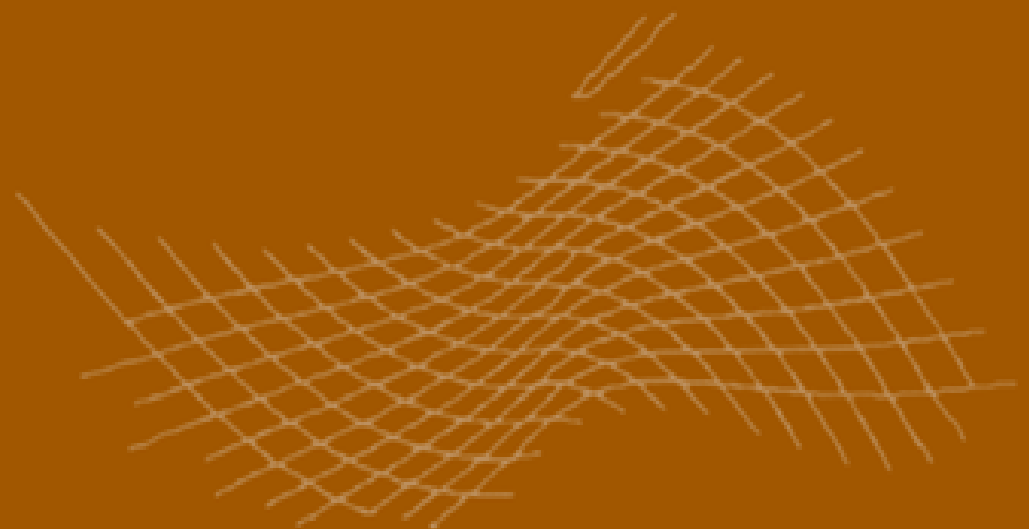


# Credit Administration Manual For Rural Support Programmes



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## **The RSP Network**

The Rural Support Programmes (RSPs) of Pakistan established the RSP Network (RSPN) to deliver programme-quality guidance and strategic support to the RSPs when they expanded and diversified their programme portfolios. The Network's members are professionals with extensive experience in participatory rural development. The RSPN is funded by the Department For International Development (DFID), UK.

The Network members are:

|                                      |                                      |
|--------------------------------------|--------------------------------------|
| Aga Khan Rural Support Programme     | National Rural Support Programme     |
| Balochistan Rural Support Programme  | Punjab Rural Support Programme       |
| Ghazi Barotha Taraqiati Idara (GBTI) | Sarhad Rural Support Programme       |
| Khushhalibank                        | Sindh Graduate Association (SGA)     |
| Lachi Poverty Reduction Programme    | Thardeep Rural Development Programme |

## **Goals & Purpose of RSPN**

The Network's goal is to facilitate the RSPs in their objective of improving sustainable livelihoods of the poor in Pakistan. The Network is, therefore, a capacity building organization. In partnership with the RSPs, the Network works towards the enhancement of their capacities to support communities in managing their own development. It also disseminates key lessons and best practices from the RSP community to government and non-government organizations in Pakistan and abroad.

The RSP Network is involved in the following activities:

- Providing high quality, sector specific guidance and advice to RSPs in the formulation and implementation of their programmes
- Providing RSPs and other organizations with a networking forum for policy discussion and strategic planning.
- Documenting and disseminating the RSPs' best practices amongst them and to other interested stakeholders.
- Supporting RSPs in mobilizing resources and establishing liaisons with donors.
- Carrying out policy research and advocacy to improve the enabling environment for rural poverty reduction through RSPs.
- Providing demand-responsive, high quality consultancy service to RSPs and other organisations.

Over the last 20 years the Rural Support Programmes have emerged as Pakistan's largest MicroFinance Institutions, providing credit to the poor through community organizations. The RSPs have gone through several phases of development in their micro credit programmes. This manual has been developed based on the lessons learned by the RSPs. However, its adoption is voluntary: each RSP is independent and each Board of Directors approves its policies. This manual serves as a prototype for each RSP to develop a formal manual for approval by its Board of Directors. We understand that the material discussed here is not the last word on the subject. We hope that it will be useful for field staff in the micro credit business. Needless to say, we will regularly revise and improve it with the help of valuable suggestions from our readers.

Some of the **essential features** of the RSPs rural micro credit programme are:

- The RSPs' Rural Credit Programme is part of an integrated programme of rural development, rather than a single-window credit programme. The Programme is intended to improve the quality of life for rural men and women.
- "Social collateral" (pressure from other CO members) is the main vehicle for ensuring proper utilization and recovery of credit, rather than legal procedures.
- The Community Organizations (COs) extend credit to individual borrowers. Thus the COs undertake the responsibility of ensuring that loans are properly utilized and repaid on time.
- CO members who require training to enhance their entrepreneurial skills or improve their productive capacity can access the RSPs' vocational training or Natural Resource Management training programme. They can also get technical advice from RSP staff or from other agencies, which can be linked with the COs through a process of social guidance.
- The RSPs have developed a computerized Management Information System (MIS), which is available at every level of the organization to facilitate monitoring of the credit programme.

