

Standard Operating Procedure for

Women Enterprise Financing (WEF) from Formal Financial Institutions



Foreward



Acknowledgement

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Abbreviations and Acronyms

Abbreviations & Acronyms	Full Form
ABB	Average Bank Balance
B2B	Business to Business
BC	Banking Correspondent
BPIU	Block Project Implementation Unit
CFO	Cash Flow from operations
CLF	Cluster Level Federation
CR	Current Ratio
CRP	Community Resource Person
CRP-EP	Community Resource Person – Enterprise Promotion
CSR	Corporate Social Responsibility
DAY-NRLM	Deendayan Antodya Yojana- National Rural Livelihood Mission
DBR	Debt Burden Ratio
DM	District Manager
DPD	Days Past Due
DSCR	Debt service coverage ratio
EBITDA	Earnings before interest tax depreciation and amortization
EMI	Equated monthly Instalment
FI	Financial Inclusion
FFI	Formal Financial Institution
GDP	Gross Domestic Product
GST	Goods and Service tax
ICR	Interest coverage ratio
ICT	Information and Communication Technology
IFC	International Finance Corporation
JLG	Joint Liability Group
KYC	Know your customer
MEL	Micro Enterprise Lending

MFI	Micro Finance Institutions
MoRD	Ministry of Rural Development
MSME	Micro Small and Medium Enterprises
NBFC	Non-Banking Finance Corporations
NGO	Non-Government Organization
NPM	Net profit Margin
OLOP	One Local Body One Project
OSF	One Stop Facility
p.a.	Per Annum
PAN	Permanent account number
ROA	Return on Asset
ROCE	Return on Capital Employed
ROE	Return on Equity
SFB	Small Finance Bank
SHG	Self-Help Group
SLBC	State Level Bankers' Committee
SOP	Standard Operating Procedure
SPM	State Project Manager
SVEP	Start-up Village Entrepreneurship Program
TOL/TNW	Total Outside liabilities to total net worth
UIDAI	Unique Identification authority of India
VO	Village Organization
VSE	Very Small Enterprises
WEF	Women Enterprise Financing

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- Draft Expert Score Card
- WEF Business Analysis & Financial Planning
- Format for Market Research for Vitta Sakhi
- MUDRA – Key Features as on June'2022

1. Context Setting

- a) Background
 - b) Scope / Objective of WEF
 - c) Leveraging the various NRLM Initiatives
 - d) Key Deliverables of the SOP
-

a) Background



Recent studies have shown that globally, women's contribution to Gross Domestic Product is as low as 37%, while in India, these numbers are even lower - just 18%. (A report by McKinsey Global Institute has estimated that just by offering equal opportunities to women, India could add US\$ 770 billion to its GDP by 2025. Yet, the present contribution of women to the GDP remains at 18%). India's rank on the economic participation and opportunity parameter in the Global Gender Gap Report has also fallen significantly, from 110 in 2006 to 151 in 2021. This widening gap has several factors, including low labour participation, informality, inequality, etc. but an important factor is poor access to finance for women, especially finance to establish and run their own enterprises. Plugging this gap is crucial as this will enable greater women entrepreneurship, and higher participation of women in the labour force, as women tend to employ more women.

Formation of Self-Help Groups i.e., SHG (Self-help groups are informal groups of people who come together to address their common problems. Self-help groups can serve many different purposes depending on the situation and the need. In case of rural India, self-help groups have been used as an effective strategy by the Government for deploying several programs aimed at poverty alleviation, human development and social empowerment, and are therefore often focused on microcredit programmes and income-generating activities) is an effective way of reaching out to women in informal economy. DAY-NRLM's initiatives since 2011 has played a crucial role in the same. Financial resources from all ongoing programmes in rural areas are now focused on villages with social capital of the DAY-NRLM women SHGs on a priority basis.

Impact of DAY-NRLM thus far

- DAY-NRLM with its outreach to over 83 million women mobilized into ~7.6 million SHGs practically touches every third household in rural India. Thanks to the intensive processes of developing social capital under the DAY-NRLM, women's SHGs and their federations have emerged as vibrant community institutions of the poor.
- The Community cadre such as community mobilizers, the community resource persons (CRPs) and the Bank Sakhi's are the biggest strength of this movement. They have been setting up women's collectives across the country and enabling the last-mile delivery of livelihoods extension and financial services to rural poor households.
- Opportunities for skilling and diversification of livelihoods are being provided through the skills programmes of the ministry of rural development and community-training institutions.
- Credit linkage for these women SHGs has been a priority and around 7.1 million SHGs have been credit linked with different banks.

The program has thus far ensured capitalization of community institutions through accumulation of Savings worth Rs 40,000 Cr: Infusion of Community Funds from Project worth Rs 19,000 Cr and leveraging cumulative credit of Rs 5 lakh crore+ from formal banks for the SHG's., Among the participant members in livelihood activities under DAY-NRLM(based on estimates and field level feedback), an estimated 10 million members (~10-15%) with some economic activities are ready to graduate to

next level of entrepreneurship (thereby creating an enterprise if provided with necessary support); another 15 million members are in their initial stages and will be ready to graduate within a short period.

This graduation of women led enterprises will require:

- i. **ability of the SHG member to access various intervention of NRLM at SHG & individual level**, this should be the ideal first step as the credibility of the member within NRLM ecosystem will be well established thereby supporting them in their initial entrepreneurial ventures. Once the same is exhausted, the member has to look for alternate sources of funds.
- ii. **significant participation from banks and financial institutions.** The challenge that the banking & financial institutions face are that given the informal nature of these women led enterprises who are likely to have no recorded credit history or banking transactions to speak of minimal or no business/financial information makes it difficult in assessing credit worthiness or assessing credit requirement are perceived as high-risk borrowers.

This document aims to provide guidance to various functionaries of DAY-NRLM and SRLMs including staff and community cadre on accessing micro-enterprise credit in line with formal financing sector as well as address the concerns of Formal financial institutions and hope to pave way for the banks to actively participate in financing these micro enterprises.

b) Scope / Objective of WEF

Over past decade DAY-NRLM has successfully supported creation of SHGs across the country (spread across ~6000+ blocks) and have provided the members with initial capital either to support their existing livelihood or to kick-start their entrepreneurship journey. In many cases individual members of the SHG's (on an average a SHG has 10-12 members) have accessed overall loans in excess of Rs 30-50000 depending upon vintage of the group and repeat cycles of bank credit linkage.

It has been observed that usually the 1st loan cycle was used for consumption, the subsequent loans were used for livelihood purposes. Further NRLM's internal studies have observed that post 1st cycle ~55-60% of the members use the funds for farm related usage (agriculture / animal husbandry etc.), the remaining use it for starting small home-based livelihoods. Most of these members continue to earn just enough for subsistence. Some of these members, estimated to be **10-15% of the SHG groups** are now keen to grow their enterprises further and require additional support. **Today DAY-NRLM has a large base of SHG who are linked with banks and have accessed multiple loans from them (2nd /3rd cycle).** These members now require further funding which SHG may not be able to support and hence the need to look at other sources of funds within DAY-NRLM or outside via formal financing set-ups line Banks, & NBFC's.

NRLM's has also supported many of these members in certain **blocks (~235) through its Start-up Village Entrepreneurship Program or SVEP**. Members who qualified via **an intensive selection process were able to access additional funding support from SVEP program**, which is usually in the range of Rs 20,000/- Rs 50,000/-. This is a loan at an individual enterprise level and thereby distinguishing the member from its SHG group. The chosen entrepreneurs by SVEP have been able to absorb this capital in addition to the SHG loans for either setting up new business or growing their existing business. These set of entrepreneurs too are looking for additional source of funds which are usually >50k and are now best addressed by formal financial institutions.

NRLM's partnership with **World Bank through NRETP initiative of One Stop Facilitation (OSF)** centre is now in its initial stage of implementation in select blocks in several states and will act as an incubator for selected businesses which have shown promise of growing to next level after initial support from SHG loans. Of the various support that the OSF's are to provide, one of the supports that the enterprise may expect is that of funding either through Community Enterprise Funds (CEF) or through facilitation of financing by formal financial institutions. These enterprises too may look for financing of amounts > Rs50,000/- and are ideal candidates for loans from formal financial institutions.

There is **an inherent risk to micro-enterprises in case, additional financing is not made available**. If **SHG-WEF or SVEP-WEF graduation doesn't happen in large numbers, then, (most of which are home enterprises) growth will be impacted and may find it difficult to sustain at current level** in these challenging environments. **Some may be forced to shut down due lack of additional funds, thereby impacting entrepreneurship & employment generation**. This is likely to **undo significant part of the progress** that DAY-NRLM has been able to make to bring these women entrepreneurs out of poverty.

Also, in absence of formal, equitable and affordable loans from DAY-NRLM eco-system or formal financial institutions these micro enterprises / entrepreneurs may be forced **to borrow from informal lenders at much higher rates** impacting business viability and eventually leading to their closure due to heavy debt burden, once again pushing them and their linked employees back to poverty. Employment in the large unorganised sector can be improved if banks channelize funds through the self-help groups (SHGs)

It is thus critical that these micro enterprises get linked with formal financial institutions **once they have exhausted CBO** funds and graduate to formal financing set-up which can then support them in their growth aspiration in a rational way. Banks which have financed SHG are ideally best suited for providing loans to these micro enterprises. Thus, banks have a unique opportunity to leverage existing SHG linkage to provide WEF to members of the SHG due to field level support provided by SRLM staff and

cadre, familiarity of the customer group, its process and repayment history of SHG thereby graduating the member to next level of entrepreneurship.

This will not only ensure that these micro enterprises thrive, **but also support in employment generation.** As its well known, women led enterprises are more likely to **employ women, thereby ensuring larger participation** of women in India’s GDP

This initiative will not only benefit the women micro-entrepreneurs but also generate employments in share of front-line cadre & functionaries.

c) Leveraging the various DAY-NRLM Initiatives

DAY-NRLM has been actively working in providing an external dedicated and sensitive support structure to promote women entrepreneurship in rural India. It has and continues to work on various initiatives which are required to induce the social mobilization, institution building and empowerment process. Facilitating knowledge dissemination, skill building, access to credit, access to marketing, and access to other livelihoods services underpins this upward mobility.

The implementation structure is in 4 layers i.e., National, State, District & Block. The WEF initiative will continue to depend on this proven well-staffed structure.

A high-level approach and need are represented diagrammatically below



Source: NRLM website May 2022

For supporting women micro enterprise desirous of availing loans from formal banking system, it is required that we leverage the infrastructural strength of various initiatives of DAY-NRLM.

- The institution building team (IB-CB) which has helped establish SHGs and supported them with community mobilizer as a frontline cadre and backed up with multi-layer structure of Village Organization (VO) and cluster Level Federation (CLF) which has inculcated a habit of savings, equitable distribution of loans and timely collection of loan installments from the SHG members. With support from financial inclusion team, this infrastructure has further supported in creating bank linkages for SHGs which now has cumulatively disbursed over Rs 4.7 lacs crores from the participating banks. The WEF initiative will heavily depend upon this infrastructure of pre deployed community cadre and the existing bank linkages of the SHG, while the other components too will play a crucial role. Additional community resource persons organized by SRLMs such as network of, the Banking Correspondent Sakhi (BC Sakhi, 70,000+), Bank Sakhi's (35,000+) and Financial Literacy- Community Resource Persons (FL-CRPs, 20,000+) etc will be useful too in ensuring high quality of ME loan portfolio.
- Non-Farm teams' SVEP program is another initiative which will be extremely useful to implement formal financing linkages via WEF for SHG members some of whom have also availed loans from SVEP program. The cadre of Community Resource Person- Entrepreneurship Program (CRP-EP) and the mentors (provided by the PIA) will be critical for initial and continued success of WEF initiative. SVEP also has a member selection process, which will be taken as guidance for identifying potential women entrepreneurs for MEL. Further, If SVEP program is discontinued as project comes to a closure, a well-established infrastructure and people may be lost if not engaged and leveraged quickly for WEF graduation. SVEP beneficiaries who have already demonstrated good repayment history would be ideal customer base for ME loans by Formal Financial Institutions.

How does Formal Financial Institutions (FFI) benefit

- Besides Banks, there are other, Formal Non-Bank Lenders who can be considered as Formal Financial Institutions (FFI's Regulated by RBI) having a unique opportunity to create a curated portfolio of women owned micro-enterprises wherein they leverage NRLM's infrastructure to generate new loan proposals, get support in documentation, handholding of micro-entrepreneurs through the WEF journey including moral persuasion for repayment of loan in case of any unforeseen circumstances. It is important to note that the loan will be booked on the books of FFI's, and they will be eventually responsible for selection, approval and collection of the loan. Thus, the FFI's stand to benefit by:
 - **Reduced OPEX & acquisition costs**
 - **Facilitation in on-time collection**
 - **Reduced risk due to continuous post disbursement tracking of enterprise performance**

- **Access to additional funding facilities**

d) Key Deliverables of the SOP

This SOP can develop SRLMs capacity to align with formal financing practices and also creating FFI linkages

Based on a study conducted by IFC in 2018-19 on Improving Access to Finance for Women Owned Business in India

1. **Over 70% of the total finance requirement of women entrepreneurs in the country is unmet**
2. **90 percent of the women entrepreneurs in India are yet to avail finance from FFIs.**

The mature small enterprises tend to have stable cash flows, better access to collateral, qualified management and better awareness of financing options, making them more likely to access debt from formal financial institutions. The credit needs of micro-enterprises are currently addressed to a certain extent by various NRLM initiatives.

While women entrepreneur primary source of funds have been through the SHG membership, at times the group is unwilling/unable to give larger amount to a deserving member because of either their inability to access risk of the micro-enterprise or due to paucity of funds with SHGs to meet increasing demand of members. In such cases even the Bank Sakhi is unable to help because of limited / no **knowledge of credit assessment of micro-enterprises**. This SOP aims to help Bank Sakhi's or similar cadre's ability to conduct credit assessment, which will be useful in building SHG's confidence in lending more to a deserving member or approach VO/GPLF/CLF for alternate sources of funds before the member ventures out of NRLM eco-system.

Once the entrepreneur has exhausted the funding from community based organisations (CBOs), these micro-enterprises to grow depends on formal financial institutions like scheduled commercial banks (public sector banks and private sector banks including Small Finance Banks) and the NBFC's. However, in providing access to credit to this segment, these financial institutions, particular banks, have concerns / see challenges on account of:

- No credit bureau records as SHG members take loans from SHGs, this makes Banks reluctant to extend individual loans to SHG members in absence of credit bureau records
- Lack of sufficient, traditional credit information with these enterprises - No or minimum documentary evidence of enterprises run by SHG members; most enterprises are informal without any kind of formalization, making it difficult to ascertain cash flows and profits
- **Inability to offer collateral** further to the group guarantee which is available for SHG loans but is missing in case of an individual enterprise loan to a SHG member
- **Lack of formal registrations**
- Difficult and costly to monitor and ensure timely collection of repayment.

- **A small amount of credit requirement per unit which is not commercially attractive**
- **Limited market information about the opportunity from this segment** and unclear channels to efficiently source potential borrowers from it

The above reasons create a situation where in while micro financing needs (~ Rs 30,000 or lower) of women entrepreneurs are addressed, there is a “missing middle” in terms of finance availability. The Formal Financial Institutions again become active once the financing requirements tends to cross Rs 10 lacs and there is formalisation of firms with a potential availability of collateral. This is further true in case of private sector financiers.

To add to this, Financial Institutions do not perceive **women borrowers to be a valuable target segment**. Rather, they view them as having relatively low capacities and consequently higher risk. Thus, credit to women does not yet form an organizational priority for most formal financial institutions and needs to be part of board room discussions for stronger organizational efforts.

Further, **heavy and complicated documentation formalities, longer processing time and increased opportunity cost leads to many SHG members completely relinquishing their plan.**

It is with this backdrop that this manual is being drafted to establish a standard process via which,

- a member can be shortlisted for WEF or graduation loan,
- define possible products and their features which are best suited for the members,
- help develop various record of the member physically & digitally which can help in formalizing the informal business,
- develop a simple credit assessment guideline aligned with banking industry practice,
- establish a collection and monitoring process to ensure healthy WEF portfolio,
- design a common loan application form acceptable across banks / FI's thereby simplifying implementation,
- build on existing practices and leverage various initiatives of DAY-NRLM to capitalize on their strength,
- integrating non-financial services with loans from participating bank which will support NRLM's capacity building initiatives for its members

thereby addressing the various concerns / challenges faced by formal financial institutions (FFIs) and support the women owned micro enterprise access credit from them, thereby supporting their graduation to next level of growth.

2. Customer (SHG Members) Segments & Products

- a) Based on size & Concept of VSE
 - b) Based on Activity
 - c) Financial Products
-

Customer (SHG Members) Segmentation

SHG member segmentation in case of financing WEF is the process of dividing your target SHG members set into distinct groups of borrowers that require different financial products or services.

For the purpose of MEL, we will segment our customers (SHG members) based on either size or type of activity as accordingly their financing needs are likely to change. Village industry classification can come in handy to leverage govt. schemes and local market benefits.

a) Based on size

The traditional approach of MSME is defined based investment in plant & machinery/equipment and annual turnover. As on July 1, 2020, the same for the micro segment is:

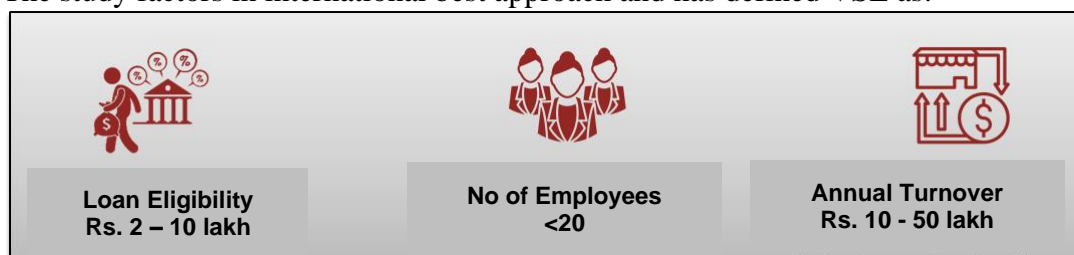
Classification	Micro
Manufacturing Enterprises and Enterprises rendering Services	Investment in Plant and Machinery or Equipment: Not more than Rs.1 crore and Annual Turnover; not more than Rs. 5 crores

As it is apparent that definition is applicable to a very broad range of micro-enterprises e.g., an enterprise with Rs 3 lacs in turnover and Rs 300 lacs in turnover are treated as same. Practically though the profile of the enterprise at two ends are vastly different. Also, the formal financial set-ups practically disregard the micro enterprises at lower end, thus leaving a vast gap in meeting their demand. An IFC study (Financing India's MSMEs– Estimation of Debt Requirement of MSMEs in India, IFC, 2018) states that formal sources cater to only 25% of the total MSME debt financing, with scheduled commercial banks accounting for more than three-fourth of such debt supply.

