will also include Artisans, apart from all types of business activities except for those prohibited by law.
- iv. Members of the Group should agree to function as a Group.
- v. Members should live preferably in nearby areas or atleast in the same City.
- vi. None of the Group Members should be a defaulter to any formal financial institution.
- vii. Group selects an active leader to ensure benefit of the members.
- viii. Every member of the Group should fulfill the prescribed KYC norms of the Foundation.
- ix. More than one person from the same family should not be included in the same Group.
- x. In case of Person with Disability {(PwDs) -one who possesses 40% or more disability certificate}, a close family member (as defined in Companies Act 2013) of a PwD may be represented as a **co-applicant**, who is supporting / will support the PwD.

4. Financing model

The Foundation shall target micro financing. Training module shall be developed by NHFDC Foundation for the Group to covers product details, policies & procedures, empowering trainees with the knowledge of how to access financial and social services. Post training, a group recognition test shall be conducted to test the group's understanding of the Foundation micro financing program and identify its members genuine interest in sharing voluntary-joint-liability as well as their credit absorption capacity, thus assuring an increased potential of migrating to a better livelihood standard. A minimum of 3 months operation history should be available with group to avail finance from NHFDC Foundation.

Guidelines for implementation of Micro Lending by NHFDC Foundation

This process shall facilitate members into a long-term, sustainable and mutually gainful association. The Foundation shall encourage and support its members participation in socio-economic advancement thus focus on concept of social collateral and does not require any collateral for advancing loans.

5. Products, Pricing, Payment structure

The Foundation to provide collateral-free micro credit facility. **In case loan is assessed for a PwD, a family member of the PwD may join as co-applicant for the loan facility.** All the members bear the debt liability jointly and severally for which they will be required to execute an agreement as per **Annexure 1** before applying for a Loan.

The quantum of loan to group is calculated based on individual member requirement. However, the Group will function as one borrowing Unit only for ensuring repayment under peer pressure. The product category, requirements, loan amount, repayment period and pricing is indicated as under:-

Product	Requirement	Loan Size	Payment period (no. of months)	Pricing*,** p.a. simple interest
Suvidha	Water and sanitation, home appliances, school fees, any other consumption loan	Upto Rs. 20,000/-	12 months	15%
Pragati	Laptop/ computer, agriculture, animal husbandry, trading and business related etc.	> Rs. 20,000/- to Rs. 40,000/-	24 months	15%
Aatm nirbhar		> Rs. 40,000/- to Rs. 60,000/-	36 months	15%

*The Foundation is working for the society and therefore believes in sharing of profit. As a part of this effort, the Foundation shall pay 4% p.a. as reimbursement to the Groups on interest realized to meet monitoring cost and to strengthen them financially to develop the eco system of funds mobilization, provided repayments are regular.

** In case of Disable Group/ loan for PwD, the pricing shall not exceed **12.5% p.a..**

- No processing fees shall be applicable for the loans under VMY NHFDC schemes.
- One person shall apply one loan at a time.
- A group loan exposure shall not exceed Rs. 3,00,000/- at any point of time. A higher exposure shall be undertaken based on experience of dealing with the Foundation and risk grading subject to a maximum of Rs. 5,00,000/-.

Risk Management:

- A) To mitigate default risk arisen out of death of a member borrower, keeping in view the vulnerable nature of SHG members, every member of the group who avails loans from the Foundation shall be covered under loan insurance from the date of disbursement of loan till the end of loan period. This loan insurance shall have following objectives:
- i) To protect the borrower's family from financial risks in the event of death of a member of group.
 - ii) To safeguard the institutions of poor (Groups) from disintegration and repayment burden when a borrower Group member dies with loan liability.

- The member who avail loans will be charged a premium @ **Rs. 10/-** per loan of Rs. 1000/- per annum and this amount is given as additional loan.
- B) Monthly Grading System shall be adopted based on assessment of group functioning on parameters-
 - a) meeting of the groups (2 marks for 2 meetings in a month),
 - b) register maintenance (2 marks for each meeting updation),
 - c) collection of funds (3 marks - weekly, 2 marks - fortnightly, 1 marks -monthly collections),
 - d) savings (3 marks from 100% member participation in savings, 2 marks from 75% member participation, 1 marks from 50% member participation).

All the above parameters shall have bearing on the credit allocations by the Foundation. Risk Grading shall rank between 0 to 10 marks with 10 being highest. Marks shall be cumulated with monthly assessments based on performance of the Group on above parameters. Better functioning groups may get higher disbursements with 60 marks or more in a year.

6. Role of Business and Development Correspondent

To ensure effective formation, nurturing, monitoring and collection of repayment from DPGs, member of SHG, the Foundation may appoint organizations (both not-for profit and for-profit) who are working to promote and support Self-Employment / Entrepreneurship of weaker section of society as its **Business and Development Correspondent (B&DC)**. All such appointed B&DC shall enter into an agreement with the Foundation as per terms and conditions / commission for its services as indicated in the said agreement as per **Annexure 2**.