## Credit Policies and Procedures

In order to expedite the processing of credit cases and to ensure that credit is used to improve the quality of life of the rural poor, the RSPs periodically provide guidance to their staff and COs by issuing policies and procedure. Once approved by the Board of Directors these are implemented by the field staff. Although each RSP has its own guidelines for credit operations, this manual represents the RSPN's efforts to distil the commonly used and agreed practices, and the 20-year operational experiences, of the RSPs.

| Subject   | Procedure   | Responsibility  |
|---|---|---|
| <b>Extending the Credit Programme to a new area or District</b> | New areas/districts are added in RSP credit programmes on the basis of their socio-economic conditions, location, the prevalence of poverty and people's willingness to harness their potential to identify and implement their own development initiatives.  | CEO/GM in consultation with Board of Directors  |
| <b>Selecting a Union Council (UC)</b>                           | List of UCs, villages, population, land holdings and other basic information is collected from the District administration so as to select an appropriate UC.   | <ul style="list-style-type: none"> <li>⇒ Regional Head</li> <li>⇒ Social Organizers</li> </ul>                |
| <b>Situation analysis</b>                                       | Data regarding poverty conditions, future potential, existing conditions and list of priority needs of villages/locations of a union council are documented to design credit and other programmes.  | <ul style="list-style-type: none"> <li>⇒ Regional Head</li> <li>⇒ Social Organizers.</li> </ul>               |
| <b>Explaining the credit programme To communities</b>           | The RSP staff (Credit Officers, Social Organizers, Field Coordinators (FCs), SOs and Regional Heads) gather village people to explain the credit programme and to observe their willingness to accept the essentials of the credit programme. In such meetings the field staff are supposed to take notes for the record and information of others.   | <ul style="list-style-type: none"> <li>⇒ Credit Officer/SOs</li> <li>⇒ Regional Heads.</li> </ul>             |
| <b>Forming a Community Organization For a credit programme</b>  | <p>The overall objective of RSPs is to harness people's willingness to themselves undertake development activities at the village level. Therefore, the approach of the RSP focuses on providing social guidance to the people to:</p> <ol style="list-style-type: none"> <li>1. Identify local Activists, to motivate the community on a sustainable basis,</li> <li>2. Identify their priority needs/ activities, which they are willing to undertake themselves,</li> <li>3. Study feasibility of village and individual level micro plans,</li> <li>4. To provide technical know-how to the community organizations (COs) to implement, maintain and sustain the activities,</li> <li>5. To generate resources or avail a line of credit to undertaking identified development activities.</li> </ol> | <ul style="list-style-type: none"> <li>⇒ Regional Head</li> <li>⇒ SO</li> <li>⇒ Field Coordinators</li> </ul> |

| Subject   | Procedure   | Responsibility   |
|---|---|--|
|   | <p>Broad guidelines for CO formation are as under:</p> <ol style="list-style-type: none"> <li>1. The members of the Community Organization should belong to a geographic proximity and live at a distance of not more than 15 minutes walk from each other,</li> <li>2. A household should be represented by only one member in the CO,</li> <li>3. The minimum membership required to form a CO at most of the RSPs is ten.</li> <li>4. The maximum membership for a credit CO should preferably be around 15</li> <li>5. The members should be small farmers and entrepreneurs and fulfil the poverty criteria of RSPs and be willing to undertake their own development programmes,</li> <li>6. The members should have a good credit history.</li> </ol>  |  |
| <p><b>Criteria for selection of Borrowers</b></p> | <p>The basic criterion of eligibility for a loan from an RSP is membership in a CO. However, to ensure that poor households benefit from the credit programme, RSPs have put in place two design features which ensure that the poor are reached: (a) poverty ranking (b) the ceiling of the credit packages.</p> <p>As part of the social organization process, RSP SOs facilitate the community in identifying the poor and the poorest households. Once these are identified the SOs ensure that these households become active members of a CO.</p> <p>After the CO formation, the SO facilitates the members in identifying their priority needs at the household, group and village levels. CO members prepare a plan to meet these needs: through this exercise, the SOs ensure the participation of the poor and the poorest in the CO's development activities.</p> <p>Any household included in a CO is entitled to a RSP loan, subject to the following::</p> <ul style="list-style-type: none"> <li>⇒ Written recommendation of 80% of CO members</li> <li>⇒ A clear credit record</li> <li>⇒ Capacity to manage the proposed activity for which credit is sought</li> <li>⇒ The loanee should have attended at least three CO meetings.</li> </ul> | <ul style="list-style-type: none"> <li>⇒ Regional Head</li> <li>⇒ SOs</li> <li>⇒ CO members</li> </ul> |