Concept of Very Small Enterprise VSE

While the SHG & JLG model of MFIs, Banks, FIs and SHGs supported the women entrepreneur to set up a subsistence livelihood, they find it difficult to access credit as they grow– both from SFBs / commercial banks / NBFCs as well as from MFIs / SHGs. The resulting unmet credit demand has led to such micro enterprises being referred to as the “lost middle” in MSME finance, as their requirements fall between small microfinance loans and larger-sized loans offered by banks/NBFCs. Another IFC study (Opportunities and Constraints of Women Owned Very Small Enterprises in India) conducted in 2021 identified such financing gap as: “The Missing Middle”. The same study in order to bring focus on such enterprises defined a new sub segment of micro-enterprises i.e., “Very Small Enterprise” or VSE.

The study factors in international best approach and has defined VSE as:



The study also estimated that the demand for finance from the WVSE segment to be INR 83,600 crore. Of this, ~32.5% demand is for fixed assets while the balance 67.5% is for working capital.

Further, for practical purpose the loan eligibility or the Annual turnover are key identifier for a VSE or in case of women entrepreneur WVSE.

The Financing Need

Women owned micro-enterprise's needs will change as they grow in size i.e., business turnover. From an initial support provided by NRLM's supported seed funding to SHG to linking the SHGs to bank for additional funding has helped create home-based business for most of the member participating in non-farm activity. The livelihoods had at some point started with a small funding of ~Rs.10,000 probably managing a daily sale of Rs ~500-700 which merely generated enough profit of subsistence living. Most of them were able to grow past this point with additional support from SHG funds which ranged between Rs 20,000-as high as Rs 70,000.

These home-based livelihoods are now at the threshold of converting into a micro enterprise wherein not only they help the owner to come out of poverty but also create employment for others. **These micro enterprises today have a daily turnover in the range of Rs 1,200 to 2,500 (i.e., 5-9 lacs of annual turnover) and gives it owner a profit in the range of Rs 7,000- 15,000 per month.** Since the member household puts in the manual labour, the cost of the same is not factored in arriving at the profits. Given its stage of growth these micro-enterprise now requires additional funding which is directly proportional to its size of business.

Studies have shown that larger micro-enterprises are relatively more stable and have better chances to survive in difficult environmental conditions. These enterprises will find more favourable response from the formal financial institutions too.

- **It is though recommended that WEF from formal financing focuses on micro-enterprises which have now managed to cross a turnover of at least Rs 5 lacs p.a. For the purpose of this SOP, we will use Rs 2 lacs per annum turnover as a qualifying parameter to be eligible for micro enterprise loans, given the wide range of SHGs vintage and state of financial access across diverse states of India leading to different requirements of member level ME loans SRLMs can**

themselves apply this broad range to suit their customer-beneficiary segmentation, as appropriate.

Further enterprises who are relatively larger in size and /or in rapid growth phase should be prioritized. It is expected that the entrepreneur gets the desired support from SHG as would be done by NRLM eco-system till they are able to graduate to the formal financing set-up.

The funding and services required by the micro enterprise will further depend on the type of activity that they are involved. In many cases industry too may play a role but given the micro nature of enterprise and for sake of simplicity, this note focuses only on the activity in addition to size.

It is however important to note that agriculture and animal husbandry related activities form a substantial part of the rural house-holds occupation. Most rural households are likely to have more than one source of income which may include an Agri based income and an enterprise-based income too. The existing income from any of these sources will be useful in obtaining new loan for their micro-enterprises from the FFI's and to that extent will be included in eligibility calculation for their MEL.

With niche activities involving green-house poly-sheds etc producing high quality / relatively expensive fruits and vegetables is likely to grow over time and will require to be treated separately than regular agricultural activities involving staple crops / fruits & vegetables. These activities will require relatively higher capital expenditure and will have to be evaluated in a specific manner.

Currently most banks still treat these under regular agricultural activity and are covered under agri priority sector financing needs and regulatory guidelines but over time NRLM as well as the banks will have to work towards creating a separate evaluation methodology to accommodate these activities within the umbrella of MEL-SOP.

b) Based on activity

Latest available NSSO data show that manufacturing-based micro enterprises constitute 99.7 per cent of the MSMEs while supporting 97.5 per cent of employees. The micro units account for 90.1 per cent of the MSME output and 91.9 per cent of income. A similar pattern is observed for the service-based micro enterprises that also happen to be twice as much (in number) the micro-sized manufacturers. These micro enterprises have lesser employees (typically up to 10), are started with low capital and have relatively localised market.

The NSSO data also indicates that micro-enterprises are also distinct in their asset ownership pattern where fixed assets are more dispersed between the owned and hired, with the latter accounting for around one-third. The share of hired assets is even higher for services. This could be due to two reasons, first, the ability to own capital is low, also implying that rental expenses constitute a higher share in total costs and second, greater use of hired assets indicates that capital loans for machinery and equipment may

not be sought after. It could be the case that a micro-enterprise is unwilling to invest in view of the risks associated with market uncertainties.

Broadly the activity / operations of the micro-entities can be classified in 3 categories:

- i. Manufacturing,
- ii. Trading, and
- iii. Services.

Manufacturing	Trading	Services
<p>I. Micro-enterprises such as ones involved in production of spices, ready to eat snacks, bakery and other food processing, handicraft's, soap manufacturing, Agarbatti manufacturing, manufacturing of leather goods etc for a part of this segment.</p> <p>II. These entities form a third of the overall micro-enterprise universe. These activities are characterized by ability to procure and hold raw material and process them, thereby requiring a longer time to convert raw material to cash, which require working capital.</p> <p>III. They also need equipment's which will help them in production i.e., a capital expenditure. These enterprises may require an independent funding solution which to address both their needs.</p>	<p>I. In rural areas trading has comparatively a lower presence in micro-enterprise. Mostly they are limited to selling of fruits & vegetables and home wares. Usually operated through a mobile set-up, they find it difficult to scale up given low entry barriers and low margins due to lack of value additions.</p> <p>II. In case trading micro-enterprises do manage to scale up, their financing requirements are more in terms of initial capital as the conversion of goods to cash is fast.</p> <p>III. Mostly the ones who are in manufacturing and also trade in raw material will require WEF loans which is likely to set up a store and can be assumed to be in form of capital expenditure.</p> <p>IV. These entities benefit from comparatively larger scale of purchase of raw material.</p>	<p>I. In women owned micro enterprise segment services are the most significant part of the activities as they can be performed from home and require minimal capital to start. These services are more skill dependent e.g., services such as tailoring, embroidery, catering, beauty parlour, electrical & electronics repair and maintenance etc.</p> <p>II. These entities operate initially from homes or are delivered at the consumers location.</p> <p>III. Given the nature of these activities, they usually require funds for purchase of equipment's e.g., tailoring machines etc initially and may eventually expand the operations by employing more individuals whereby they will need to set-up the operations in an independent workplace / store which too will require</p>

		financing in for of capital expenditure.
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As is evident that depending upon the nature of activity, the financing need in terms of loan amount, loan product and other financial services will differ.

In many blocks / districts which are famous for a particular commodity / product or craft e.g., pottery, natural stone-based products, leather products, specific food products such as honey, pickles, spices, aromatic oils, carpentry, embroidery etc end up creating a unique identity for themselves. Micro-enterprises in such blocks / districts can active across manufacturing, trading & services of the specific product / craft. These micro-enterprises have a relatively favourable condition in terms of creating market linkage and eventually sales.

An NRLM initiative of ‘One Location One Product (OLOP)’ is based on the same ideology and can be instrumental in supporting these micro enterprises with WEF from formal financing set-ups. The ability to create market linkage of these micro-enterprises being the key attraction for the financiers.

Ministry of MSME has created 6 different sectors as of FY2021, which are detailed in the table below. A handbook detailing the same along with ongoing central and or state governed schemes will be very useful for the frontline cadre. Over time detailed knowledge of the relevant sector can also help finetune the credit assessment methods.

Village Industry classifications as per Ministry of MSME

Sr.	Classification	Industries
1	Agro Based and Food Processing Industry (ABFPI)	<ul style="list-style-type: none"> ● Village Oil Industry ● Aromatic Oil ● Honey & Beekeeping ● Palm Gur and other Palm Products ● Fruit & Vegetable Processing Industry ● Pulses & Cereals Processing Industry ● Spices & Condiments Processing Industry ● Gur & Khandsari Industry ● Collection of Minor Forest Produce ● Bamboo, Cane & Reed Industry ● Organic Dyeing Industry ● Medicinal Plant Collection & Processing Industry
2	Mineral Based Industry (MBI)	<ul style="list-style-type: none"> ● Hand Made Pottery, Glazed & Ceramic Pottery, Pottery as Home Décor, Pottery for Food Industry ● Stone Cutting & Polishing Industry ● Ceramic Tiles Industry

		<ul style="list-style-type: none"> • Granite Cutting, Polishing, Stone Carvings, Sculptures, etc. • Brass Metal and other Metal Crafts Industry
3	Wellness & Cosmetics Industry (WCI)	<ul style="list-style-type: none"> • Wellness & Cosmetics including Soap & Oil Industry • Aromatic Oils & Fragrances Industry • Cosmetic and Beauty Products Industry • Hair Oil and Shampoos, Toiletries Industry • Bathing Soap Industry • Agarbatti Industry
4	Hand Made Paper, Leather and Plastic Industry (HMPLPI)	<ul style="list-style-type: none"> • Hand Made Paper and Paper Products Industry • Paper Conversion Industry • Leather Industry • Plastic Industry • Natural Fibre other than Coir Industry
5	Rural Engineering and New Technology Industry (RENTI)	<ul style="list-style-type: none"> • Biogas, Non-Conventional Energy, Bio-Manure, Vermi-Compost Industry • Carpentry & Blacksmith Industry • Agricultural Implements & Tools Industry • Electric & Electronic Products Industry • Dry Dairy • Household Metal Utensils & Articles Manufacturing Industry
6	Service Industry	<ul style="list-style-type: none"> • Small Business • Maintenance and Servicing of Electrical and Electronic Goods • Farm Aggregators (Pre & Post Farming)

Negative Business Segment:

While most small enterprises will have a varied range of activities which can fall across multiple industry sector // sub-sector and should an acceptable profile to FFI's, it is advised that entrepreneurs whose business falls in the below list should be avoided. It is important to note that the below list is generic and individual FFI may have additions to the same.

- Business established by encroaching government land
- Negative areas identified by partner banks, other financial institutions and SRLM's own experiences.

- Tobacco trade
- Alcohol / pubs clubs / Massage parlours
- Arms and ammunition dealers
- Speculations / lottery etc
- Individuals involved in unlawful businesses

c) Financial Products

This section helps the SRLM ground functionaries to identify the key products and their features that are likely to be applicable for ME's financing needs and are well accepted by formal financial institutions.

i.) Working Capital Facility: Working Capital is the capital which is required to carry out-day-today business activities. Working capital ensures smooth functioning of the business firm. This capital is invested in building up inventories, in financing receivable and to meet day-to-day expenses. This is ideal for rural micro-enterprises involved in manufacturing who require funding support for their day-to-day business operations.

The eligibility of working capital facility is based on cash flow and is usually calculated as – Maximum of 75% of net working capital (inventory + receivables – payables). The facility is offered as a line of credit tagged to a current account of the offering bank. This type of facility requires cheque book to use effectively and thus can be offered by banks only.

Advantages & obligations of working capital facility: In a standard working capital offering, borrower is free to utilize the facility need based and there are no fixed instalments to be paid. However, the borrower is expected to pay the interest on utilized funds on a monthly basis. This is a huge advantage compared to an instalment facility as the funds are not paid out as principal back to bank, thus ensuring that the enterprise can maximise the usage of funds. At the same tie the enterprise is not expected to pay interest on unutilized funds thereby potentially reducing the cost of borrowing. This facility comers with an annual renewal clause and is subject to approval the facility will be extended for the next year. The borrower will be required to submit their stocks & receivables data periodically.

Likely challenges for micro-enterprise borrowers: The need of submitting additional data at regular frequency can be a challenge for informal micro-enterprises. Further in case of stock statement not meeting the required criteria, the bank may reduce or recall the facility. This can be a huge challenge and may even lead to default or failure of the enterprise if not managed well. Further such debt usually is rarely repaid thereby keeping the enterprise perpetually in debt.

ii.) Term Loan Facility: A term loan is the simplest form of financing that all formal financial institution extends to its borrower. Ideal for capital expenditure, while term loan is also offered to meet working capital requirements. Usually, term loan will come with a specific end use.

Advantages & obligation of a term loan facility: Term loans which usually comes with a fixed instalments to be paid at a regular frequency makes it easy for the micro-enterprise to plan the repayment and eventually over time fully repay the debt.

Likely challenges for micro-enterprise borrowers: The regular repayment of term loans withdraws cash from the system which otherwise could have been used for business growth. Any delay or default in paying even a single instalment will negatively impact credit score of the enterprise.

iii)A hybrid structure: While not a standard finance product a loan which is a combination of two i.e., working capital loan and term loan can be an ideal financing structure for meeting working capital requirements of a microenterprise. This can be a win-win for both the enterprise and the bank.

It has been observed that Banks tend to give term loans even when the requirement is that of working capital as a practice. This is due to the fact that TLs are easy to manage for both banks and at times for the ME too. This hybrid structure is being advised to ensure that the ME is able to access a portion of loan (~25%) as working capital i.e., loading credit facility on a current account and issuing a cheque book and over time as banks gain confidence, they will enhance the credit facility linked to current account which will ensure a continuous flow of funds to the ME. For this portion of working capital financing, need is to service interest only on the portion of loan structured as working capital which will also support the MEs in low business seasons. However, for the balance 75% of the financing under Term Loan, same provisions will apply as covered under point i) above.

3. Business Loan Eligibility

- a) SHG member selection Criteria and Eligibility
 - b) SHG member Assessment Method
 - c) Identifying Source of Funds (Internal & External)
-

1. For Loans up to Rs 200,000/- (~90-95 % of WEF are likely to fall under this segment)

a) SHG member Selection Criteria and Eligibility

The following norms will have to be met for a SHG member to be eligible to be a borrower under the Micro Enterprise Lending from a formal financial institution:

SHG Vintage	<ul style="list-style-type: none"> • Successfully completed at least 1 cycle of SHG loan from Bank and vintage of 2 years. • Vintage should be calculated from the date of the 1st bank linkage.
Member Vintage in SHG	<ul style="list-style-type: none"> • Serviced at least 1 loan cycle and vintage of 2 years
Minimum Loan amount serviced by member in SHG	<ul style="list-style-type: none"> • Last loan serviced is at least Rs. 25,000. This number can be adjusted higher at state level by SRLM's if required in consultation with NRLM. • Amount can be cumulative in case of SVEP/OSF and SHG running in parallel
Business Vintage (Years of experience in same business)	<ul style="list-style-type: none"> • > 75,000 & <= 2,00,000: 2 years
Constitution of the applicant	<ul style="list-style-type: none"> • Individual • Proprietorship Firm
Co Applicant's Profile	<ul style="list-style-type: none"> • In case of individual & proprietorship, no co-applicant is required • In case the husband is the primary borrower, then his wife should become the co-applicant. However, women led entrepreneurs are priority.
3 rd Party Guarantor	<ul style="list-style-type: none"> • No 3rd party guarantor is required
Applicant/Co-applicant age	<ul style="list-style-type: none"> • Minimum Age- 21 years at the time of loan application • Maximum Age- 60 years at the end of the loan tenure.
Bureau Track Record (external loan)	<ul style="list-style-type: none"> • Never 60 DPD* in the last 12 months, never 90 DPD* in last 24 months and current at the time of lending – this is

	<p>applicable for applicant and co-applicant</p> <ul style="list-style-type: none"> Suggested Bureau score (e.g., CIBIL) 650 is the entry cut-off or with 0/-1 (or similar terms) as score in case of no credit history with credit bureau's
SHG and SVEP track record	<ul style="list-style-type: none"> Satisfactory track record certified by SHG, VO, & CLF for SHG and SVEP/OSF-CEF loans (all payments due made during the month and not overdue at the time of application).
Debt burden Ratio (DBR)	<ul style="list-style-type: none"> Loans between 75,000 – 2,00,000 – 60%
Debt as % of Net worth	<ul style="list-style-type: none"> Loans between 75,000 – 2,00,000 – 60%
Loan Eligibility	<ul style="list-style-type: none"> Loans up to Rs. 2,00,000 – as per DBR**

* Days Past Due – loan instalment overdue from the due date

** Debt Burden Ratio - debt that a person can service on a monthly/annual basis as % of their net income (income minus expenses)

b) SHG member Assessment Method

SHG member credit Assessment will include the following steps

SHG/SVEP/OSF-CEF track record confirmation (to be certified by SHG, VO, CLF) – Applicable to size of loans	<ul style="list-style-type: none"> Number of loans taken Maximum loan amount serviced Vintage since initial loan Repayment track for last 12 months
Bureau Track record (for a period last 24 months) - Applicable to size of loans	<ul style="list-style-type: none"> Overdue amount and DPD
For Loans Rs. 75,000 – Rs. 2,00,000	<ul style="list-style-type: none"> Current Business Cash flow analysis* Current Household Cash flow analysis**
Verification at site	<ul style="list-style-type: none"> Place of work (home based/shop/factory) Evidence of stock (raw material or finished goods) – manufacturing/trading Key Supplier check (mandatory) Key Buyer check (B2B) Business Vintage (neighbourhood check)
SHG member Discussion	<ul style="list-style-type: none"> Input for cash flow Loan amount and end use validation SHG/SVEP/OSF repayment clarification