Business Correspondents of the Foundation can be NGOs, Societies/ Trusts, Societies registered under Mutually Aided Cooperative Societies Acts or the Cooperative Societies Acts of States, non-financial Section 25 Companies etc. These entities shall be well established, enjoy good reputation and must have the confidence of the local people. They should have proven track record in development activities, microfinance, SHG formation and linkage etc. These organisations will be expected to have a deep understanding of and empathy for the PwDs.

The role of a Business Correspondents shall, in addition to activities listed under the Business Facilitator Agreement include disbursement of credit and recovery of principal / collection of Interest.

7. Security

- a. Demand Promissory Note (DPN) from the borrower & co-applicant, if any, for the value along with interest, valid over period of the loan.
- b. B&DC shall provide Bank Guarantee or Fixed Deposits from a commercial bank in the name of "NHFDC Foundation" equivalent to the 10% of the loan amount to be disbursed under its supervision.
- c. The validity period of the Bank Guarantee/Fixed Deposit shall continue until all the dues of the Foundation have been paid in full or otherwise fully discharged by the actual Borrowers. If Fixed Deposit is provided to the Foundation, the accrued interest on the instrument along with the deposit instrument shall be released to the agency / individual providing the Fixed Deposit, only on successful completion of loan repayments. In the event of default by the borrowers, either for the whole or part amount advanced under this arrangement, the Bank Guarantee shall be invoked/the Fixed Deposits along with accrued interest thereon shall be

encashed by the Foundation and any surplus amount after adjusting the dues payable by the defaulting borrowers will be paid to the B&DC who have provided the Bank Guarantee / Fixed Deposit

8. Responsibility of the Group and its members

- a. The Group will identify itself and give a name to it.
- b. All members of Group should be active enough to assume leadership role. The leader should foster a sense of unity, maintain discipline, share information and facilitate repayments. For the Foundation, he is the focal point for group activities.
- c. Regular meetings (***minimum one meeting in a month***) should be held and attended by all members to discuss issues of mutual interest and to emphasize on the roles and expectations from the members and the benefits of group dynamics.
- d. The Group can act as a conduit for facilitating training and technology and disseminating information on schemes of NHFDC.
- e. While primary intent of the Group is for credit, all Group members are encouraged to open an individual "No Frills" account, if they do not have one.
- f. Gradually a savings account shall be opened in the name of the Group with two members authorized to operate account on behalf of the group. This will facilitate in building credit history of the group for its future requirements.

9. Disbursement process

- a. Any member interested to avail loan from the Foundation may through a B&DC apply for loan in the prescribed format of the Foundation along with all required documents of KYC as well as business details of each of the members of the Group. **The Leader of the Group shall endorse the application(s) of the member(s).**
- b. The B&DC, among its other works, shall help in the documentation. **No fees / charges in money or any kind shall be payable by the member/ Group or any other person to the B&DC for dealing with the Foundation for loan assistance.**
- c. On receipt of recommendation of the B&DC, the Foundation may sanction and disburse loan in the account of the Group/ individual account of the member. Preference shall be to disburse in the Group Bank Account for second loans.
- d. The Foundation shall be at liberty to deploy its staff or its representatives in any region to monitor the documentation / recovery mechanism adopted by the B&DC.
- e. Once the Loan amount is assessed as above for the members of the Group, all members would jointly execute one inter-se document (making each one jointly and severally liable for repayment of all loans taken by all individuals in the group).
- f. There has to be mutual agreement and consensus among all members about the amount of individual debt liability that will be created. Any member opting out of group or joining the group will necessitate a new loan agreement, provided the Group shall not have less than 4 members at any point of time.
- g. Sanction letter in writing will be issued to the individuals as well as to authorized representative (leader) in case of availing Loan, with a copy to the B&DC.

10. Applying for second loan

A member of the Group can avail / apply for second loan under this scheme if the first loan liability of the Group is settled with respect to the duration of loan each member has availed. For example, 2 members applied for loan with 12 months repayment period. Another 2 members applied for 24 months repayment period. If first 12 months are over, the regular repayment should be made by all members for all buckets of loan tenures to arrive at second loan eligibility of any member of the Group. A minimum of 6 months completion is required from first disbursement for considering repeat loans.

11. Rights of NHFDC Foundation

In case of any dispute, decision of the President, NHFDC Foundation shall be final & binding.

12. Right to recall / penal charges for the loan

The Foundation reserves the right to modify any terms of sanction / withdraw the sanctioned limit to a Group if at any time it faces irregular repayments, come across with false information, breach, suppressing facts in obtaining loans from the Foundation.

13. Arbitration

That all disputes or differences arising out of and/or in relation to the provisions of this scheme between the Parties hereto (including B&DC), shall be referred to arbitration in accordance with the provisions of the Arbitration and Conciliation Act, 1996 and the Parties hereto agree that the sole Arbitrator shall be appointed by the President of the Foundation for adjudication and the decision/award of such Arbitrator shall be binding upon the Parties hereto. The venue and place of Arbitration shall be New Delhi. The language of the arbitration shall be in English.

- 14.** The Courts of New Delhi alone shall have the sole and exclusive jurisdiction to decide the issue of any dispute between the Parties hereto including B&DC.