| Subject   | Procedure   | Responsibility   |
|---|---|--|
|   | <p>The field staff should <u>not</u> accept the following type of people as borrowers:</p> <ul style="list-style-type: none"> <li>⇒ Bank defaulters</li> <li>⇒ Non National Identity Card (NIC) holders</li> <li>⇒ Residents of other villages</li> <li>⇒ Members living a walking distance of more than 15 minutes apart from each other</li> <li>⇒ More than one person from one household (however, wife and husband can take loans from male and female COs for different activities)</li> <li>⇒ A person who does not match criteria of membership mentioned in the rules of cooperation of the respective RSP.</li> </ul> |  |
| <b>Opening CO Savings and Current Bank Accounts</b> | <p>After selecting the President and Manager, the CO passes a Resolution addressed to the nearest bank manager to open a current and savings account in the name of the CO. The resolution is attested by the SO/ Credit Officer as authorized by the Regional Head concerned.</p> <p>The SO/Credit Officer should avoid recommending resolutions passed by less than 80% of CO members.</p>  | <ul style="list-style-type: none"> <li>⇒ SO</li> <li>⇒ CO</li> <li>⇒ President</li> <li>⇒ CO Manager</li> </ul>            |
| <b>Registering a CO</b>                             | <p>To avail any facilities from an RSP, a CO must be registered by the concerned Regional Head. The relevant SO writes the members' names on three different coloured registration cards and sends them to the Regional Head to be signed. The white, blue and red cards are kept at the Regional Office, the Field Unit and CO levels, respectively.</p>   | <ul style="list-style-type: none"> <li>⇒ SO</li> <li>⇒ Regional Head.</li> </ul>   |
| <b>Entry in MIS</b>                                 | <p>Account Assistants at the Field Unit enter the name of each registered CO in the RSP MIS.</p> <p>The computerized backups of the MIS are sent to the Regional Office every week for analysis by the Regional Accountant and RPM.</p> <p>Credit requests of COs which are not listed in the MIS should not be entertained at the regional office</p>  | <ul style="list-style-type: none"> <li>⇒ FU Account</li> <li>⇒ Assistant</li> </ul>  |
| <b>Resolutions for credit</b>                       | <p>The resolution for credit is passed in the COs' general body meeting. The intended borrowers request the general body to endorse their requests. This is communicated to the RSP by the FU in-charge along with his/her recommendation.</p>  | <ul style="list-style-type: none"> <li>⇒ CO members</li> <li>⇒ CO President</li> <li>⇒ CO Manager</li> <li>⇒ SO</li> </ul> |

| Subject                         | Procedure   | Responsibility   |
|---------------------------------|---|--|
|                                 | <p>The resolution form contains the following information:</p> <ul style="list-style-type: none"> <li>⇒ Name of applicant (with parentage/ husband's name etc.)</li> <li>⇒ Amount of loan required</li> <li>⇒ Purpose and period of loan, and an undertaking by the CO ensuring proper utilization of the loan and its recovery</li> <li>⇒ CO members' signature of the members of CO, including the CO Manager and the President.</li> </ul> <p>Thus the CO has to first scrutinize the request for credit, as it has to undertake responsibility for proper utilization and recovery. This first appraisal enables the CO to decide whether the project is feasible and the member is trustworthy. The Social Organizer also participates and witnesses the entire proceeding, which is documented by the CO in a minute book. In case the SO is not present in the meeting and s/he receives a resolution, s/he visits the CO in its subsequent meeting and confirms the proceeding. The SO, after discussing the need with the CO and the borrowers, signs the resolution with his/her recommendation</p> |  |
| <b>Loan size and ceiling</b>    | <p>As per common practice of RSPs:<br/> First loan: Rs. 10,000<br/> Subsequent loans: 20% above the previous loan.</p> <p>In order to minimise risk, only one member of a household is allowed to get credit at a time.</p> <p><i>For details please see Appendix-1</i></p>   | <ul style="list-style-type: none"> <li>⇒ Regional Head</li> <li>⇒ SO</li> </ul>                        |
| <b>Appraising a credit case</b> | <p>An appraisal form is completed for each borrower. The SO signs this form and fills in essential information. This helps determine the profitability of the income generating activity and the credit worthiness of the borrower.</p> <p>In case of a request for credit for an activity requiring technical knowledge, such as credit for small infrastructure, the SO gets help from the RSP Engineer to determine the feasibility/design of the project and to calculate the cost and benefits of the proposed activity. In some cases, help from other technical experts is also sought, <i>e.g.</i> enterprise development or agriculture experts.</p> <p>Once the appraisal is complete, the SO prepares a Terms of Partnership (ToP) and Affidavit (<i>Iqrar nama</i>). The ToP contains all the terms and conditions of credit; the Affidavit contains an undertaking by the borrowers concerning the proper utilization and repayment of the credit. The borrowers, the CO</p>   | <ul style="list-style-type: none"> <li>⇒ CO members</li> <li>⇒ SO</li> <li>⇒ Credit Officer</li> </ul> |