	<ul style="list-style-type: none"> • Bureau repayment clarification
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* Business cash flow analysis – take into account cash inflow (income) and outflow (expense) of business only

** Household cash flow analysis - take into account cash inflow(income) and outflow(expense) of both business and household

2. For loans greater than Rs 200,000-(~5-10 % of WEF are likely to fall under this segment)

a) SHG member Selection Criteria and Eligibility

The following norms will have to be met for a SHG member to be eligible to be a borrower under the Micro Enterprise Lending from a formal financial institution:

SHG Vintage	<ul style="list-style-type: none"> • Successfully completed at least 2 cycles of SHG loan from Bank, or at least 6 months into 2nd cycle and vintage of 3 years. • Vintage should be calculated based on the 1st bank linkage date.
Member Vintage in SHG	<ul style="list-style-type: none"> • Serviced at least 2 loan cycles from SHG • Vintage of 3 years
Minimum Loan amount serviced by member in SHG	<ul style="list-style-type: none"> • Last loan serviced is at least Rs. 40,000 • Amount can be cumulative in case of SVEP/OSF and SHG running in parallel
Business Vintage (Years of experience in same business)	<ul style="list-style-type: none"> • Minimum 3 years
Constitution of the applicant	<ul style="list-style-type: none"> • Individual • Proprietorship Firm • Partnership Firm • Private Limited Companies • Association of persons
Co Applicant's Profile	<ul style="list-style-type: none"> • In case of individual & proprietorship, no co-applicant is required • Managing Partner in case of partnership (51% stakeholders) • Owner director in case of private limited companies (51% stakeholder)

	<ul style="list-style-type: none"> In case the husband is the primary borrower, then his wife should become the co-applicant. However, women led entrepreneurs are priority.
3 rd Party Guarantor	No 3 rd party guarantor is required
Applicant/Co-applicant age	<ul style="list-style-type: none"> Minimum Age- 21 years at the time of loan application Maximum Age- 60 years at the end of the loan tenure
Bureau Track Record (external loan)	<ul style="list-style-type: none"> Never 60 DPD* in the last 12 months, never 90 DPD* in last 24 months and current at the time of lending – this is applicable for applicant and co-applicant Bureau score (e.g., CIBIL) 650 is the entry cut-off or with 0/-1 (or similar terms) as score in case of no credit history with credit bureau's
SHG and SVEP track record	<ul style="list-style-type: none"> Satisfactory track record certified by SHG, VO, & CLF for SHG and SVEP/OSF loans
Debt service coverage ratio (DSCR) (only for Term Loans)	<ul style="list-style-type: none"> Loans between 2,00,000 – 5,00,000 – 1.5 times
Interest coverage ratio (ICR) (Only for working Capital loans)	<ul style="list-style-type: none"> Loans between 2,00,000 – 5,00,000 – 2 times
Current Ratio (CR)	<ul style="list-style-type: none"> Loans between 2,00,000 – 5,00,000 – 1.33 times
Total Outside liabilities to total net worth (TOL/TNW)	<ul style="list-style-type: none"> Loans between 2,00,000 – 5,00,000 – 3 times Loans between 5,00,000 – 10,00,000 – 4 times
Working Capital Cycle	<ul style="list-style-type: none"> Max 90 Days
Loan Eligibility	<ul style="list-style-type: none"> For working Capital – 75% of working capital gap For Fixed asset – 75% of the value of the purchase price of the asset Subject to meeting other selection criteria

Additional checks / parameters for > Rs 5,00,000/- loans.

Cash flow from operations (CFO)	<ul style="list-style-type: none"> For loans > Rs. 5,00,000 – +ve positive
Average Bank Balance to EMI	<ul style="list-style-type: none"> Loans between 5,00,000 – 10,00,000 – 1.5 times

Sales thru put through bank (including cash deposit)	<ul style="list-style-type: none"> Loans between 5,00,000 – 10,00,000 – 33%
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* Days past due – loan instalment overdue from the due date

b) SHG member Assessment Method

SHG member credit Assessment will include the following steps

SHG/SVEP/OSF-CEF track record confirmation (to be certified by SHG, VO, CLF) – Applicable to size of loans	<ul style="list-style-type: none"> Number of loans taken Maximum loan amount serviced Vintage since initial loan Repayment track for last 18 months
Bureau Track record (for a period last 24 months) - Applicable to size of loans	<ul style="list-style-type: none"> Overdue amount and DPD
For Loans Rs. 2,00,000 – Rs. 5,00,000	<ul style="list-style-type: none"> Last year, Current and projected 2 years business profit & loss and balance sheet analysis Detailed Ratio Analysis (refer section 4 – Underwriting process - basic financial analysis)
For Loans Rs. 5,00,000 – Rs. 10,00,000	<ul style="list-style-type: none"> Last 2 years, Current and projected 2 years business profit & loss and balance sheet analysis Detailed Ratio Analysis (refer section 4 – Underwriting process - basic financial analysis) Cash flow from operations
Banking Analysis (for last 6 months) > 5,00,000 loans	<ul style="list-style-type: none"> Total credits and Debits for the month for last 6 months Average bank balance (5th, 10th, 15th, 20th, 25th) Banking credits to turnover Loan disbursement and repayments Cheque bounce history - number of cheques, Total value, Min value & Maximum Value.
Financial Analysis - 1 year for working capital and for full term for capex loans (refer section 4 – Underwriting process - basic financial analysis)	<ul style="list-style-type: none"> Sales Growth Operating Margins (EBITDA) Profitability growth Debt to Equity Ratio(Leverage)*** Working Capital Cycle****
Verification at site	<ul style="list-style-type: none"> Place of work (home based/shop/factory) Evidence of stock (raw material or finished goods) – manufacturing/trading Key Supplier check (mandatory)

	<ul style="list-style-type: none"> • Key Buyer check (B2B) • Business Vintage (neighbourhood check)
SHG member Discussion	<ul style="list-style-type: none"> • Input for financial analysis • Loan amount and end use validation • SHG/SVEP/OSF repayment clarification • Bureau repayment clarification • Banking transaction clarification

*** Leverage – extent of debt carried in proportion of borrower equity in business

**** Working capital cycle is the time it takes to convert net current assets (stock + debtors - creditors) into cash.

d) Identifying Sources of Funds

Internal Sources of Funds

- i. The first step to achieve this is by accessing and finalizing the quantum of funds required for the ME as detailed in earlier sections.
- ii. NRLM's various initiatives are focussed on capacity building and providing financial support to its SHG members. Given that there are multiple financing options available, Vitta Sakhi needs to consider fulfilling entrepreneur's funding requirement within SRLM's existing eco-system. Vitta Sakhi should explore the following internal sources:
 - a. Encourage SHG to lend more to the member /ME – Vitta Sakhi can support this by analysing the ME based on this SOP and sharing its outcome with the SHG leaders which will give SHG comfort to approach CIF for additional funds or draw unused bank lines. This will ensure that SHG has complete control on the ME's financing activities and that ME is supported to best of SHG's ability. It is expected that an overall need of up to Rs 75,000/- should be addressed by the Community Based Organisations (CBOs) promoted by SRLMs if possible.
 - b. Once the options of additional funding from SHG have been exhausted, Vitta Sakhi based on her analysis of ME can advise the member to approach other SRLM initiatives active in the locality e.g., SVEP / NRETPs CEF etc. Vitta Sakhi should support the member in complying with the norms and getting funds disbursed. In this role Vitta Sakhi is likely to overlap as a CRP-EP too.

External Sources of Funds

Once all internal sources of funds have been exhausted, member has to be advised to access external funds i.e., formal financing options. Member with support from Vitta Sakhi needs to understand the associated asks and be agreeable for the same. Member & Vitta Sakhi needs to keep the SHG / VO & CLF in loop while approaching the formal financing institutions who have tied up with NRLM for MEL.

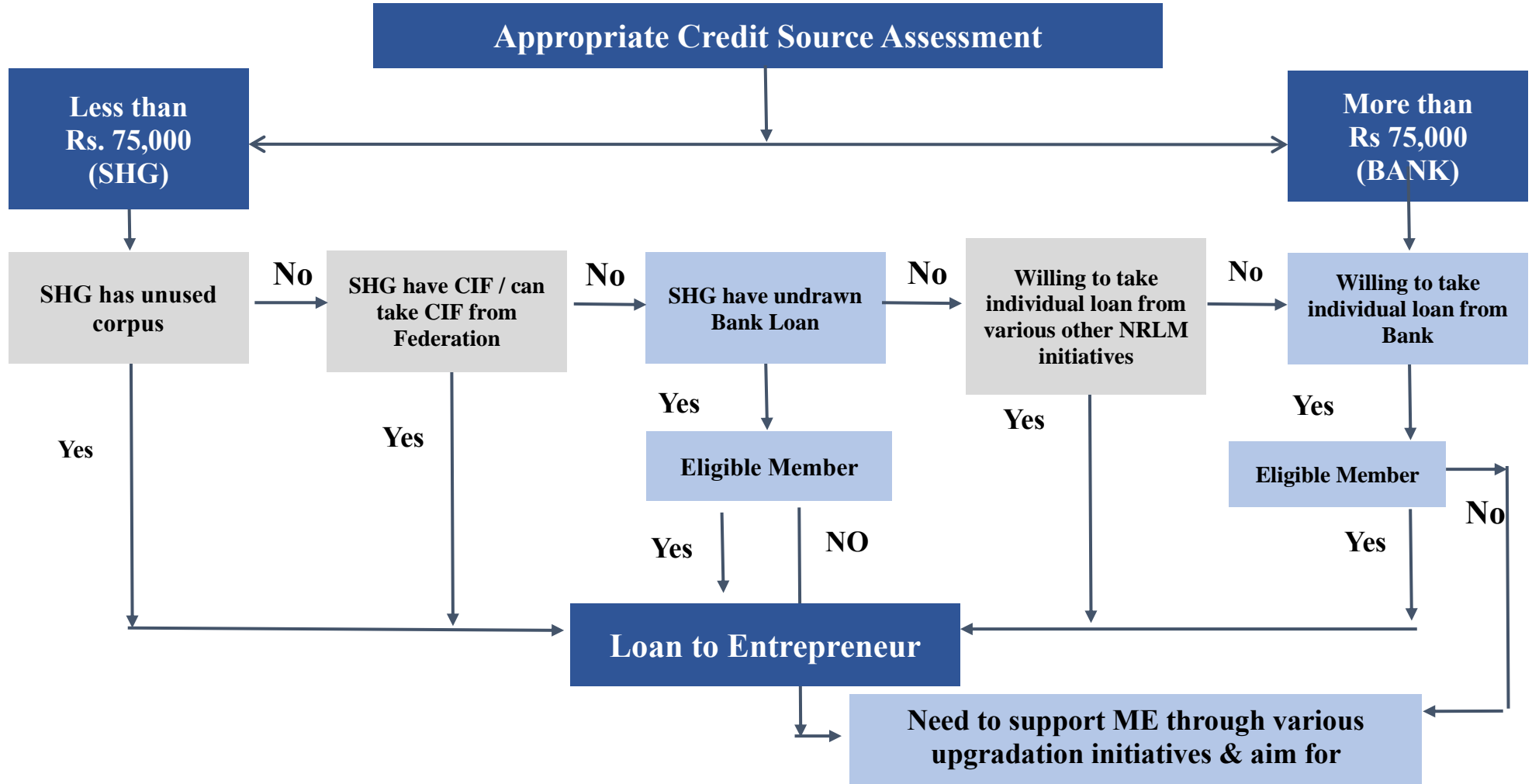
Vitta Sakhi, based on her experience with the partner formal financial institutions (FFIs) will select the most appropriate one (factors like ME's type of business, proximity to ME loan quantum, FFI's TAT, pricing and charges, guidance from CLF / mentor based on existing relations of CBOs and SRLM) and proceed to prepare the proposal. The ME analysis stated in this SOP will act as a guidance for the same.

Once the ME has been introduced to formal financing set-up, its future growth financing will be then addressed by the formal financial institutions on an ongoing basis.

Overall aim is to ensure that ME is adequately funded via internal & external sources till such time it has established a strong relationship with its formal financial institutions and can manage its future growth / sustainability requirement on its own.

Sources of Funds: Process flow

The flow chart below exhibits the process that a Vitta Sakhi should follow to help the entrepreneur to access funds for her micro enterprise (ME).



4. Underwriting Process

- a) Credit Bureau Check
 - b) Basic Financial Analysis
 - c) Expert Credit Scoring Model
-

a) Credit Bureau Check

A credit bureau is a company that collects and maintains individual & entities credit information across multiple parameters and sells it to lenders, creditors, and consumers in the form of a credit report.

The credit bureau's do more than just compile and report consumer credit information. They also provide dozens of solutions that help businesses make better decisions.

Types of Information the Credit Bureaus Collect include key data points like:

- The time someone takes their first credit
- Repayment history
- The amount of credit availed
- The amount of credit utilized
- Outstanding debt collections
- Details on public records like bankruptcy, tax liens, foreclosure, and repossession.

Credit bureaus may also maintain non-credit information about an individual including their current and previous addresses, current and previous employers, date of birth, and salary information if it's available

Sources of information for a credit bureau in India and other developed countries.

List of sources and individual level information for India

Entities	Individual level info collected
Private Commercial banks	Name of Individual
Public Commercial Banks	Address
Development Banks and Institutions	DOB
Micro Finance Institutions	Tax Payer ID
Non Banking Finance Companies (NBFCs)	Ownership of Business
Credit Card Issuers	Bad Checklist
Firms Providing Loans / trade creditors	Credit enquiries from other lenders
Other Credit Bureaus	

List of additional sources and individual level information for developed countries

Entities	Individual level info collected
Credit Unions/ Cooperatives	National ID
Retailers	Individual Income and other financial info
Utilities Providers	Tax Statement
Employers	Utility payments records
Courts	Bankruptcies
Statistical Agencies	Court Judgement
Other Sources of Importance	Gender
	Others

Some of the benefits to a borrower because of credit bureau:

- i. Competition in the credit market is enhanced as positive information on customers, which is usually not shared, also becomes available to other lenders, thereby also benefiting the better borrowers who get competitive offers.
- ii. Information sharing assists the formal financial institutions in screening of borrowers as well as monitoring of credit risks. This reduces cost of intermediation and allows banks to effectively price, target, and monitor loans thereby benefiting borrowers.
- iii. In many cases formal financial institutions incentivise borrowers to maintain a good credit record, thus leading to a reduction of NPAs / better quality of credit portfolio for them.

List of credit bureau in India are:

- I. Transunion CIBIL : www.cibil.com
- II. CRIF Highmark : www.crifhighmark.com
- III. Equifax : www.equifax.com
- IV. Experian : www.experian.in

b) Basic Financial Analysis

(i) Loans > Rs. 75000 & <= Rs. 2,00,000

Current business cash flow will be prepared along with the household income, household expense and household liability.

- Business income
- Business expense – purchase, rent, electricity, transport, salary
- Other Household income (agriculture, salary, rent etc)
- Household expense – rent, electricity, telephone, transport, food & clothing
- Any loan liability (SHG, SVEP, & external for self)

Disposable cash in hand will be calculated (business income + other income – business expense – household expense) and **60% debt burden ratio** will be calculated. Any loan liability will be deducted, and balance is available for WEF EMI repayment. Based on the tenure & the rate of interest, the loan amount is calculated.

Please note that the cash flow is made based on the personal discussion with the client by the Vitta Sakhi and validated by the mentor. If the SHG member is an



existing borrower of SVEP, sales can be validated from her records maintained for SVEP loans.

Also, a simplified balance sheet will be prepared based on the personal discussion with the borrower.

In the balance sheet, aspects like

- Assets - fixed asset (at cost), current asset (debtors, stock, cash in hand/bank), investment (at cost)
- Liability – Creditors for purchase & expenses, Loans outstanding. Net worth will be balancing figure (Assets – loans & creditors)

A few basic ratios will be calculated to check on key financial metrics

- Working capital gap = Debtors (money that ME expects to receive based on sales made on credit) + stock (value of usable stock that ME holds) – creditors (Money that ME is expected to pay for various purchases & services it has purchased on credit)
- Debt as % of net worth (including fresh debt) and Debt burden ratio.

(ii) Loans > Rs. 2,00,000 & <= Rs. 5,00,000

For loans > Rs. 2,00,000 & <= Rs. 5,00,000 **Profit & Loss account, Balance sheet and detailed Ratio analysis will be done. Profit and Loss account, balance sheet and cash flow** will capture only business-related details.

For working capital requirement, one-year projected profit and loss account & balance sheet is required. For term loan requirement, projected profit and loss account & balance sheet is required for the whole term of the loan. Current year financials are to be provided.

Profit and loss account will capture the following elements

- Income from operations
- Purchases (Raw material, consumables, ready stock)
- Manufacturing expenses
- Wages
- Gross Profit
- Administrative expense (rent, salary, utilities, insurance)
- Selling and distribution expense (commission, transport)
- Profit before interest, depreciation and tax
- Depreciation of fixed assets
- Interest expenses
- Profit before tax

- Tax on income
- Profit after tax

In the balance sheet, further detailing needs to be provided for

Liability side of the balance sheet

- Equity and reserve and surplus
- Loans – term and revolving credit
- Loans from family
- Provisions for taxation

Asset side of the balance sheet

- Depreciation of fixed assets
- Debtors < & > 6 months
- Loans and advances (others and family/partner)

Ratio's analysis will include

- Current Ratio (CR) - The current ratio measures the capability of a business to meet its short-term obligations that are due within a year. The ratio considers the weight of total current assets versus total current liabilities.
- Total outside liability and Total net worth - Total outside liability and Total net worth is a leverage ratio that calculates the weight of total term debt and other financial liabilities (current) against firm's net worth (equity plus reserves)
- Net profit margin (NPM) - Net Profit Margin is used to calculate the percentage of profit a firm produces from its total revenue. It measures the amount of net profit a company obtains per rupee of revenue gained
- Interest coverage ratio (ICR) - The Interest Coverage Ratio is used to determine how well a firm can pay the interest on its outstanding debts. The interest coverage ratio is used by lenders, creditors, and investors to determine the riskiness of lending capital to a company.
- Debt service coverage ratio (DSCR) - The Debt Service Coverage Ratio measures the ability of a firm to use its operating income to repay all its debt obligations, including repayment of principal and interest on both short-term and long-term debt.
- EBITDA margin - EBITDA margin is a profitability ratio that measures how much in earnings a company is generating before interest, taxes, depreciation, and amortization, as a percentage of revenue.
- Working capital cycle - The Working Capital Cycle for a business is the length of time it takes to convert the total net working capital (current assets less current liabilities) into cash.