| Subject                                | Procedure  | Responsibility   |
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|  | <p>Manager and the President, the SO, the Regional Accountant/Credit Officer and the Regional head of the RSP sign the ToP.</p> <p>The borrowers, the CO President and Manager and the SO sign the Affidavit. All these documents put pressure on the borrower to repay promptly. These forms can also be used in case of delays and defaults. During the signing of the ToP for credit the CO attendance should not be less than 80%. The proceedings of the meeting are recorded in the CO minute book and verified by the Credit Officer/ SO.</p>   |  |
| <b>Compulsory saving</b>               | <p>In order to promote capital formation at the grassroots, the RSPs encourage the COs to set aside some amount from their income and deposit in their CO savings account, during their fortnightly meetings. In addition, some RSPs require the COs to deposit an additional 10% of the desired loan amount as savings. Such savings may be verified by:</p> <ol style="list-style-type: none"> <li>1) Bank receipt of CO's savings account</li> <li>2) Terms Deposit Receipts (TDR)</li> </ol> <p>This motivates the COs to save funds. If such saving is invested in TDRs, the intended client is able to receive some additional funds from the profit on the TDRs, which sets off some portion of the service charge on the credit.</p> <p>The saving statement of each CO is obtained from the concerned bank and crosschecked every month with the CO savings record.</p> | <p>Borrowers are required to attach a bank deposit slip with their loan application verifying the compulsory saving amount</p> <p>The SO/Credit Officer, Regional Accountant and RPM should check the savings receipt before signing the credit case.</p>  |
| <b>Processing credit case approval</b> | <p>Credit cases are prepared by the Field Coordinators/ SOs/Credit Officers and recommended and verified by the Field Unit in-charge. At the Field Unit level, the Accounts Assistant checks the borrower's history before sending the credit case to the regional office. The Regional Accountant checks the cases before they are approved by the RPM.</p>   | <ul style="list-style-type: none"> <li>⇒ SO/Credit Officer</li> <li>⇒ FCs</li> <li>⇒ Account Assistants</li> <li>⇒ Regional Accountant</li> </ul>  |
| <b>Sanctioning credit</b>              | <p>There are only three tiers of credit sanctioning authority. The first is the CO, which does a 'social appraisal' of the loans of individual members. Tier 2 is the Field Unit, where SO/Credit Officer conducts a preliminary feasibility study. The third and final tier is the region, where all papers are examined and the credit is either approved or turned down.</p>  | <p>The Regional Head is responsible for sanctioning credit cases. However, he or she must verify the recommendation of the CO, Field Coordinator, Credit Officer/SO and Field Unit In-charge.</p> <p>In case of an incomplete request, the documents are sent back to the respective Field Unit to be completed.</p> |

| Subject                                   | Procedure   | Responsibility   |
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| <b>Time period for sanction of credit</b> | <p>The maximum allowable time span between submission of a resolution and delivery of a cheque to a CO is twenty days. In order to ensure an appropriate system, initially the Regional Head should become involved in every step of the credit cycle and provide the required guidance to the field team responsible for processing credit cases. S/he should also ensure the following time frame for approval of a credit case:</p> <p><b><i>Maximum time at Field Unit: One week</i></b><br/> <b><i>Maximum time taken by Regional Account : One week</i></b><br/> <b><i>Maximum time taken by Regional Head : One week</i></b></p> | <ul style="list-style-type: none"> <li>⇒ Regional Head</li> <li>⇒ Regional</li> <li>⇒ Accountant</li> <li>⇒ SO</li> </ul>            |
| <b>Service charge</b>                     | <p>Most of the RSPs currently charge 20% per annum along with the principal amount, calculated on a declining balance. Most RSPs charge the same rate for all credit packages.</p> <p>All calculations and MIS entries are made on the basis of 20% annual interest until revised by the Board of Directors.</p>  | <ul style="list-style-type: none"> <li>⇒ SO</li> <li>⇒ Regional</li> <li>⇒ Accountant</li> <li>⇒ Regional</li> <li>⇒ Head</li> </ul> |
| <b>Delivery of cheque to CO</b>           | <p>All cheques, along with the repayment schedules prepared by the Regional office, are sent to the Field Units. The SO at the Field Unit is responsible for delivering the cheques and other documents and must obtain acknowledgement of a receipt from the CO.</p> <p>However, in unavoidable situations, the CO may authorize a person through a joint resolution passed by the general body, to collect the cheque from the RSP office. That person must acknowledge receipt of the CO's cheque.</p>   | <ul style="list-style-type: none"> <li>⇒ SO</li> <li>⇒ Regional Head</li> </ul>  |
| <b>Payment to borrowers</b>               | <p>Disbursement is made through a cheque jointly signed by the credit officer/ Regional Accountant and the Regional Head. The concerned bank pays each individual according to a list provided by the RSP office. If the bank refuses to pay individuals the CO President and Manager draw the amount of the cheque and pay members individually in the bank premises.</p> <p>!In case borrowers are unable to go to the bank the person withdrawing money from the bank should hire a vehicle and try to avoid uninhabited routes while carrying cash to the village.</p>  | <ul style="list-style-type: none"> <li>⇒ SO</li> <li>⇒ Credit Office</li> </ul>  |
| <b>Social Pressure and Repayment</b>      | <p>“Social collateral” is the crux of the RSPs’ programmes. This implies that the rural poor are credit worthy and that if credit reaches them, nearly full recovery can be expected.</p>   | <ul style="list-style-type: none"> <li>⇒ SO</li> <li>⇒ Regional Head</li> </ul>  |