(iii) Loans > Rs. 5,00,000 & <= Rs. 10,00,000

In addition to the profit and loss statement and balance sheet mentioned for loans > Rs. 2,00,000 & <= Rs. 5,00,000, a Cash Flow statement will be done. Detailed Ratio analysis will be done. Bank statement will be required for validation of business income and expense throughout in the account

For working capital requirement, one-year projected profit and loss account & balance sheet is required. For term loan requirement, projected profit and loss account & balance sheet is required for the whole term of the loan. Past 2 years profit & loss account and balance sheet need to be provided too. Current year financials are to be provided.

Aspects covered under profit and loss, balance sheet and bank statement analysis are similar for loans > Rs. 2,00,000 & <= Rs. 5,00,000.

A few more financial ratios will be added

- Return on capital employed - Return on Capital Employed (ROCE), a profitability ratio, measures how efficiently a company is using its capital to generate profits.
- Return on equity - The Return on Equity (ROE) ratio refers to the return that common equity investors receive on their investment. This is usually assessed for loans of Rs 5 lacs & above by some FFI's
- Return on assets - Return on Assets (ROA) measures the profitability of a business in relation to its total assets. This ratio indicates how well a company is performing by comparing the profit it's generating to the capital it has invested in assets.

From the bank statement following aspects will be analysed

- Total credits and Debits for the month
- Average bank balance (5th, 10th, 15th, 20th 25th)
- Banking credits to turnover
- Cheque bounces
- Loan disbursement and repayments

In the cash flow statement, the following aspects will be captured

- Cash flow from operations - Cash flow from operations represents the amount of cash a company generates (or consumes) from carrying out its operating activities over a period of time. Operating activities include generating revenue, paying expenses, and funding working capital.

c) Expert Score Card



Credit scoring is a statistical method used to predict the probability that a loan applicant, existing borrower, or counterparty will default or become delinquent. It provides an estimate of the probability of default or delinquency. Credit scores provide an indication of creditworthiness. Financial institution may use credit scoring in risk-based pricing in which the terms of a loan, including the interest rate offered to borrowers, are based on the credit risk of the borrower. The main advantage of a credit score is that it is a quick, consistent and effective way for financial institutions to be able to decide on an applicant's eligibility for a loan.

The data used for credit scoring would include demographics, past credit behaviour, financial information and alternate data (social media interaction, mobile data, online transaction data, geo location etc).

A credit scorecard is created by looking at data on past loans that the institution has made so that it can extrapolate its experience of past loans to future consumers. To do this, they first need to classify consumers as either "good" or "bad", and an analysis is carried out to explore and extract a set of characteristics that makes a borrower "good" or "bad". However, to develop a statistical scorecard, there needs to be enough bad customer data points (1500-2000) over a period of time. In absence of such data, an expert-based model is developed.

The expert scorecard is a most basic credit scorecard. It is a scorecard made with inputs from an expert. People with years of experience in lending and credit appraisal make a list of characteristics to check and score for any borrower applying for the loan. This is a manual process that relies on the personal experience of seasoned loan officers, credit managers and of the underwriting team.

The scorecard structure will have the following (illustrative)

- a) Categories – There are 2 main categories – Qualitative (Non-financial) and Quantitative (Financial) parameters
- b) Characteristics – There are different characteristics related to the categories e.g., age, business vintage
- c) Attributes – These are different ranges within a given characteristics which carry different weights (e.g., age – 21-25, 35-45; business vintage - < 3 years, 3-5 years etc)
- d) Weights – Weights are values given to an attribute which represent its relative importance to other attributes within a characteristic. Weights vary depending on number and importance of variables (e.g., Min- 2.5%, Max – 20%)
- e) Score Bands - A scale score band is adopted for the different weights (e.g., 1 being the lowest score and 5 being the highest score for an attribute)

Based on the above a 3 (high, medium, low) or 5 (very low, low, medium, high, very high) scale risk category can be created for a particular band of scores.

A sample Expert Score Card is attached in the annexure for reference.

Using the credit scorecard.

- I. At the inception, all the relevant information should be captured in the credit approval memo. Quality of data information captured has to be good.
- II. From the credit approval memo, data for different characteristics needs to be extracted and imputed into the rating sheet
- III. Credit analyst has to assign score in the in the input score column corresponding to relevant attribute. In case of quantitative characteristics, it is as per exact value while in case of qualitative characteristics, the attribute which matches to the closest description.
- IV. After assigning all the values in the rating sheet, the rating sheet will automatically give the final rating output in numerical value which will represent one of the different risk categories.
- V. Based on the risk appetite, the score cut off can be selected for approval or rejection
- VI. Based on the scores and risk category, the loan amount can be decided.

Financial Institution can decide on scores and risk category cut-off for lending (with or without deviation) and rejection. The financial institution can do a parallel run for a few months and once comfortable then the scorecard can used as underwriting tool for credit decision.

Going forward, the repayment data for the customers must be mapped for next 12 months with scores so that the scorecard can be calibrated if required.

It is imperative that proper data from application form and credit approval memo is captured in the system on an on-going basis. Based on these data capture and repayment track record, a data driven model can be developed in 18-24 months.

This score card should be filled by mentors in discussion with banks if required.

5. Loan Documentation requirement

- a) Loan application Form & KYC Requirements
 - b) Basic Documentations
 - c) Legal Documentation
-

a) Basic Documentation

There are a set of documentation that is required for a loan application for MEL.

1. Loan Application form*

Every financial institution will have a loan application form for MSME lending. The application form will capture the following information at a minimum

- Business Information
 - Name, address, constitution, contact details, business activity – current/proposed, date of commencement, registration if any
- Background of promoter/entrepreneur
 - Name, address, date of birth/age, gender, qualification, relevant experience, ID/address proof
- Existing banking/credit facilities
 - Savings/current account, loans – term/revolving, non-fund (BG/LC), outstanding, account classification, collateral provided
- Credit facilities requested
 - Term loan, Working Capital facility or a hybrid loan, purpose, amount, primary security value
- Past performance and Future Estimates**
 - Sales/Turnover, Net profit, Total Asset, Net worth
- Others – regulatory compliances, associate companies etc.
 - Licensing, registration, tax filings, audit report
 - Any associate/group entity, type of business, name, address, extent of interest of promoter/entrepreneur

* Draft application form aligned to MUDRA for loans up to 2 lacs and for loans > 2 lacs attached in Annexure (b) for reference

**Draft Business Appraisal / Planning template attached in Annexure (c)

2. Know Your Customer (KYC) documentation

KYC check is the mandatory process of identifying and verifying the SHG member identity at the time account opening or loan disbursement. Financial institutions must make sure that their customers are genuinely who they claim to be.

KYC documents are mainly identification and address proof of the customer. There is now no requirement of submitting two separate documents for proof of identity and proof of address.

Officially valid documents (OVDs) for KYC purpose include Passport, driving licence, voters' ID card, PAN card, Aadhaar letter issued by UIDAI, and Job Card issued by NREGA signed by a State Government official.

The information containing personal details like name, address, age, gender, etc., and photographs made available from UIDAI as a result of e-KYC process can also be treated as an ‘Officially Valid Document’.

3. Business Identity, Address Proof and other documents

For the business identity and address proof, the following documents are required based on the constitution of the business entity. While multiple options are provided, endeavour should be to get a single document for individual KYC for cover both identity and address proof (e.g., Aadhaar)

- Proprietorship
 - Permanent account number (PAN)
 - Aadhaar
 - Any other identity and address proof as mentioned above
 - Rent lease agreement
 - GST number (if applicable)
 - Udyam Registration
 - Utility bill in the name of ME
- Partnership
 - PAN card of firm
 - Address Proof of firm - Utility Bills (electricity, water and landline telephone bills)
 - Identity and address proof of partners
 - Partnership deed (registration not mandatory but desirable)
 - Authorisation letter on the letterhead of the firm authorising a partner for executing loan documentation
 - GST number
 - Udyami Registration
- Company
 - Company PAN
 - Certificate of incorporation
 - Certificate of commencement
 - Memorandum and Article of Association
 - Address Proof of company - Utility Bills (electricity, water and landline telephone bills)
 - List of directors
 - Shareholding pattern
 - Board resolution for borrowing
 - Rent/lease agreement
 - GST number

4. Financial documents (for loans > Rs. 2,00,000)

Financial documents would include bank statements, tax returns, financial statements (unaudited or audited), projections. The requirement would vary by size of loan amount

- Bank statement (savings or current) for last 6 months
- Profit & Loss account, Balance sheet and Cash flow statement – past year and projections (one year for working capital and number of years as per the term loan)
- Income tax returns (where applicable)
- GST returns (where applicable)
- Tax audit reports (where applicable)

5. Other documents

- Photographs of Proprietor, Partner and Director (authorised signatory)
- Proof of minority (SC/ST/OBC)
- Proforma invoice in case of purchase of capital assets

b) Loan Documentation

Post loan approval, loan documentation has to be executed between the borrower and the bank.

- Facility sanction letter
 - A loan sanction letter is issued by the lender that stating applicant loan request is approved. It is issued after completing the loan sanction process and before the final loan agreement is provided
- Loan agreement
 - A Loan Agreement is a contract that documents a financial agreement between two parties, where one is the lender, and the other is the borrower. This contract specifies the amount of the loan, any interest charges, the repayment plan, and payment dates
- Demand promissory note
 - A Promissory Note is a financial instrument which binds the borrowers by law to pay the lender the specified sum of money at a specified date or on demand. Promissory Notes are negotiable instruments issued under the Negotiable Instruments Act
- Deed of personal guarantee
 - A Deed of Guarantee is a document where one person agrees to be responsible for borrower loan obligations if the borrower fails to carry out his own obligations. It is usually used when a lender has reservations about the ability of a borrower to repay instalments and requires another, usually more financially secure person, to guarantee the loan.
- Power of attorney
 - A power of attorney is a legal document that allows an individual to give authorities to another individual to act on their behalf.

- Board resolution/Partnership authority
 - Whenever a company raises loans from the bank, the Board of Directors must execute a Board Resolution for availing the loan and mortgaging any asset of the company, if required as per the loan agreement. Same is done by a partnership firm through an authority letter.
- Hypothecation agreement for machinery/equipment financing
 - Hypothecation occurs when an asset is pledged as collateral to secure a loan. The owner of the asset does not give up title, possession, or ownership rights. However, the lender can seize the asset if the terms of the agreement are not met.
- Registration of charge for corporate borrowers
 - A charge is a right created by any person including a company referred to as the borrower on its assets and properties, present and future, in favour of a financial institution or a bank, which has agreed to extend financial assistance.

6. Origination & Disbursal process with roles and responsibility

- a) WEF Implementation Process
 - b) Role of SRLM & key State Level WEF Functionaries
 - c) Role of Vitta Sakhi
 - d) Role of Mentor
 - e) Role of SHG / VO / CLF
 - f) Role of Formal Financial Institutions (FFIs)
-

a) WEF Implementation Process

Any state desirous of implementing WEF should have at least 5,000 SHG members who have been supported for setting up an enterprise through internal sources. Based on recent data, the following states already have more than 5,000 members enterprises who were provided financial support i.e. Bihar, West Bengal, Kerala, Andhra Pradesh, Jharkhand, Uttar Pradesh, Odisha, Tamil Nadu, Maharashtra, Karnataka, Assam, Madhya Pradesh, Chhattisgarh, Punjab, Rajasthan, Gujarat And Jammu & Kashmir. The WEF process will draw on the experiences of NRLM in its various initiatives. This will make it easier to implement while leveraging on the various strengths. The core structure of WEF will be retained as is i.e., CLF-VO-SHG supported by SRLM functionaries. The front-line cadre too will continue to be that of Vitta Sakhi's and mentors.

The first step of implementing WEF is identifying the block and establishing the infrastructure for WEF as per the process flow below:



The boxes coloured in:

- **YELLOW** i.e., Sr no, 1,3,5,6,7,9 are joint responsibility of District and Block office; **BLUE** i.e., serial no 2,4 & 8 are primary responsibility of the SRLM District Office.
- **GREEN** i.e., serial no 10 is primary responsibility block level functionaries,
- **BROWN** i.e., serial no 15 to 16 are that of Vitta Sakhi's and the ones coloured in **GREY** i.e., serial no 11 to 14 are joint responsibility of Vitta Sakhi and Block office. Detailed roles of front-line carder various & stake holders (SRLM, Block Office, CLF, VO, SHG) are in the following sections.

b) Role of SRLM and is key functionaries

- I. At a state level, identify a State Project Manager (SPM) -FI or personnel holding similar responsibility who will be overall in charge for implementing WEF interventions in respective state as described in this section. Key roles of a SPM would include:
 - Responsible for roll out of WEF program in all selected districts across the state
 - Responsible to help identify and co-ordinate with state District Project Manager and act as a liaison between the DM and NRLM.
 - Responsible for participating and helping organize all processes of WEF as detailed in this section
 - Responsible for establishing bank linkages for WEF with SLBC and manage state level relationships with Formal Financial Institution's
 - Responsible for adherence of all norms, administrative processes, managing MIS etc and delivering agreed targets for the State.
 - Responsible for trouble shooting / resolving issues which impact implementation.
 - SRLM representation is a must in all orientation / training processes.

- II. At a district level identify a District Manager (DM) -FI or personnel holding similar responsibility who will be overall in charge for implementing and managing WEF interventions in respective districts. Administratively, DM will report into District Project Manager (DPM) and will work closely with SPM-FI. Key roles of a DM would include:
 - Responsible for roll out of WEF program in all selected blocks
 - Responsible to co-ordinate with state Project Manager and act as a liaison between the SPM and the BPIU.
 - Responsible for participating and helping organize all processes of WEF as detailed in this section including the various orientation & training camps.
 - Responsible for co-ordinating with participating FFI's for WEF financing to members to ensure smooth operation without any gaps in understanding.
 - Responsible for adherence of all norms, administrative processes, managing MIS etc as stated in the later section in this SOP and delivering agreed targets for the district.

- Responsible for creating and operationalize a course correction mechanism and processes for documentation and sharing best practices
- Responsible to help in continuous upgradation of capacity building modules for mentors and Vitta Sakhi's

III. At a block level, the block project manager (BPM) or personnel holding similar responsibility will be overall in charge of implementing and managing WEF interventions in respective blocks. Administratively, BPM will report to District Project Manager (DPM) and will work in close co-ordination with DM-FI. Key roles of a BPM will include:

- 1) Responsible for roll out of WEF program in respective block
- 2) Responsible for co-ordination with DM-FI and mentors and act as a liaison between the district team, CLFs, OSF (wherever available) and Vitta Sakhi.
- 3) Responsible for participation and help organize all processes of WEF as detailed in this section including the various orientation & training camps.
- 4) Responsible for co-ordinating with participating bank branches at block level for WEF financing
- 5) Responsible for adherence of all norms, administrative processes, upkeep of MIS etc and delivering agreed targets for the block
- 6) Responsible to arrange and manage the awareness sessions, capacity building sessions, promotional events and other community-based events held at block level
- 7) Responsible to monitor Vitta Sakhi's performance and provide her timely guidance and support for successful program implementation
- 8) Block level staff's involvement in each WEF being proposed to the bank is mandatory.
- 9) Responsible for periodic interaction with SHG members and selected WEF beneficiaries to ensure knowledge building and timely support
- 10) Responsible to track and monitor collection and portfolio performance of the selected WEF beneficiaries

IV. State Project Manager along with its District Managers will identify the key blocks that will be promoted for micro-enterprise loans. The identification process among other points should include the following considerations:

- 1) At Block level: Population (M/F), No. of SHG's and overall category A & B (as classified by NRLM) member base. (SHG's are rated - Attendance of members, Regularity in SHG meetings, Savings of SHG, all types of registers are maintained or not, Loans received from VO and repaid at VO, Repayment percent @ VO and banks etc)
- 2) level of economic activity (trader, manufacturer & services) in the block, key occupation of the residents, current & future potential of various activities
- 3) its proximity to semi-urban area, existing FFI's (with bank linkages)
- 4) If it is known for a commodity / product or craft
- 5) In case of a SVEP / OSF blocks, factor in inputs from non-farm team of SRLMs and from DPR's or similar surveys done by this team.

- 6) It may be a good idea to factor in the reputation of the village or block in banking community
- V. Once the block is shortlisted a viability study for promoting WEF is to be conducted. This will be based on data available in NRLM SHG portal and will factor in the following key attributes:
- 1) No of SHG's with Bank Linkages
 - 2) SHG's who have completed at-least 1 cycle of bank loans and have a good track record with the banks and is 2 years old from the date of 1st bank linkage.
 - 3) Assume that at least 15-20% of the members of above SHG's will be keen to avail MEL. This share is likely to increase with time.
 - 4) If the above calculation gives an output of >250, this is can be a good block for starting WEF in phased manner.
- VI. Building a team of Vitta Sakhi's: While the blocks in which SVEP is operational, CRP-EP are ideal candidates for this. In absence or shortfall of CRP-EP, Bank Sakhi's or any other CRP with relevant experience needs to be identified for the same. They are expected to be a member of SHG under NRLM program. It is advised that WEF SVEP's two step selection & certification process for CRP-EP by conducting a written test (focused on simple mathematics & logical reasoning) and a team activity is ideal for the same. (Refer Annexure for sample written test in Hindi shared by SRLM). Getting certified as a Vitta Sakhi is mandatory. Leveraging this will also ease implementation challenges, eliminate cost involved in developing new selection process as well as speed up WEF implementation.
- VII. Deciding the numeric strength of the Vitta Sakhi's: It is advised that at a sub-block level, SRLM will deploy any existing community resource person (CRP) as 'Vitta Sakhi'. 1 Vitta Sakhi should be responsible for covering 2-5-gram panchayat depending on the geographic terrain, accessibility, number of Self-Help Group and eventually no of micro-enterprise supported for MEL. Ideally a vitta Sakhi can be tasked with managing max 50 micro enterprises in initial stage and up to 100 at any given point of time. It is also suggested that given enhanced responsibilities, DAY-NRLM may consider that Vitta Sakhi's gets a respectable monthly honorarium or activity-based payouts based on DAY-NRLM guidelines dated 30th sep'2022 (and as updated in due course) for this work and continues to stay motivated. Incentives can be built around completion of loan application loan processing, quarterly monitoring and collection efficiency (though they are not directly responsible for collections). It is however important to ensure that the honorarium's amounts are aligned with that paid in DAY-NRLM's various other programs which run similar activities i.e., SVEP / OSF etc.