| Subject                            | Procedure  | Responsibility  |
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|                                    | <p>Therefore, RSPs avoid legal formalities such as contracts or legal papers, pledging legal documents of property etc. Experience has shown that collateral in the form of legal documents does not necessarily guarantee 100% recovery. Some examples of social pressure are:</p> <p><b>a) Joint responsibility of all CO members</b></p> <p>All credit requests must be endorsed by 80% of the CO members. Thus each CO member stands as a guarantor for the prospective client. For all credit requests, the CO signs a Terms of Partnership: thus the CO also acts as a guarantor for its members.</p> <p><b>b) Support from other COs</b></p> <p>If the recovery rate of one CO drops, RSP uses the pressure of other COs in the area to improve the recovery of the defaulting CO.</p> <p><b>c) Support from entire Union Council</b></p> <p>If the recovery rate in one Union Council drops, the RSPs use the COs of other Union Councils to improve the recovery rate. The implication is that if the recovery position is not improved, the credit of the entire Union Council may be stopped.</p> <p><b>d) Fear of losing benefits from RSP</b></p> <p>Since the RSPs utilise a holistic approach, each CO participates in multiple activities. If the credit recovery drops, the RSP can also stop other programmes.</p> |   |
| <b>Credit Accounting procedure</b> | <p>Credit disbursement is recorded as receivable from COs in the RSP's financial records: upon recovery the same account is credited. The principle amount and the service charge collected are recorded as an income for the period it is received. Thus, the balance in the receivable from the COs account represents an asset of the RSP at any given period of time. However, the total balance should tally with the total of all borrowers' balance, which is shown in the individual borrower's ledgers.</p> <p>At the end of each month the Regional Accountant reconciles the credit disbursement with the Monthly Progress Reports (MPRs) and Financial Information System.</p>   | <ul style="list-style-type: none"> <li>⇒ Regional</li> <li>⇒ Accountant</li> <li>⇒ Account</li> <li>⇒ Assistants</li> </ul> |

| Subject                                       | Procedure  | Responsibility   |
|---|--|--|
| <b>Documentation at CO level</b>              | The record of disbursement, recovery, attendance of CO members during meetings and list of needs identified by the CO are kept at CO level. The CO office bearers are trained by the RSP staff to record the CO meeting minutes, members' attendance and individual savings. In case there is no literate person in the CO the RSP field staff performs these functions.   | <ul style="list-style-type: none"> <li>⇒ CO President</li> <li>⇒ CO Manager</li> <li>⇒ SO</li> </ul>   |
| <b>Documentation at FU level</b>              | <p>At field unit level the following information is maintained:</p> <ul style="list-style-type: none"> <li>⇒ A list of all COs</li> <li>⇒ A list of CO/WO members</li> <li>⇒ Situational analysis of COs</li> <li>⇒ Registration of CO</li> <li>⇒ Copies of all important resolutions</li> <li>⇒ A list of projects identified by the COs</li> <li>⇒ A list of activities made by RSP</li> <li>⇒ A list of borrowers</li> <li>⇒ A list of defaulters of other banks in Field Unit area</li> <li>⇒ An up-to-date computerised MIS.</li> </ul> | <ul style="list-style-type: none"> <li>⇒ SO/Field Unit in-charge</li> </ul>  |
| <b>Documentation at Regional Office Level</b> | <p>The following information should be available at the Regional Office:</p> <ul style="list-style-type: none"> <li>⇒ List of COs/Wos</li> <li>⇒ List of CO/WO members</li> <li>⇒ Situational analysis of COs</li> <li>⇒ Registration of COs</li> <li>⇒ Copies of all important resolutions</li> <li>⇒ List of projects identified by the COs</li> <li>⇒ List of activities through RSP/other agencies</li> <li>⇒ List of Borrowers</li> <li>⇒ List of delinquent loans/defaulters</li> <li>⇒ Up-to-date computerised MIS</li> </ul>         | <ul style="list-style-type: none"> <li>⇒ Regional Head</li> <li>⇒ Regional Account</li> <li>⇒ Regional Monitoring Officer</li> </ul>   |
| <b>Monitoring of recovery trends</b>          | Regular monitoring of recovery trends, with the help of computerized MIS and reports of recovery against due amounts.  | The Regional Head/ Credit Officer, Regional Accountant/ FU in-charge are equally responsible for producing MIS reports and to monitor recovery trends and to employ remedies on a regular basis. |
| <b>Recovery follow-up</b>                     | Field unit in-charge is responsible for organising recovery follow-up visits. The Regional Head also participates actively with the rest of the regional team to recover delinquent loans. However, before taking any legal action against defaulters, the Regional Head should get permission from the RSP Head Office/GM/CEO.  | <ul style="list-style-type: none"> <li>⇒ SOs</li> <li>⇒ Regional Head</li> </ul>   |

| Subject   | Procedure   | Responsibility   |
|---|---|--|
| <p><b>Collection of repayment and deposit of money in credit recovery account</b></p> | <p>Borrowers are motivated to repay their loan themselves at the RSP office or any designated bank branch. In heavily populated areas, loan recoveries are received directly at commercial bank branches by RSP staff. To facilitate borrowers and to calculate mark-up, an account assistant with a computer, is stationed at the bank branch. However, in the case of scattered population, where only a small number of borrowers are located close to a bank, they are motivated to deposit credit repayment directly at the RSP office. In the case of instalments and small amounts, the SO himself collects money from the borrowers and deposits it at the RSP office or directly in the bank recovery account.</p> <p>Only officially printed receipts in triplicate are used for recovery receipts. One copy of the receipt is kept at the FU, another at the Regional Office and the third copy is given to the borrower for his/her records. In the case of collection of recovery at RSP office, the cash is shifted to the nearest bank at frequent intervals to avoid any mishap.</p> <p>Delinquent loans are collected by SOs/ Credit Officers and other field staff. In addition, collections are also undertaken as follows:</p> <ul style="list-style-type: none"> <li>⇒ By COs in CO meetings</li> <li>⇒ By CO Managers/President in his/her personal capacity</li> <li>⇒ By other Activists of the COs</li> <li>⇒ By one borrower for others</li> <li>⇒ By RSP Accounts Assistants at the Field Unit</li> <li>⇒ By SO/Field staff in CO meetings. When the field staff attends CO meetings, they are provided with a receipt book, a calculator and a list of borrowers giving due amounts. Upon receipt of cash from more than one member of a CO, they issue a receipt in the name of the CO. The names of the borrowers are noted in the receipts along with other pertinent details.</li> </ul> <p>All receipts prepared by RSP staff should be entered by the Account Assistant in the following documents:</p> <ul style="list-style-type: none"> <li>⇒ Recovery sheet</li> <li>⇒ Borrowers' Ledger</li> <li>⇒ Cash summary</li> <li>⇒ Computerised MIS</li> </ul> | <ul style="list-style-type: none"> <li>⇒ Account Assistants</li> <li>⇒ SO</li> </ul> |

| Subject                           | Procedure  | Responsibility   |
|-----------------------------------|--|--|
|                                   | Copies of all receipts along with the Recovery sheet and cash summary are sent to the regional offices where a bank account (control account) is maintained for this purpose. The Regional Accountant enters the total of the recovery sheet into the control account book. The control account is used to report total disbursement, recovery and bank/cash balances, which are reconciled with the borrower's ledgers on a monthly basis.  |  |
| <b>Follow up of default cases</b> | <p>Follow up of default cases is a joint responsibility of the credit officer, field unit in-charge, field coordinator and the regional head.</p> <p>To recover default amounts the above-mentioned team meets from time to time and adopts appropriate measures. However, recovery of default through a Government Magistrate is avoided except for one or two wilful defaulters in a union council, upon permission of CEO/GM. Confrontation with the entire CO members / village or union council is avoided.</p>   | <ul style="list-style-type: none"> <li>⇒ SO/ Credit Officers</li> <li>⇒ Field CO co-ordinators</li> <li>⇒ CO activists</li> <li>⇒ Other field staff involved in credit.</li> </ul> |
| <b>The Activist's Role</b>        | <p>The RSPs believe that the Micro Credit programme cannot be run and managed by RSP staff alone. If it is, it will be relatively expensive and less efficient than if it is managed by CO Activists. Therefore, in each CO, Activists are trained and motivated to actively participate in managing the credit programme.</p> <p>The activists are trained by the HRD section. The training is known as Community Management and Skills Training (CMST). A CMST trained activist is expected to look after the routine functions of the CO (conducting routine meetings, writing resolutions, keeping updated records, etc). In addition, he or she also pushes CO members for timely loan repayment. Some also collect the due recovery and take it to the RSP FU office. To compensate for time and resources spent, the Activist is eligible for a recovery bonus (2% of disbursement). The Activist is not paid any honoraria until all members of the CO have repaid their loan.</p> | <ul style="list-style-type: none"> <li>⇒ Activist</li> <li>⇒ SO</li> </ul>   |
| <b>Additions to CO membership</b> | To make additions in CO membership, CO members must pass a resolution that is then recommended for favourable action by the SO/Credit Officer to the Regional Head. The resolution and updated lists of CO members are kept at the CO, FU and regional offices. Without the permission of the Regional Head the field staff is not allowed to add new members to a CO/WO.  | <ul style="list-style-type: none"> <li>⇒ SO</li> <li>⇒ Regional Head</li> </ul>  |