To implement MEL, a strong network of Mentors will be required, who will support the front-line cadre of Vitta Sakhi's. State & District Manager's in co-ordination need to identify and empanel Mentors at block level. The table below details the role of the mentor as well as their profile. The budget/cost template for the same is

advised by DAY-NRLM from time to time and is also referenced in NRLMs relevant advisory dated 30th Sep'2022.

Role	Profile
<p>Support the front-line cadre of Vitta Sakhi's.</p> <p>Mentors will provide the much need crucial support to the Vitta Sakhi's at each step from selection of the ME, preparing relevant documents and eventual disbursement and subsequent collection / business monitoring. Mentors via their experience are expected to know the nuances of common micro-business activities being practiced in the region. For administrative purposes, Mentors will report to the DM of their district. Key components of their role are:</p> <p>Mentors are expected from be the same district, having connects with local formal financial institutions will be a positive. If not, they are expected to build one with the participating formal financial institutions.</p> <p>Ideally one Mentor should be deployed for every 6-10 vitta Sakhi, but total number of micro enterprises / entrepreneurs being managed by such Vitta Sakhi's should not exceed 50 in initial stage and max 100 at any given point of time.</p> <p>Responsibility of Mentors further detailed in a separate section below.</p>	<p>Ideal candidate for a mentor would be an ex-banker from public & pvt sector banks who have at least 5-7 years of relevant field experience in micro or small enterprise segment in rural areas.</p> <p>Or</p> <p>Empanelled block / district level trainers (including non-bankers) who are conversant with functioning of banks for micro-enterprise loans can be empanel as a mentor.</p> <p>It's important that Mentors are based in the areas that they are expected to support.</p>

Capacity Building - Capacity building will be required at multiple levels:

- VIII. Orientation of SRLM WEF Functionary at district & block level: The orientation program will be conducted by NRLM and can be covered in 2-3 days and amongst other things will cover the following:
- Identifying villages/ CLF / SHG's for WEF implementation.
 - Identifying key resources for WEF implementation in front line i.e., Vitta Sakhi selection process
 - Locating and managing mentors

- Insights on rural micro-enterprises, entrepreneurship and qualifying factors for WEF
- Understanding what banks consider a good micro-enterprise to lend and their assessment process
- Understanding of Basic terminologies; Financial analysis/ ratio etc
- Managing WEF portfolio (origination to collection)
- Administrative asks

IX. Orientation of mentors: Mentors given their banking related background are expected to have a knowledge of rural micro-enterprises and their banking needs. Their orientation will be conducted by trained SRLM functionaries e.g., Block Project Manager (BPM) and should focus on the following aspects:

- Basic of mentoring
- Their roles and responsibility
- Introduction to various apps and portals that will be used by WEF initiatives
- Refresher on on-going govt schemes benefitting women micro-entrepreneurs
- Estimating credit requirement, developing basic financials including cash-flows and basic balance sheet and profit & Loss statement.
- Loan / portfolio monitoring and when and how to escalate unmanageable situations
- Monitoring the micro-enterprise via a performance tracking mechanism
- Various apps and portals that will be deployed by MEL
- How to conduct orientation programme for CLF / VO & SHG's
- Digital payment channels for business-merchant establishments to use for sales collection.
- Engagement with local banks

X. Capacity building of Vitta Sakhi's which will be based on their background i.e., CRP-EP or Bank Sakhi's. While CRP-EP will go through a smaller module, Vitta Sakhi will be required to go through a training program which will include modules from existing CRP-EP training programme. Overall, the Vitta Sakhi's needs to have a good understanding of the following:

- Understanding dynamics of rural micro enterprises and entrepreneurship
- Identifying women entrepreneur in a SHG for WEF based on the process advised in this SOP
- Estimating credit requirement, developing basic financials including cash-flows and basic balance sheet and profit & Loss statement. Identification of suitable credit source (internal & external) and linked process for availing loan from them.
- Understanding of credit bureau scores and their importance in accessing finance from FFI's.
- Loan products and ongoing govt. schemes

- Loan / portfolio monitoring and when and how to escalate unmanageable situations
- Monitoring the micro-enterprise via a performance tracking mechanism similar to one used by SVEP.
- Various apps and portals that will be deployed by MEL
- How to conduct orientation programme for CLF / VO & SHG's
- Administrative asks

A detailed capacity building plan and modules which will help SHG members access WEF from formal financing set-ups e.g., banks are being developed independently leveraging the existing capacity building practices of NRLM and the details for the same will be covered separately.

The capacity building / orientation programmes for Vitta Sakhi & Mentors will be hosted by trained SRLM functionaries (individuals with relevant experience in rural areas on sales, business dynamics, local economy and other relevant local factors should be given preference for this profile) at state & district level or by any chose third part trainers by NRLM. While the orientation of CLF, VO & SHG will be done by vitta Sakhi.

SRLM can organize such training in batches of 20 and ideally should have a follow-on training with Vitta Sakhi's post 3 months of their initial training to ensure that the participants have been able to master the contents crucial for their roles.

c) Role of a Vitta Sakhi

Vitta Sakhi are the core of WEF implementation front line cadre are having a role wherein they are responsible from the very initial step of identifying a SHG members for WEF to handholding them till the loan is repaid. The details of her role are as follows:

Identification of entrepreneur

- i. Orientation of CLF, VO & SHG for WEF product and processes (along with Mentor).
- ii. Vitta Sakhi will also conduct a market survey (do basic data collection for market survey) of the interested ME to ensure business viability. The format for this survey is attached in the annexure.
- iii. Vitta Sakhi to involve mentors/ block team in any type of identification and selection, training, orientation, and repayment. this will help ensure quality of ME selection is maintained thereby ensuring high level of overall success.
- iv. Vitta Sakhi will be responsible for identifying of SHG member in their allocated areas who is interest in WEF and will fit the profile as enlisted in this manual in section related to selection of WEF entrepreneur's.
- v. Vitta Sakhi will initiate the process for identification of potential entrepreneurs from SHG meeting and seek their interest based on the product & process explained by Vitta Sakhi.
- vi. Vitta Sakhi will enrol them on "UDYAMI" app (along with GPS coordinate & photographs) developed by MoRD for WEF (once implemented

- efficiently). It's important that she ensure that the interested entrepreneur has exhausted other possibilities or additional finance from SHG or CIF.
- vii. During the registration/ onboarding of the entrepreneur on UDYAMI, priority will be given to women entrepreneurs already identified under the various programmes like SVEP, OSF, other farm & non-farm interventions under DAY-NRLM or any state or centre specific scheme.
 - viii. Vitta Sakhi will seek explicit approval (a simple paper application with KYC details or via app in future giving consent for credit bureau check) of the interested ME for conducting credit bureau checks.

WEF application process responsibility

- ix. Identification of suitable credit source (internal – NRLM eco-system & external- FFI's) and linked process for availing loan from them.
- x. Prioritizing access of internal sources of funds for the entrepreneur by ensuring required formalities are adhered to. Mentor / CLF will support the Vitta Sakhi in identifying the appropriate funding source.
- xi. To improve the acceptance rate of WEF applications with FFI's, if there is an arrangement in place to pre-screen prospective entrepreneur using the credit bureau check., Vitta Sakhi will submit a list of all WEF prospects (data will include Name, address, Date of birth, PAN card no. and mobile number) at a reagreed frequency with the participating FFI's in the area. FFIs are expected to share the status within an agreed turnaround time with vitta Sakhi.
- xii. Based on the inputs received from the FFI on pre-screening, Vitta Sakhi will take forward the entrepreneurs who had a positive pre-screening outcome for prospect entrepreneur and inform the rest on inability to help them with MEL. This will ensure that efforts are put-in only behind those proposals who have a better change of acceptance with FFI's.
- xiii. Post enrolment of the member for WEF loan, vitta Sakhi will validate the information collected from prospective member through records available with SHG, discussions with other members of the same group and neighbours for reference checks. Once Vitta Sakhi has 3-4 proposals, she should get these proposals vetted by mentors/block staff or at least once a month too before proceeding.
- xiv. Vitta Sakhi will mandatorily visit potential members place of residence and place of business to validate the information shared.
- xv. Once Vitta Sakhi has completed initial due diligence, she will co-ordinate with the mentor to initiate documentation for WEF loan. The documentation will include filling of form of the locally participating bank or FI and collection of supporting documents as listed in this SOP in subsequent sections.
- xvi. Vitta Sakhi will co-ordinate with SHG / VO & CLF to obtain documents supporting the members transaction with the SHG in past 2 years i.e., passbook for saving and loan at individual level, meeting attended etc. These documents need to be certified by the SHG & CLF and supported by

- a covering letter recommending MEL. Additionally, BPMs recommendation should also be taken, to ensure that FFI managers work in close coordination with Block as compared to CLF are dealing with known circles. All these documents will for a crucial part of the WEF application.
- xvii. Once WEF application is ready (with support from Mentor) and mandatory data on NRLM app's / portals related to WEF have been updated, Vitta Sakhi will have support from the Mentor who will submit the completed WEF application file with the participating formal financial institutions and take their acknowledgement.
 - xviii. Vitta Sakhi will co-ordinate with the mentor who will follow-up with the respective formal financial institutions on the status of the loan. She will co-ordinate with them for possible site visit etc and ensure that the entrepreneur is kept updated.
 - xix. In case FFI's revert with queries in the proposal for resolution, Vitta Sakhi should respond back within 3-5 working days with support of the mentor or entrepreneur (if required). It is expected that all queries will be resolved within this time frame.
 - xx. In case of any unexpected delay / issue vitta Sakhi will escalate the transaction to the Mentor and seek support. She is also responsible for to keeping the mentor updated.
 - xxi. In case of loan request being rejected at any stage of the above process, Vitta Sakhi will respectfully inform the ME of the same.
 - xxii. Vitta Sakhi may or may not inform the reason for rejection based on sensitivity at ground level. Vitta Sakhi may seek guidance from Mentor to avoid any unpleasant circumstances.

Disbursement & post disbursement responsibilities

- xxiii. Once the WEF is approved by the formal financial institutions, Vitta Sakhi will co-ordinate with the entrepreneur for completing the loan disbursement and ensure that the loan is disbursed.
- xxiv. Vitta sakhi will maintain a separate manual register on loans sanctioned and disbursed till such time an IT solution is developed and implemented
- xxv. Vitta Sakhi will ensure that the Mentor, SHG office Bearers and VOs are kept in loop about the disbursement.
- xxvi. Vitta Sakhi will continue to stay in touch with the entrepreneur on monthly basis and take regular updates on business performance and repayment of WEF as per schedule. Vitta Sakhi will update these data on UDYAMI app (along with GPS coordinate & photographs) and escalate based on the situation to Mentor and /or SHG / VO / CLF in case of any irregularities / early warning signs.
- xxvii. Additionally to prepare more micro-entrepreneurs Vitta Sakhi will identify them at early stage. She will attempt to initiate business performance tracking using the Udyami ap and help them in obtaining a PAN card, enrolment in Udyami Aadhar etc This may require convincing the entrepreneur by Vitta Sakhi.

- xxviii. The micro-enterprise grows, Vita Sakhi will support them in procuring additional WEF from formal financial institutions from time to time.

d) Introducing digital payments: Vitta Sakhi should help entrepreneurs to adopt and install digital merchant payment acceptance solutions. With growth of users of digital payments in rural areas as well, this has become increasingly convenient to carry out money transactions. If an entrepreneur has even certain portion of its business transaction done in a digital platform on regular basis, it will be easier for banks to lend to these entrepreneurs repeatedly for having a trust worthy source of enterprise data. This digital trail of enterprise transaction data can be used along with loan application making it a valuable supporting document.

A Vitta Sakhi shall assist the entrepreneur to make an informed decision to choose the product from various options available, installing it, connecting to the vendor or customer care wherever required, and guiding them initially for some time till they get used to it. The entrepreneur can choose to have QR code, UPI ID, POS (point of sale) machine, depending on the type of area and the customer's need. Vitta Sakhi should suggest only those platforms which has zero transaction fees. In case any platform has some transaction fees, vitta Sakhi shall explain all the charges in detail to the entrepreneurs before installing those payment platforms. Vitta Sakhi can seek suggestions from mentors on the type of payment platforms which uses Aadhar pay technology, that would be suitable for the entrepreneurs, however a few widely used ones are BHIM, Bharat PE, PhonePe, Paytm and Google Pay.

e) Role of a Mentor

Identification of entrepreneur

- 1) In initial stage mentors should accompany and handhold the Vitta Sakhi's during the process of identification and enrolment.
- 2) Any gaps / short comings observed in the process of identification, enrolment, documentation etc of the entrepreneur will be rectified by the mentor through inputs to / from Vitta Sakhi's. This can be done during the on-site visit or later at loan application stage.
- 3) Mentors are expected to conduct sample visits of ~10% of entrepreneurs enrolled by Vitta Sakhi on the UDYAMI portal on a regular basis.
- 4) Mentors will provide necessary guidance to Vitta Sakhi on how to conduct the appraisal of the enterprise.

WEF approval & post approval responsibility

- 5) Mentor will liaison with the banks post submission of the WEF application in case it faces any hurdles and will support the vitta Sakhi's to resolve the same.
- 6) Mentor will ensure that the Block office and CLF are informed of the disbursement and are kept in loop at all times.

- 7) Post disbursement of the loan, Mentors are expected to support Vitta Sakhi by visiting the entrepreneur along with Vitta Sakhi in case there is any issue in business performance or repayment of the loan in developing the strategy along with the entrepreneur to resolve the situation.

Other Expectations

- 8) Mentors – based on their experience will prepare a list of model economic activities, which have potential to grow in the area. The model should include the various resources required including the investment required for the same. This will form a part of the handbook which will be provided to Vitta Sakhi.
- 9) Mentors should further give inputs w.r.t various central & state government schemes which are relevant and can be beneficial for entrepreneur. This handbook will be updated on quarterly or half-yearly basis as directed by SPM.
- 10) Mentors are expected to build the confidence of Vitta Sakhi over time such that the Vitta Sakhi's are able to operate independently after 18-24 months of support.

e) Role of SHG /VO /CLF

Self Help Group (SHG):

- I. SHG has an essential role to play in a member's MEL. Right from agreeing to support the member to apply for MEL, to supporting the member & Vitta Sakhi by providing certified copies of savings & loan pass books. It is here assumed that SHG has a satisfactory track record with the banks it has taken finance from.
- II. SHG will also provide information's such as since when the member has been a part of the group, copies of record indicating members attendance in group meeting in past 6 months.
- III. SHG will request via a written letter to the VO & CLF to support the WEF application by giving their recommendation in a standard format as shared in the annexure no (a)
- IV. SHG will support the member and Vitta Sakhi in case there are unseen circumstance which impact repayment of WEF to the best of their ability.

Village Organisation (VO):

VO will work as a coordinator between SHG & CLF and support Vitta Sakhi in procuring the necessary recommendation letter from CLF. VO will also support the entrepreneur in any way it can to avail MEL.

Cluster Level Federation (CLF):

CLF will have the following role in WEF initiative:

- I. Approve SHG / VO's request to consider the member / entrepreneur for WEF loan and provide a recommendation letter to participating formal financial institutions for the respective WEF It may be important to note that– VO & CLF



meetings are usually conducted monthly, this can cause delay in implementation and probably in repayment too. CLF will be required to meet more frequently at least once in 10 days for WEF purposes.

- II. Keep a track of WEF portfolio at CLF level.
- III. Support Mentor / Vitta Sakhi with infrastructural requirements with respect to space, IT systems etc as and when required. In case, CLF does not has the required facilities, BPIU will support the vitta sakhis.

f) Role of formal financial institutions

Vitta Sakhi, with support of the mentor, will approach the partner formal financial institutions in the area. In case there are more than one partner formal financial institutions, mentor will guide Vitta Sakhi for the best suited partner formal financial institutions based on the profile of the transaction, financing partner's preference and SRLM's recent experience. Once the WEF transaction file is ready and handed over to the partner formal financial institutions, following actions are expected from the formal financial institutions.

Initial Understanding to be provided by formal financial institutions local branches

- I. At a block level, if the arrangement of pre-screening of WEF borrowers on credit bureau on fortnightly basis is in place, formal financial institutions will accept the prospect data shared by Vitta Sakhi at a pre agreed frequency and revert with credit bureau finding within agreed turnaround time.
- II. Formal financial institutions to share the format in which they will like the data on WEF prospect for pre-screening. Initially this will be shared on a excel through email, and via portal as and when the same is ready.
- III. Formal financial institutions are expected to share their process i.e., at what shape they wish to have the proposal e.g., only loan application with supporting documents or with all documents including legal agreements etc to be signed and submitted. At what stage they wish to meet the entrepreneur etc. It's extremely critical that the formal financial institutions explain these processes in detail to Vitta Sakhi & Mentor. It is envisaged that FFI's will accept a uniform application form (suggested format attached in annexure) and processes as advised in this SOP.
- IV. The formal financial institutions at a local level along with SRLM functionaries, Mentor & Vitta Sakhi, will have a small orientation session on the above and document the agreed process, turnaround time etc to ensure smooth operations once. If required, the documentation if required can be done by the SRLM functionary and shared with the formal financial institutions and front-line cadre.

Roles & Responsibility of formal financial institutions local branches on receipt of WEF proposal.

- V. WEF proposals which pre-cleared by them will be submitted to the respective formal financial institutions. They should acknowledge receipt of the WEF proposal by giving documents indicating date of receipt of proposal.

- VI. The acknowledgement can be done on a photocopy of list of documents (checklist) in the file which will serve two purposes, (a) confirmation of receipt of proposal and (b) confirmation of various documents handed over to them along with the application form.
- VII. Review the proposal within agreed turnaround time (it is expected that FFI's will be able to respond back within 3-5 working days) and share their initial feedback. It is expected that queries if any will be raised at one go.
- VIII. In case the feedback is positive, formal financial institutions will visit the entrepreneur within agreed turnaround time.
- IX. In case there are gaps in the proposal, formal financial institutions will share the same with Vitta Sakhi / Mentor, for the same to be rectified / clarified. FFI's may expect Vitta Sakhi / Mentor to respond back within 3-5 working days.
- X. Once all the necessary documents and visits are completed satisfactorily, formal financial institutions branch will share the approval letter along with list of formalities (if any) to be completed for disbursement. The overall time from initial receipt of application to final disbursement is estimated to be ~14 working days i.e., ~3 weeks).
- XI. Once the disbursement made FFI will inform Vitta Sakhi, Mentor and BPM, who in turn are responsible for sharing the data with VO & CLF.

Post approval responsibility of partner formal financial institutions

- XII. To disburse the loan directly in entrepreneur's bank account. To take precautions that the loan is booked correctly on the system and on agreed terms in line with the understanding with NRLM / Govt Schemes.
- XIII. Formal financial institutions should not charge any fees / insurances charges / any other incidental charges which was not explained or agreed upon by NRLM.
- XIV. To share the disbursement details, repayment schedule along with relevant charges if any with the entrepreneur on a physical / paper mode in a language which is accepted locally.
- XV. To inform the entrepreneur / SRLM front line cadre at local level on any changes in loan terms and conditions due to regulatory implications.

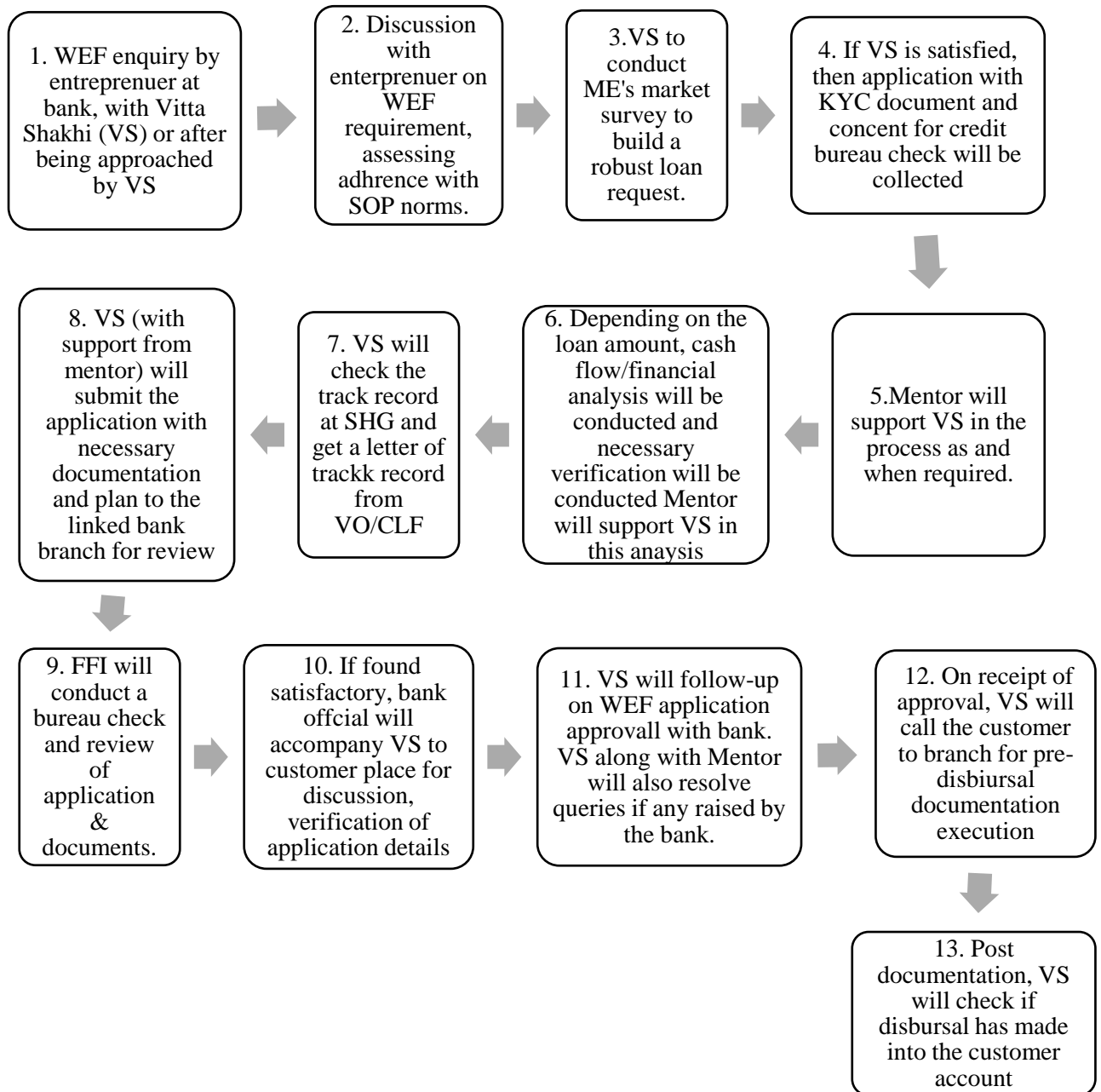
Roles & Responsibility of formal financial institutions local branches on collections.

- XVI. Formal financial institutions are expected to follow their standard collection process with the entrepreneur e.g., sending reminder SME / tele-calling etc.
- XVII. Formal financial institutions should on a monthly basis share the performance of the portfolio a loan level with NRLM / SRLM. This will ensure that Vitta Sakhi is kept informed on collection status and can continue to monitor business as well as the loan repayment on regular basis.
- XVIII. In case of delay / defaults, formal financial institutions should follow their standard collection process e.g., SMS / tele-calling / visiting the borrower etc. formal financial institutions can reach out to Vitta Sakhi / Mentor for support.

Others' expectations from formal financial institutions.

- XIX. Extend support to it borrowers on improving their livelihood / micro-business via various non-financial services as detailed in the Non-Financial Services section.
- XX. Inform NRLM / SRLM of various schemes which may be specific to them and can benefit the entrepreneur.
- XXI. Encourage entrepreneurs to avail the benefits of its various CSR initiatives if applicable to them at local level.

The SHG member Selection and Approval & Disbursement Process Flow

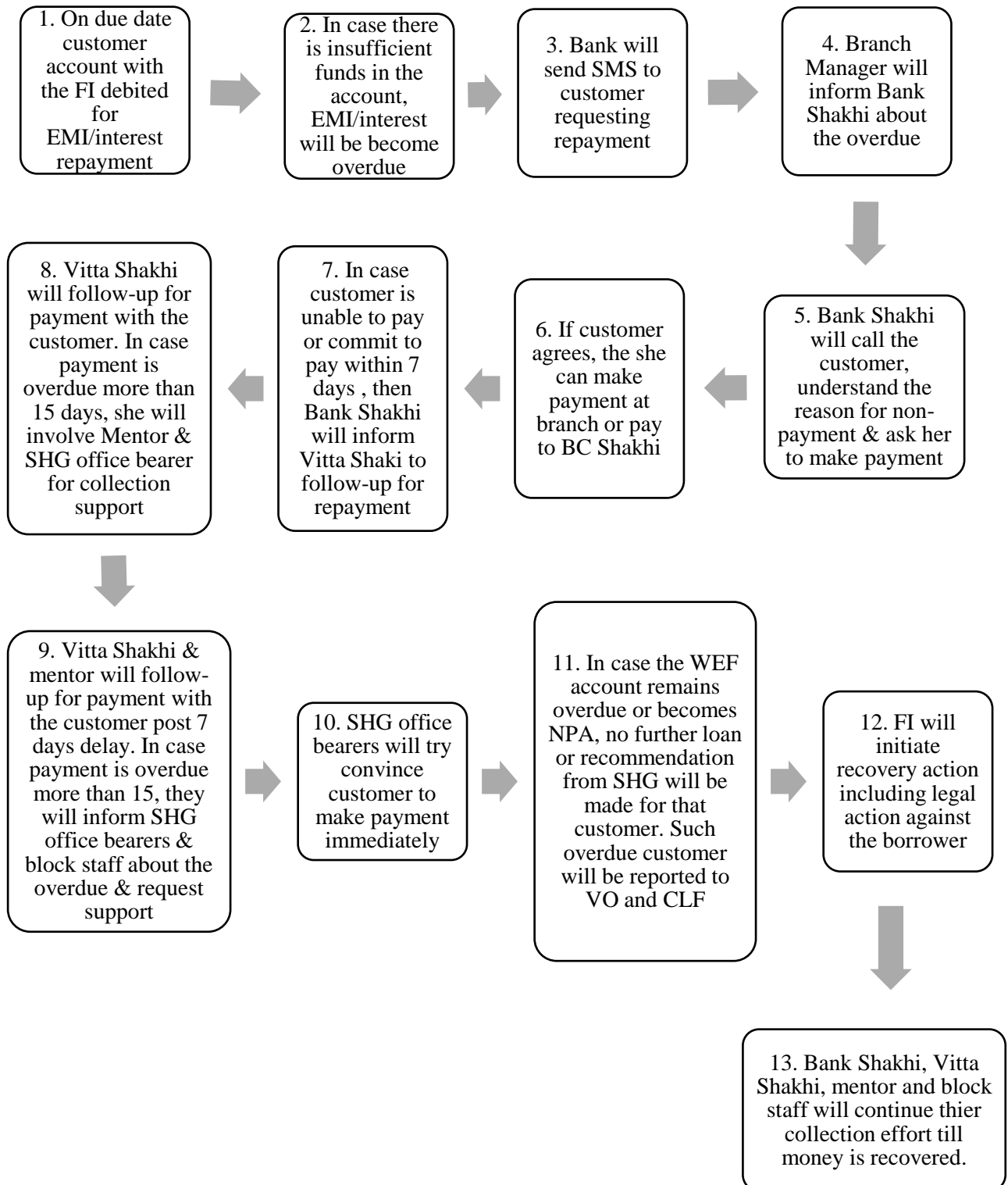


7. Collection process with roles and responsibilities

- a) Standard Collection Process
 - b) Roles & Responsibility
 - i. Vitta Sakhi
 - ii. Mentor
 - iii. SHG / VO / CLF
 - iv. Role of Financing formal financial institutions
-

a). Standard Collection Process

For the WEF given by a financial institution, there will be multiple levels of collection follow-up in case account becomes overdue. Other than bank staff, NRLM/SRLM representatives (Bank Sakhi, Vitta Sakhi, Mentor) and SHG officer bearers will provide collection support. The standard collection process will be as follows -



b). Roles and Responsibility

Vitta Sakhi

Vitta Sakhi is responsible for monitoring WEF generated through FFI's as well as internal funds and the steps followed are common in both cases as elaborated below:

- I. Vitta Sakhi on being intimated by Bank Sakhi about the overdue will 1st contact SHG member on phone, understand the reason for non-payment and then request SHG member to make to bank immediately either at the branch or to BC Sakhi. Vitta Sakhi will not collect any payment herself.
- II. In case SHG member request a promise to pay within 7 days, then Vitta Sakhi will follow-up on that date.
- III. In case there is delay beyond 7 days, then Vitta Sakhi will visit borrower place, see and understand the current business aspects and request her to clear the overdue.
- IV. In case the delay goes beyond 15 days, then Vitta Sakhi will request Mentor & SHG office bearers to accompany her to borrower place to put some pressure for repayment.
- V. In case the delay goes beyond 15 days, then Vitta Sakhi will inform the block staff about the overdue and request their support for collection of overdue.
- VI. Vitta Sakhi will also enquire about the status of loan repayment to the SHG by the borrower. In case borrower is repaying SHG but not repaying FI WEF then she needs to understand the reason for it.
- VII. In the interim, other than visiting borrower place, she will enquire from her suppliers about the borrower's business condition and payment frequency to them. This is advised that the Vitta Sakhi's be always be respectful to the ME's irrespective of the repayment track record.
- VIII. Vitta Sakhi will provide support to bank staff when they come for collection or recovery visit for location of the borrower's residence / workplace or collection negotiations.
- IX. Vitta Sakhi will continue to collection follow-up efforts every 7-10 days till dues are cleared to the financial institutions.

Mentor

- I. Mentor on being informed by Vitta Sakhi about the borrower overdue will accompany her to the SHG member place, understand the reason for non-payment and request repayment based on her cash flows.
- II. In case such defaults happen at the early vintage of the loan, Mentor will try to understand why it is so (whether business and financial plan made had wrong assumption or it is a market issue). He/she will be also assessed if the overdue problem is intentional or ability and temporary or permanent in nature.
- III. Mentor will provide collection follow-up support to Vitta Sakhi as and when it is requested.

SHG/VO/CLF

- I. SHG office bearers when intimated by Bank and/or Vitta Sakhi about the borrower WEF overdue will check with SHG member about it and push her for making immediate repayment
- II. SHG will also check current books of accounts to see if borrower is also defaulting on her loan in SHG or not.
- III. If borrower loan remains outstanding more than 25 days, then borrower WEF default information will be intimated to Village organization, & to Cluster level organization about the same. This should happen within 30 days of delay.
- IV. Any additional loan request by the same borrower to SHG will kept on hold or denied till WEF loan dues are cleared.

Expectations from Formal Financial Institution

- I. The financial institution will inform the Bank Sakhi about the overdue in case repayment is not made by borrower on the due date and request her support for collection.
- II. FI will send SMS to borrower informing about non-payment and requesting to clear the dues at the earliest.
- III. If the overdue continues, then periodic SMS will be sent to the borrower. Also, bank staff handling loans at branch will call up the SHG member requesting repayment.
- IV. If the account goes beyond 30 days, bank staff will make physical visit for collection effort.
- V. In case the account goes beyond 90 days, bank will send a letter recalling the loan and advising SHG member of legal action.
- VI. Legal action for recovery will be initiated
- VII. FI institution will continue collection directly and also through Bank Sakhi till dues are collected.

MIS: District / Block level / State Level /Central level

- a) Administrative MIS
 - b) Business Monitoring
 - c) Portfolio Monitoring
 - d) Pipeline / Origination / Status
 - e) Disbursed Loans
 - f) Repayment tracking
 - g) DPD MIS
-

a) Administrative MIS

WEF implementation at a national level will require tracking at multiple level and of multiple parameters. MIS is expected to be delivered by IT / systems in place. These systems will require the information of following types at pre-defined intervals:

- District / Block potential for WEF Data
- Infrastructural- Vitta Sakhi at Block level
- Infrastructural- Mentor at Block/ District level
- Formal financial institutions linked at Block level
- WEF pipeline & Status MIS at State / District / Block / CLF level
- CIBIL Check MIS for formal financial institutions
- Other Administrative MIS required as per NRLM's internal asks e.g., allocation of support funds, capacity building initiatives, entrepreneurs' social status etc.

Some of the MIS'S formats are shared in the annexure. NRLM may have to modify them to meet their regulatory / authoritative needs.

b) Business Monitoring

One of the key activities of the Vitta Sakhi and Mentor is to monitor borrower business performance. Periodic business monitoring is imperative to ensure success of the WEF program. Not all business will perform as per plan. Some micro enterprises will achieve and exceed plan while some will fall short of plan marginally or drastically. Businesses which fall short of plan in terms of performance may have lower cash flow which can result in not being able to service the loan obligation and eventually lead to business closure.

The key aspects to be monitored for a business on monthly and quarterly basis

- Sales Volume

How has the daily, weekly, and monthly sales happened vis-à-vis business plan? If case of shortfall from plan, ascertain the reason of it and likely impact in coming months and quarters.

- Cash and credit sales

The trend of cash and credit sales over the months – whether credit sales is increasing and driving the growth of the business. This will impact debtors

- Purchase volume

Whether the purchase is stacking up and commensurate with the sales volume.

- Cash or credit purchase

The trend of cash and credit purchase over the months – if cash purchase is more and credit sales increase, there will more cash outflow and working capital requirement.

- Debtor's amount

If credit sales is increasing in line with sales growth or higher than sales growth, then timely debtors' realization is essential. If possible, ageing of debtors should be checked.

- Stock levels

In case of manufacturing and trading business units, monthly/quarterly stock levels have to be verified. Stocks has to be commensurate with sales volume.

- Loans repayment (SHG/SVEP/MEL)

Loan repayment across various lenders (internal and external) needs to be tracked on a quarterly. This will provide an insight about borrower intent and repayment capacity.

c) Portfolio Monitoring (Individual data aggregated at portfolio level)

The other key activity of the Vitta Sakhi, Mentor and District, block level officer is to monitor loan origination and portfolio performance.

- Origination
 - The number of cases that are in pipeline for WEF loans
 - The number of WEF cases that have been applied to banks
 - The number of cases that approved by the banks, loan amount applied vs approved
 - The number of cases rejected by the bank and reasons for the same
 - The number of cases pending at the bank and reason
 - Loan approval turnaround time
 - The number of WEF cases disbursed
 - Type of loans disbursed with loan terms

The above metrics will help the supervisory cadre to understand

- How sales funnel is being managed, what is the conversion % (loan application to approval to disbursement) and how it can be improved
- What is reason for rejection (except bureau) and what improvement can be done at the time origination
- What are reasons for loan application pendency's and what can be done to reduce it
- Why bank turnaround time is higher and what needs to be done to shorten it
- The reason for high variation of loan applied amount vs. loan amount approved and explore ways to mitigate it
- What type of loan is being requested and approved? Also, key loan terms in line with requested program and policy

Portfolio Behaviour

- Total number of SHG member and portfolio outstanding of WEF (by SHG, VO, CLF)
- Number of customers who are delinquent in WEF loans by delinquent days e.g., 1-30, 31-60, 61-90, > 90 DPD.
- Number of customers who are delinquent in SHG/SVEP/OSF loans
- Number of customers who closed or foreclosed their loans
- Tracking the portfolio by location (district / state) on the above.