| Subject   | Procedure   | Responsibility  |
|---|---|---|
|   | Once a person becomes a CO member, his or her name is entered on the registration card. These cards are kept at the CO, field unit and regional offices, to monitor membership and the number of borrowers. Monitoring the induction of new borrowers in the CO help the RSPs to prevent existing members from taking more than one loan through additional CO members who are not in need.   |   |
| <b>Preparation of daily cash report</b>         | The Account Assistant at the FU unit and regional offices enter the cash received in the recovery register, deposit it in the bank and attach the bank deposit slip to the register. He or she also prepares daily cash report which notes the amount deposited in the bank and the cash in hand.   | <ul style="list-style-type: none"> <li>⇒ Prepared by Account Assistants.</li> <li>⇒ Verified by FU Incharge and Regional Accountant.</li> </ul>           |
| <b>Preparation of monthly closing statement</b> | The Regional Office Accountant prepares a monthly statement consisting of: cash closing of last day of month, bank statements of disbursements and recovery received at Field Units/offices.  | ⇒ Regional Accountant   |
| <b>Verifying Savings</b>                        | Savings reported by CO members in their meetings and the actual amount deposited in the bank are compared every month.  | <ul style="list-style-type: none"> <li>⇒ SO</li> <li>⇒ Regional Monitor</li> </ul>  |
| <b>Reporting Requirements</b>                   | <p>At the RSPs reporting is carried out at four levels:</p> <p><b>CO level</b></p> <p>On demand the CO president and manager provide the following information about their CO:</p> <ul style="list-style-type: none"> <li>⇒ Membership</li> <li>⇒ Attendance of members in CO meetings</li> <li>⇒ List of borrowers</li> <li>⇒ List of delinquent loans</li> <li>⇒ Loan amount</li> <li>⇒ Current loan cases</li> <li>⇒ Closed cases</li> <li>⇒ List of needs identified</li> <li>⇒ Self initiatives identified/undertaken</li> <li>⇒ Projects with other agencies</li> </ul> | <ul style="list-style-type: none"> <li>⇒ CO President or Manager</li> <li>⇒ FU in-charge</li> <li>⇒ Regional head</li> <li>⇒ GM</li> <li>⇒ CEO</li> </ul> |

| Subject | Procedure   | Responsibility |
|---------|---|----------------|
|         | <p><b>Field Unit level</b></p> <p>Each account assistant maintains a database at the field unit in which entries are made from the source document, such as sanction forms, chequebooks and receipts. He or she also has a copy of the recovery schedule from which recoveries can be monitored. The database takes the CO as a base and borrowers are entered within each CO. Thus the database forces the Accountant to first collect correct information for the CO so that if there is any default, the CO can be approached. The database generates reports which are used to check the status of each loan/borrowers, amounts due and overdue etc. When the SO attends a CO meeting, the Accounts Assistant provides essential information from the database to enable the SO to make a strategy for recovery. The field unit also generates a Monthly Progress Report (MPR). The MPR shows status of all loans, their type, disbursement and monthly and cumulative recoveries. In addition to the MPR, separate reports can also be generated for specific purposes.</p>  |                |
|         | <p><b>Regional Office level</b></p> <p>All disbursements are made by the Regional Office (RO). The RO is responsible for keeping records of disbursement of all FUs under the jurisdiction of the RO. All the cheques disbursed are recorded in a bankbook. All credit sanction forms are entered in a disbursement ledger which shows the status of all requests received. The ledger is also used for assigning a sanction number to each credit case.</p> <p>In addition to disbursement information, the RO also receives a copy of all receipts issued by the FUs along with a recovery sheet on a fortnightly basis. The total amount recovered as per the recovery sheet is entered into the bank account book or cash account as credit/ receivable from CO account and income on service charges. Thus the Regional Office is able to determine the total amount disbursed on a daily basis and the total amount recovered on fortnightly basis. With the database available, the information about recoveries at the Regional Office will be available on a daily basis.</p> <p>The Regional Office also maintains files of Monthly Progress Reports and other useful reports such as report of overdue by aging. This report analyses each overdue amount for different time periods, such as current, 1-3 months old, 3-6 months old and so on.</p> |                |