The above metrics will help the supervisory cadre to understand

- What type of customers are delinquent in the WEF portfolio (by sector, segment, location, loan size) and ascertain the reason for the same
- If customers are delinquent across different borrowing channels or on specific channels and ascertain the reason for same
- The repayment pattern and frequency of WEF borrowers
- Frequency and intensity of the collection effort of the field staff

d) Pipeline/Origination/Status

This MIS is to track loan application for the month

The following information will be captured

- Name of SHG member
- Location
- SHG name
- Financial Institution Name (if application submitted)
- Date of Application
- Loan Applied Amount
- Loan Application status (approved, rejected, pending)

Consolidated MIS can track Location, SHG, FI level application units, volume, status and turnaround time

e) Disbursed Loans

This MIS is to track disbursed loan for the month

The following information will be captured

- Name of SHG member
- Location
- SHG name
- Financial Institution Name
- Loan Amount
- ROI
- Tenure
- Date of disbursement

Consolidated MIS can track Location, SHG, FI level disbursal units and volume at month to date and year to date performance vis-à-vis target.

f) Repayment Tracking

This MIS is to track account level monthly repayment on time.

The following information will be captured:

- Name of SHG member
- Location
- SHG name
- Financial Institution Name
- Principal outstanding
- EMI/Interest Amount
- EMI/Interest Due Date
- Date of payment
- Amount Paid
- Reason for non-payment

Consolidated MIS can track Location, SHG, FI level repayment performance vis-à-vis target on a month-on-month basis.

g) Delinquency MIS

This MIS is to track account SHG member and portfolio level delinquency

The following information will be captured:

- Name of SHG member
- Location
- SHG name
- Financial Institution Name
- Date of disbursement
- Principal outstanding
- EMI/Interest Due
- EMI/Interest paid

- Number Overdue EMI/Interest
- Overdue EMI amount/Interest
- Days past due (DPD)

Consolidated MIS can track Location, SHG, FI level portfolio performance on a month-on-month basis.

8. Data & Digitization

- a) Data & Digitization
 - b) Udyami App & Web Portal
-

a) Data and Digitization

For proper MIS and reporting, proper data capture at each step is essential. While manually data capture is possible, it is not a scalable model. Data capture in the system will ensure not only scalability but also accuracy and adequacy. Also, the data currently captured manually in forms of registers need to be digitized.

Data captured over time will enable right insights into the business operations, loans origination and portfolio quality. This will also help develop data driven scorecards and decisions.

Data availability at each stage (mainly recorded manually – registers or excel sheet)

- SHG – SHG member level data is available in loan registers (loans taken and date, loan repayment and date – original and repeat loans, purpose)
- VO & CLF – loan repayment to CLF (SVEP) and banks through VO/CLF recorded in registers
- Banks – Loan repayment by SHG recorded in system
- SVEP – loan assessment (business plan), period business performance checking (sales data – initial 12 months), repayment of loans?

For WEF (e.g., Mudra loans), no record is available in SHG, VO, CLF, it is mainly available with the concerned bank branch in terms of loan origination and repayment.

If SHG, VO, and CLF data digitization is not possible or time consuming and expensive, then for MEL, Udyami app developed can be modified to revised policy and process and made mandatory for WEF loan application tracking.

As a part of application, static data of the SHG member profile, business activity, financials can be captured including existing loan details (SHG, SVEP, OSF and bureau if bank share before hand). As an ongoing activity, quarterly business activity monitoring and key financial metrics can be updated in the app by the Vitta Sakhi.

It would be very important and relevant if banks can share repayment track record of WEF customers on a monthly basis digitally with NRLM/SRLM.

Udyami app data capture responsibility should be on Vitta Sakhi and mentor should have supervisory access to review quality and adequacy of data capture on a quarterly basis. Data can also be analysed at NRLM/SRLM. Any shortcoming in data capture (accuracy, adequacy and timing) can be highlighted to district, block level supervisory cadre.

From system data capture following analysis can be done

- Type of SHG member (manufacturing, trading, services)
- Type of loan (working capital, capex)

- Loan funnel – applied, approved, rejected, pending; applied vs. approved amount, turnaround time.
- Loan metrics – loan size, tenure and ROI
- Business performance post WEF disbursement
- WEF repayment track

At the time of top-up or repeat MEL, the static data can be updated. If there is a way to update SHG and/or SVEP repayment data on a quarterly basis by Vitta Sakhi, also then it will be very helpful to monitor SHG member at gross debt level.

b) Udyami App & Web Portal

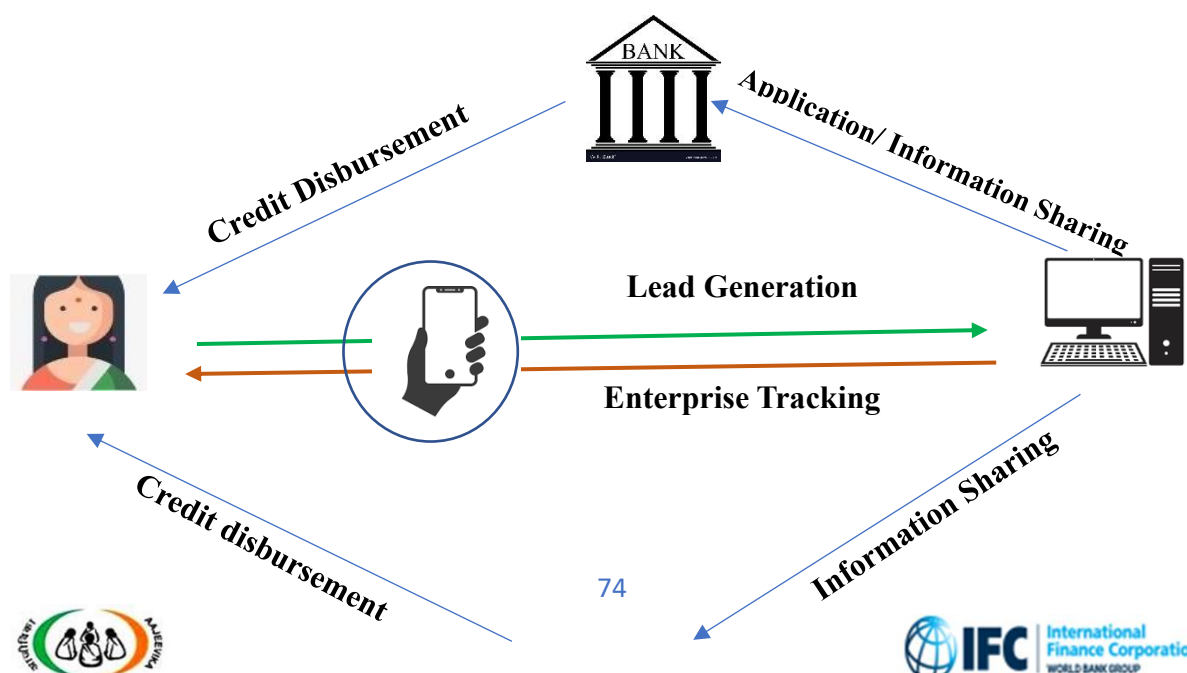
Background

Building WEF to scale will not only require efficient products & processes but also ability to collect and analyse data seamlessly. Since micro entrepreneur's (ME) business is likely to grow over time, access to meaningful data will help the ME's access formal financing on an ongoing basis smoothly.

The answer lies in Digitization – need of time! Whole world is moving towards digitization, and the population for which we are trying to work, lacks awareness and knowledge to become a part of digitized world. Also, by increasing their access to digital world we can make them lead a connected life. More digitization means ability to avail more opportunities. More opportunities mean enhancing the economic status of rural population.

With reference to above mentioned, UDYAMI APP will cater to some of the key aspects of enterprise related activities. At an evolved stage UDYAMI is expected to capture the entire SHG member journey i.e., starting from identifying the entrepreneur interested in WEF to connecting to a credible funding source to disbursement of WEF to tracking the performance of enterprise and the loan. This app will bring all the solution to digitization of enterprise related activities. This digitization will be more helpful for the beneficiaries to know their actual financial status and also to avail loans in future with the records being maintained in the app.

Offerings from the APP

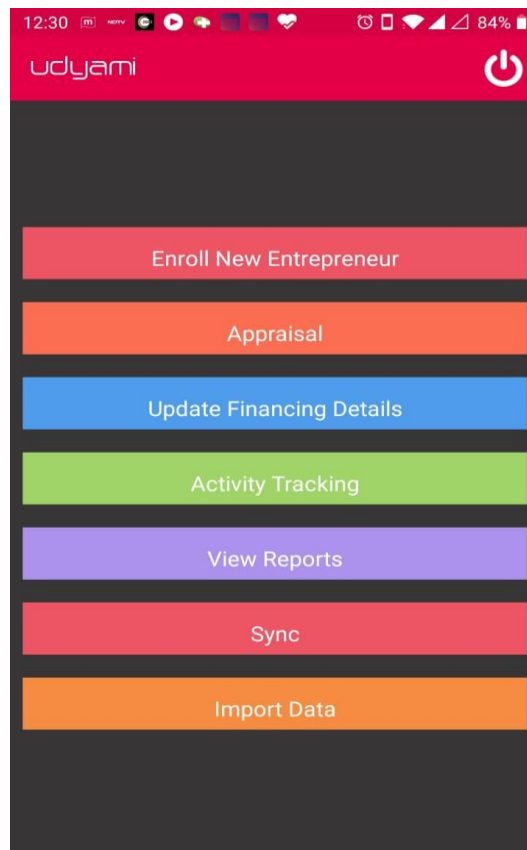




The flow chart above describes the whole picture of what is being offered by the app. Every minute details at every step are being captured in the app. For understanding the app follow the screenshots below:

UDYAMI – Mobile App (Current State)

Udyami Mobile App with certain functionality now is ready is being launched in a phased manner. The picture below is screenshot of the app, and it shows the components which requires to be filled in order to identifying the entrepreneur, filling the application, getting the application appraised, amount and source of loan, and also to monitor the progress of enterprise.



Udyami App and web portal aim to achieve the following:

Accessible from all levels, Vitta Sakhi, block, district, state, and central so that progress and overview can be seen and monitored at every level. This will help in seamless monitoring & review of WEF initiative as well as help resolve issues across level including operational issues can be very well taken care at block level.

App will be in sync with the data available at NRLM/SRLM MIS so that the app can fetch basic details from the available database starting from SHG members details based on their unique ID is being worked upon.

A dashboard showing all the details of state > district> block > enterprise will be maintained so that every detail of an enterprise can be seen at state level as well as national level.

It is planned that the app and web portal will also capture the backward and forward linkages, status of enterprise for at least 24 months after disbursement of loan, under which scheme the enterprise has received funding from external sources, monthly and quarterly progress report can be uploaded in web portal.

Tracking of activity section of app will be more elaborate which will fulfil two aspects of enterprise, sales record will be maintained by entrepreneurs on regular basis, and it will be tell the probable reasons of enterprise making loss and profit.

Presently ‘Udyami’ is a standalone app that aims to digitize the lead generation, support in identifying possible funding options, tracking of entrepreneur’s business progress and capture loan repayment. But in a fully developed state, it is expected that Udyami will link up to funding sources e.g., ‘Jan Samarth’ portal, credit bureau, external FFI etc and will give seamless access to finance to ME’s.

Going Forward

Since the app is still in evolution, SRLM’s will be informed as and when new versions are released along with its features. An exclusive training session will be conducted at various level as and when required.

9. Annexures

- a. Vitta Sakhi Selection – Written Test Sample
 - b. WEF Draft Application Forms (up to 2 lacs, > 2 lacs)
 - c. Draft Expert Score Card
 - d. WEF Business Analysis & Financial Analysis
 - e. Format for Market research for Vitta Sakhi's
 - f. MUDRA – Key Features as of July'2022
-

a) Annexure – Sample Vitta Sakhi selection written test paper

कुल समय: 60 मिनट | कुल अंक: 50

नाम: _____

मोबाइल नंबर: _____

ब्लॉक का नाम: _____

सही विकल्प को चिन्हित करें

1. दिए गये विकल्पों में से सम्बंधित शब्द/अक्षरों/ संख्या को चुनिए ।
जेलर:जेल::पंडित
A. कोठरी
B. संग्रहालय
C. मंदिर
D. इलाज
2. दी गई श्रंखला में एक पद लुप्त है । दिए गए विकल्पों में से सही विकल्प चुनिए जो श्रंखला को पूरा करेगा | 5, 10, 30, ?, 600, 3600
A. 120
B. 100
C. 90
D. 60
3. एक व्यक्ति 'सेल' में वस्त्र खरीदते समय ₹ 45 खर्च करता है और ₹. 5 की बचत करता है ।
उसकी बचत का प्रतिशत क्या है?
A. 5%
B. 10%
C. 20%
D. 20%
4. यदि '-' का आशय 'x' से हो, 'x' का आशय '+' से हो, '+' का आशय '÷' से हो और '÷' का आशय '-' से हो, तो $40 \times 12 + 3 - 6 \div 60$ का मान क्या होगा?
A. 4
B. 7
C. 16
D. 4
5. यदि $25 + 5 \div 2 = 40$ और $35 + 5 \div 2 = 60$,
तो $45 + 5 \div 2 = ?$
A. 90
B. 70
C. 60
D. 80

6. एक ड्राइवर अपने गांव से चला और 20 की.मी. उत्तर की ओर जाने के बाद जलपान के लिये रुका | फिर वह बाएं मुड़ गया और 30 की.मी. के बाद भोजन के लिये रुका | कुछ और विश्राम के बाद वह फिर बाएं मुड़ा और शाम की चाय के लिये रुकने से पहले 20 की ओर चला .मी. | वह एक बार फिर बाएं मुड़ा और 30 की.मी. चलकर उस क .मी. स्बे में पहुंच गया जहाँ उसने रात्रि भोज-किया | शाम की चाय के बाद वह किस दिशा में चला था?
- A. पश्चिम
B. पूर्व
C. उत्तर
D. दक्षिण
7. किसी कैंटीन को 7 दिन के लिये 56 कि.ग्रा. चावल की आवश्यकता है | उसे अप्रैल और मई माह के लिये मिलाकर कुल कितने कि .ग्रा.चावल की आवश्यकता होगी?
- A. 468 कि .ग्रा .
B. 488 कि .ग्रा.
C. 498 कि .ग्रा .
D. 508 कि .ग्रा.
8. एक पुस्तक के अंकित मूल्य पर 20% छूट देने पर एक दुकानदार को 15% का लाभ होता है | पुस्तक के क्रय मूल्य और अंकित मूल्य का अनुपात बताइये?
- A. 20:23
B. 23:20
C. 16:23
D. 23:16
9. एक कार 2 घण्टे में 80 किमी या .मी.त्रा करती है और एक रेलगाड़ी 3 घण्टे में 180 कि .मी. की यात्रा करती है | कार की रेलगाड़ी से चाल का अनुपात क्या है?
- A. 2:3
B. 3:2
C. 3:4
D. 4:3
10. एक दुकानदार नकद खरीदने पर 2.5% का छूट देता है | एक साइकिल, जिसका अंकित मूल्य ₹3600 है, को खरीदने के लिये रोहित को कितनी राशि का भुगतान करना होगा?
- A. ₹ 3490
B. ₹ 3500
C. ₹ 3510
D. ₹ 3520
11. चीनी की कीमत में 20% की वृद्धि होने पर 120 ₹ में 4 किची .ग्रा.नी कम मिलती है | चीनी का प्रति किग्रा.प्रारं .भिक मूल्य क्या था ?
- A. ₹ 5/कि. ग्रा .
B. ₹ 4/कि. ग्रा.
C. ₹ 6/कि. ग्रा .

- D. ₹ 5.5/कि. ग्रा.
12. एक व्यक्ति पहले दिन 1 किचलता है .मी., दूसरे दिन 2 किचलता है .मी., तीसरे दिन 3 कि.मी. चलता है, और इसी प्रकार आगे भी चलता रहता है | बताइए कि 10 दिन में वह कितनी दूरी तय करेगा ?
- A. 40 कि .मी.
B. 50 कि.मी.
C. 55 कि. मी
D. 58 कि. मी
13. यदि किसी संख्या में $1/2$ जोड़ दिया जाए और फिर उस योगफल को 3 से गुना किया जाए तो उत्तर 21 प्राप्त होता है | संख्या बताइए?
- A. 6.5
B. 5.5
C. 4.5
D. -6.5
14. साधारण ब्याज की वह दर ज्ञात कीजिये जिस पर कोई धनराशि 8 वर्ष में 5 गुना हो जाती है?
- A. 30%
B. 40%
C. 50%
D. 55%
- 15.) P, Q का पिता है और R, S का पुत्र है। T, P का भाई है। Q, R की बहिन है। S, T से किस प्रकार संबंधित है?
- A. भाई
B. पुत्री
C. भाभि
D. जीजा
- 16.) निम्नलिखित समीकरण में किन दो चिन्हों को परस्पर बदला जाना चाहिये ताकि निम्नलिखित समीकरण सही हो सके? $15 - 9 \div 6 \times 10 + 5 = 25$
- A. + और \div
B. \times और -
C. + और -
D. \times और \div
- 17.) निम्नलिखित में से कौन एक संक्रामक रोग है?
- A. मधुमेह
B. दमा
C. खसरा
D. स्कर्वि

18.) दो कथनों के बाद तीन I, II और III दिये गए हैं, कथनों को सत्य मानते हुए, भले ही वह सामान्यतः ज्ञात तथ्यों के साथ भिन्नता रखते हों, यह निर्णय ले कि कौनसा निष्कर्ष तार्किक रूप से कथनों का अनुसरण करता है।

कथन:

1. कुछ मोबाइल इंस्ट्रूमेंट्स हैं।
2. सभी इंस्ट्रूमेंट्स हैवी आइटम हैं।

निष्कर्ष:

- I. कुछ मोबाइल हैवी आइटम हैं।
 - II. कोई मोबाइल हैवी आइटम नहीं है।
 - III. कुछ हैवी आइटम इंस्ट्रूमेंट्स हैं।
- A. सभी निष्कर्ष अनुसरण करते हैं।
B. केवल निष्कर्ष I अनुसरण करता है
C. केवल निष्कर्ष I और III अनुसरण करते हैं
D. केवल निष्कर्ष III और या तो निष्कर्ष I या II अनुसरण करते हैं

19.) राजन ने एक लड़की की ओर इशारा करके कहा, “यह मेरी माँ की पुत्री की पुत्री है “। बताइए उस लड़की का राजन से क्या संबंध है ?

- A. पुत्री
- B. भतीजीभांजी/
- C. भतीजाभांजा/
- D. चाचाफूफा/मोसा/मामा/ताऊ/

20.) M, N का भाई है। और B, N का भाई है। इसी प्रकार M, D का भाई है, किंतु N, D का भाई नहीं है। N का D से संबंध बताइए?