| Subject  | Procedure   | Responsibility   |
|--|---|------------------|
|  | <p>The Regional Office also maintains all financial accounting records, which are reconciled with the borrower's ledger in order to check the accuracy of the borrowers' ledgers.</p> <p>Periodically, the Regional Office also arranges an audit of the field units. The in-house auditors carry out surprise cash counts and review of records.</p>                                       |                  |
|  | <p><b>Head Office Level</b></p> <p>At HO, all reports received from the Regional Offices are consolidated and reviewed. The Head Office maintains files of MPRs and their summaries for external and internal reporting. HO also maintains a record of receipt books which are printed at the Head Office level.</p>  |                  |
| <p><b>Audit and Financial Evaluation of RSPs</b></p> | <p>Normally three types of audit are carried out at RSPs. They are:</p> <ul style="list-style-type: none"> <li>➤ Surprise check by head office/ regional office nominee.</li> <li>➤ Periodic audit of selected credit disbursement and repayment by field unit in-charge and regional/head office nominee.</li> <li>➤ Yearly statutory audit by a firm of Chartered Accountants.</li> </ul> | <p>➤ CEO/ GM</p> |

## Appendix 1: RSP Credit Packages

| Package Type                 | 1 <sup>st</sup> Loan Max | 2 <sup>nd</sup> Loan Max | 3 <sup>rd</sup> Loan Max | 4 <sup>th</sup> Loan Max | 5 <sup>th</sup> Loan Max | Purpose  | Max Period Credit                                     | Repayments                                    |
|------------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--|---|---|
| Agricultural                 | 10,000                   | 15,000                   | 20,000                   | 25,000                   | 30,000                   | Seeds<br>Fertilizer,<br>Agro-<br>Chemical<br>Feed /<br>Fodder              | Up to 12<br>Months<br>(First loan 6<br>months)        | Lump sum /<br>Monthly<br>Instalment           |
| Enterprise Development       | 10,000                   | 15,000                   | 20,000                   | 25,000                   | 30,000                   | Working<br>Capital   | Up to 12<br>Months<br>(First loan 6<br>months)        | Lump sum /<br>Monthly<br>Instalment           |
| Livestock Development        | 10,000                   | 15,000                   | 20,000                   | 25,000                   | 30,000                   | Fattening/<br>Breeding   | Up to 12<br>Months<br>(First loan 6<br>months)        | Lump sum /<br>Monthly<br>Instalment           |
| Purchase Of Livestock        | 10,000                   | 15,000                   | 20,000                   | 25,000                   | 30,000                   | Milk Animals<br>(cows and<br>buffaloes)<br>Pulling /<br>cartage<br>animals | Up to 12<br>Months<br>(First loan 6<br>months)        | Lump sum/or<br>Monthly<br>Instalment          |
| SIIE                         | 10,000                   | 15,000                   | 20,000                   | 25,000                   | 30,000                   | Development<br>of productive<br>Infrastructure                             | Up to 12<br>Months<br>(First loan 6<br>months)        | Monthly/<br>Quarterly<br>Annual<br>Instalment |
| Cumulative Compulsory Saving | 1000                     | 2500                     | 4500                     | 7000                     | 10,000                   | For all<br>Products  | Up to 12<br>Months<br>(First Loan<br>for 6<br>Months) | Monthly/<br>Quarterly/<br>Lump sum            |

The RSPs' credit programme has been classified into the above packages with the aim of facilitating the COs and the appraising persons in properly evaluating credit requests. However, if a CO member can justify a request for credit of any other type, the request is entertained on a case-by-case basis.

A maximum limit for each purpose has been fixed with a view to making the programme attractive to only those households requiring a small amount to improve their condition. For example, a ceiling of 5<sup>th</sup> loan Rs. 30,000 for enterprise discourages a well off trader from entering the programme.

On the other hand these modest amounts help the poor in establishing small enterprises for income generation. However, in exceptional cases where it is determined that the ceiling amount is less than the requirement of the borrower, the SO can recommend a higher amount of credit.

The period is determined after considering a CO's performance in repaying credit and the profit earning cycle of each type of credit disbursed. For the convenience of the borrowers a lump sum payment is also allowed in certain cases.