- A. भतीजा भांजा/
- B. चचेरोमोसेरा/फुफेरा/ममेरा/ भाई
- C. बहिन
- D. भाई

21) निम्नलिखित प्रश्न में दिए गए विकल्पों में से विषम शब्द चुनिये ।

- A. कंठ
- B. आँख
- C. कान
- D. चमड़ा/चर्म

22.) एक नल किसी पानी के टैंक को 50 मिनिट में भर सकता है और दूसरा नल भरे हुए टैंक को 75 मिनिट में खाली कर सकता है। यदि दोनों नल खोल दिए जायें तो 1/2 भाग भरा हुआ टैंक कितने समय में पूरा भर जाएगा ?

- A. 60 मिनिट
- B. 75 मिनिट
- C. 125 मिनिट
- D. 150 मिनिट

23.) दो दुकानदार सिलाई मशीन की एक समान कीमत रु.700 घोषित करते हैं। पहला दुकानदार 30% और 6% की दो क्रमिक छूट देता है जबकी दूसरा 20% और 16% की क्रमिक छूट देता है। उनके बिक्री मूल्य में कितना अंतर है?

- A. रु. 9.8
- B. रु.16.8
- C. रु. 22.4
- D. रु. 36.4

24) किसी पुस्तक की 12 प्रतियों को रु. 1800 रु में बेचने से 3 प्रतियों के लागत मूल्य के बराबर लाभ हुआ। पुस्तक की एक प्रति का लागत मूल्य कितना है?

- A. रु 120
- B. रु 150
- C. रु 1200
- D. रु 1500

25.) निम्नलिखित प्रश्न में एक वक्तव्य दिया गया है जिसके आगे दो निष्कर्ष/मान्यताये, I और II निकाले गए हैं। आपको विचार करना है की वक्तव्य सत्य है, चाहे वह समान्यतः ज्ञात तथ्यों से भिन्न प्रतीत होता हो। आपको निर्णय करना है की यह दिए गये वक्तव्य में से कौनसा निश्चित रूप से सही निष्कर्ष/मान्यताये निकाला जा सकता है। अपने उत्तर को निर्दिष्ट कीजिये।

कथन :

1. सभी आमो का रंग सुनहरी है।
- 2 सुनहरे रंग की कोई भी वस्तु सस्ती नहीं है।

निष्कर्ष :

- I. सभी आम सस्ते हैं।
 - II. सुनहरे रंग के आम सस्ते नहीं हैं।
- A. केवल निष्कर्ष I सही है
 - B. केवल निष्कर्ष II सही है
 - C. यातो निष्कर्ष I या निष्कर्ष II सही है
 - D. दोनो निष्कर्ष सही है

b) Annexure – Sample / Draft Application Form

The draft application form is built on the MUDRA loan application form as it is likely to be most acceptable one.

The forms are created in 2 categories:

- 11) Loan requirement less or equal to Rs 2 lacs (based on ‘MUDRA Shishu’ application form)
- 12) Loans greater than Rs 2 lacs (based on ‘MUDRA Tarun / Kishore’ category)

The form has been the following key modifications:

- I. Addition of details of the SHG to which the member applicant belongs
- II. Addition of name of Vitta Sakhi & Mentor who are key link in the organizing the loan
- III. Addition of support data for repayment track record of the member in SHG & NRLM eco-system as a part of the checklist.
- IV. Addition of WEF recommendation letter initiated by SHG as a part of checklist certified by VO / CLF

The draft form is attached in the following pages:

MICRO ENTERPRISE LOAN APPLICATION (Up to Rs 2 lacs)

Name of the Bank:

A. For office Use: **Vitta Sakhi..... Mentor.....**

Enterprise Name	Application Sl. No.	Name of the Branch	Scheme Name

SHG Name & Location	CLF Name	Member Name	Member Since
Regular in meetings (6 month)	Member Savings thru SHG	Member Loan thru SHG etc	Loan Repayment to SHG
Yes / No	Rs	Rs	Satisfactory- Yes / No

B. Business Information:

Applicants Name															
Fathers / Husband's Name															
Date of Birth	D	D	M	M	Y	Y	Y	Y	Sex		Male		Female		
Residential Address												Owned			
												Rented			
Education	Illiterate	Up to 10th			Up to 12 th			Graduate	Postgraduate						
KYC Document	Voter Card		Aadhar Card				License			Any Other-					
Enterprise Name															
Constitution	Proprietary	Partnership	Pvt. Ltd.	Ltd. Company	Any Others (specify)										
Current Business / Work Address															
	PIN Code								Business Premises	Rented	Owned				
Telephone No.									Mobile No						
E-mail:									Udyami Aadhar No						
Business Activity	Existing	Yes			No			Date of Commencement	D	D	M	N	Y	Y	
Proposed	Line of Business														
Annual Sales INR	Last Year-				Current Year						Next Year				
Skilled (Certified)-							Self-Skilled-								Unskilled
Social Category	SC	ST	OBC	Minority Community											
If Minority Community	Buddhists		Muslims		Christians		Sikhs	Jains	Zoroastrians						

B. Banking/Credit Facilities Existing: (In Rs.)

Type of Facilities (Rs)	Presently Banking with	Account No.	Limit Availed	Outstanding As on	Security lodged
Savings / Current A/C					
Current Account					
Cash Credit					
Term Loan					

It is certified that our unit has not availed any loan from any other Formal Financial Institution in the past and I/we am/are not indebted to any other Formal Financial Institution other than those mentioned in column no. E above.

C. Credit Facilities Proposed: (In Rs.)

Type of Facilities	Amount (Rs)	Purpose for which Required	Remarks
Cash Credit			
Term Loan			
Total			

D. Declaration:

I/We hereby certify that all information furnished by me/us is true, correct and complete. I/We have no borrowing arrangements for the unit except as indicated in the application form. There is/are no overdue / statutory due owed by me/us. I/We shall furnish all other information that may be required by Bank in connection with my/our application. The information may also be exchanged by you with any agency you may deem fit. You, your representatives., or any other agency as authorised by you, may at any time, inspect/ verify my/our assets, books of accounts etc. in our factory/business premises as given above. You may take appropriate safeguards/action for recovery of bank’s dues.

Space for Photo (Borrower)	(Signatures of Proprietor whose photo is affixed)	Date:/...../..... Place:	Application to be submitted with all documents as per checklist below
---------------------------------------	--	--	--

CHECK LIST: (The check list is only indicative and not exhaustive and depending upon the local requirements at different places addition could be made as per necessity)

- 1) Proof of identity - Self certified copy of Voter’s ID card / Driving License / PAN Card / Aadhar Card /Passport.
- 2) Proof of Residence - Recent telephone bill, electricity bill, property tax receipt (not older than 2 months), Voter’s ID card, Aadhar Card & Passport of Proprietor/Partners/Directors.
- 3) Photos (two copies) of Proprietor.
- 4) Proof of SC/ST/OBC/Minority.
- 5) SHG Loan repayment record, certified by VO & CLF
- 6) Repayment record of any other loan taken thru NRLM eco-system
- 7) SHG recommendation letter for loan supported by VO & CLF
- 8) SHG Savings passbook
- 9) Confirmation on: Applicant should not be defaulter in any Formal Financial institution.
- 10) Statement of accounts (for the last six months), from the existing banker, if any.

Office Copy:

Acknowledgement Slip for loan Application under.....

Application (system generated/manual) Number		Date of Application	
Name of the Applicant(s)		Loan Amt. Requested for	
Signature of Applicant(s)		Signature of Branch official	

Applicant Copy:

Acknowledgement Slip for loan Application under:

.....

Bank Logo

NRLM Logo

Application (system generated/manual) Number		Date of Application	
Name of the Applicant(s)		Loan Amt. Requested for	
Signature of Applicant(s)		Signature of Branch official	



A. For office Use:

Name of the Bank:

Vitta Sakhi Name:Mentor Name:

Enterprise Name	Application Sl. No.	Name of the Branch	Scheme Name

SHG Name & Location	CLF Name	Member Name	Member Since
Regular in meetings (6 mth)	Member Savings thru SHG	Member Loan thru SHG etc	Loan Repayment to SHG
Yes / No	Rs	Rs	Satisfactory- Yes / No

B. Business Information: Please \checkmark where appropriate

Enterprise Name												
Whether the unit is Registered	Yes			No								
If Registered (Please mention Registration no. and the Act under which it is registered)												
Constitution	Proprietary	Partnership	Pvt. Ltd.	Ltd. Company	Any Others (specify)							
Current Business Address	State			Business Premises			PIN Code					
				Rented		Owned						
Telephone No.				Mobile No.								
E-mail:												
Business Activity	Existing		Yes	No	Business Line-							
	Years in Business -		Proposed Business Line -									
Date of Commencement (DD/MM/YYYY)	DD		MM		YYYY							
Registered office Address												
Social Category	General		SC	ST	OBC	Minority Community						
If Minority Community	Buddhists	Muslims	Christians	Sikhs	Jains	Zoroastrians						
GST No	Udyami Aadhar No											

C. Background Information of Proprietor/ Partners/ Directors:

Sr. No.	Name	Date of Birth	Sex	Residential Address with Mobile No.	Academic Qualification	Experience in the line of activity (Years)
1.						
2.						
3.						
4.						
Sr. No	Id proof	Id proof no.	Address proof	Address proof no.	PAN Card / DIN No.	Relationship with the officials/ Director of the bank if any
1.						
2.						

D. Names of Associate Concerns and Nature of Association:

Names of Associate Concern	Address of Associate Concern	Presently Banking with	Nature of Association Concern	Extent of Interest as a Prop. /Partner/ Director or Just Investor in Associate Concern

E. Banking/Credit Facilities Existing: (In Rs.)

Type of Facilities	Presently Banking with	Account No.	Limit Availed (RS)	Outstanding As on (RS)	Security lodged	Asset classification (Standard i.e., not a defaulter)
Savings Account						Yes / No
Current Account						Yes / No
Cash Credit						Yes / No
Term Loan						Yes / No
LC/BG						Yes / No

If banking with this bank, customer ID to be given here

It is certified that our unit has not availed any loan from any other Formal Financial Institution in the past and I/we am/are not indebted to any other Formal Financial Institution other than those mentioned in column no. E above.

F. Credit Facilities Proposed: (In Rs.)

Type of Facilities	Amount (Rs)	Purpose for which Required	Remarks
Cash Credit			
Term Loan			
LC/BG			
Total			

G. In case of Working Capital: Basis of Cash Credit Limit applied: (In Rs.)

Actual Sales		Projected						
FY-	FY-	Sales	Working Cycle in Months	Inventory	Debtors	Creditors	Promoter's Contribution	Limits
Please refer to Template / Appraisal form								

H. In case of Term loan, the details of machinery/equipment may be given as under:

Type of machine / Equipment	Purpose for which required	Name of Supplier	Total Cost of Machine	Contribution being made by the promoters (Rs.)	Loan Required (Rs.)
Please refer to Template / Appraisal form					
Total					

Repayment period with Moratorium (Months)	
Moratorium period requested for (Months)	

I. Past Performance / Future Estimates: (In Rs.)

Past Performance / Future Estimates (Actual performance for two previous years, estimates for current year and projections for next year to be provided for working capital facilities. However, for term loan facilities projections to be provided till the proposed year of repayment of loan)				
Parameter	Past Year-II (Actual)	Past Year-I (Actual)	Present Year (Estimate)	Next Year (Projection)
Net Sales	Please refer to Appraisal form in Annexure			
Net Profit				
Capital (Net Worth in case of Companies)				

J. Status Regarding Statutory Obligations:

Statutory Obligations	Whether complied with (Select Yes/No) If not applicable, then select N. A.	Remarks (Any details in connection with the relevant obligation to be given)
1. Registration under Shops and Establishment Act		
2. Registration under MSME (Provisional /Final)		
3. Drug License		
4. Latest Sales Tax Return Filed		
5. Latest Income Tax Returns Filed		
6. Any other Statutory dues remaining outstanding		

K. Declaration:

I/We hereby certify that all information furnished by me/us is true, correct and complete. I/We have no borrowing arrangements for the unit except as indicated in the application form. There is/are no overdue / statutory due owed by me/us. I/We shall furnish all other information that may be required by Bank in connection with my/our application. The information may also be exchanged by you with any agency you may deem fit. You, your representatives., or any other agency as authorised by you, may at any time, inspect/ verify my/our assets, books of accounts etc. in our factory/business premises as given above. You may take appropriate safeguards/action for recovery of bank's dues.

Space for Photo (Borrower 1)	Space for Photo (Borrower 2)	Space for Photo (Borrower 3)	Space for Photo (Borrower 4)

(Signatures of Proprietor/partner/ director whose photo is affixed above)

Date: _____

Place: _____

(Loan Application form to be submitted along with documents as per the check list)



CHECK LIST: (The check list is only indicative and not exhaustive and depending upon the local requirements at different places addition could be made as per necessity)

- 11) Proof of identity - Self certified copy of Voter’s ID card / Driving License / PAN Card / Aadhar Card /Passport.
- 12) Proof of Residence - Recent telephone bill, electricity bill, property tax receipt (not older than 2 months), Voter’s ID card, Aadhar Card & Passport of Proprietor/Partners/Directors.
- 13) Photos (two copies) of Proprietor/ Partners/ Directors.
- 14) Proof of SC/ST/OBC/Minority.
- 15) Proof of Identity/Address of the Business Enterprise -Copies of relevant licenses/registration certificates/other documents pertaining to the ownership, identity and address of business unit.
- 16) SHG Loan repayment record, certified by VO & CLF
- 17) Repayment record of any other loan taken thru NRLM eco-system
- 18) SHG recommendation letter for loan supported by VO & CLF
- 19) SHG Savings passbook
- 20) Confirmation on: Applicant should not be defaulter in any Formal Financial institution.
- 21) Statement of accounts (for the last six months), from the existing banker, if any.
- 22) Last two years balance sheets of the units along with income tax/sales tax return etc. (Applicable for all cases from Rs.2 Lacs and above).
- 23) Projected balance sheets for one year in case of working capital limits and for the period of the loan in case of term loan (Applicable for all cases from Rs.2 Lacs and above).
- 24) Sales achieved during the current financial year up to the date of submission of application.
- 25) Project report (for the proposed project) containing details of technical & economic viability.
- 26) Memorandum and articles of association of the company/Partnership Deed of Partners etc.

.....
Acknowledgement Slip for loan Application under.....

Office Copy:

Application (system generated/manual) Number		Date of Application	
Name of the Applicant(s)		Loan Amt. Requested for	
Signature of Applicant(s)		Signature of Branch official	

Applicant Copy



Acknowledgement Slip for loan Application Under.....

Application (system generated/manual) Number		Date of Application	
Name of the Applicant(s)		Loan Amt. Requested for	
Signature of Applicant(s)		Signature of Branch official	



c) Draft Expert Score Card

Rating Weightage	Parameters	Parameter Weightage	Attribute	Scoring Scale	Score
Qualitative (55%)	Age	10	< =30 years	5	
			Between 30-40 years	7	
			Between 40-50 years	10	
			Greater than 50 years	8	
	Experience in Trade Line	10	< =1 years	2	
			Between 2-3 years	5	
			Between 3-4 years	7	
			Greater than 4 years	10	
	SHG Bank Linkage cycle	10	<= 2	3	
			3-4	7	
			> 4	10	
	Home & Shop/Factory Ownership within Family	5	Both Rented	1	
			Both Owned	5	
			Either Shop or Home Owned	3	
	Vintage with SHG	10	<= 2 years	3	
			Between 2-4 years	6	
Greater than 4 years			10		
Business Vintage	10	< 3 years	2		
		Between 3-5 years	5		
		Between 6-7years	7		
		Greater than 7 years	10		
Quantitative (45%)	Bureau Score	10	0/-1	4	
			< 650	2	
			Between 650-700 years	6	
			Between 700-750	8	
			Greater than 750	10	
	CFA Debt Burden	15	Less than 40%	15	
			Between 40-50%	12	
			Between 50-55%	8	
			Greater > 55%	5	
	SHG/SVEP/OSF Repayment Track (last 12 months)	20	Ontime repayment	20	
			Delayed payment max two times but paid within the month	15	
			Delayed payment more than two times but paid within the month	10	
Delayed payment one or more times and paid after the month			5		
Total (100%)		100			

For example, a cut-off of 55 can be considered as a qualifier for loan from Banks / FI's and further analysis should be conducted on such micro enterprises.

d) WEF Business Analysis & Financial Planning

The attached excel contains the format / template for business analysis & financial planning of the interested micro-entrepreneur. The template also covers SHG member verification, SHG member selection criteria along with bank statement analysis. The template has 3 sections for assessment of MEL. Vitta Sakhi / **Mentor needs** to use the appropriate templates based on loan required from formal financial institutions.

- (i) Rs. 50,000/- to Rs 2,00,000/-
- (ii) >Rs 200,000/

e) Format for Market Research by Vitta Sakhi's

Market Research for Vitta Sakhis

Starting up and running a business is a complex process. Entrepreneur must possess a complete understanding of the business and various parameters that govern the business. It is very important to analyse demand, competitors, capital requirements and equipment (machine) requirements to be successful in the business. This is called 'Market Research'. Most of the entrepreneurs do not know how to do market research for their business. To help the entrepreneurs on this front, a market research template is provided to the Vitta Sakhis below. As a first exercise, Vitta Sakhis are expected to do market research of at least 15 business sectors in their locality. By finding answers to each question, a Vitta Sakhi can assess the feasibility of the business better and in a systematic way. In this way, Vitta Sakhis will be able to better understand the business of entrepreneurs and fill the Mudra Application form in much more informed manner.

Name: _____ SHG: _____ Village: _____ Business sector: _____

1. What is the business? Try to understand about –
 - a. What all products are sold?
 - b. What is the Raw material? Where is it sourced from?
 - c. Is there any Machinery?
 - d. How many labours?
 - e. Who are the competitors?
2. Who is the primary target customer of that business? How many households in buy from this business?
3. What is the estimated number of customers per day (N)? What is the average spending of one customer (Rs. X)? Use it to calculate sales per day (Rs. NX)
4. Speak to potential customers and understand why they buy from a particular shop. Think about the reasons why customers would come to this shop and not go to the competitors

5. Analyse and observe the following about the competitors and see how this shop is faring as compared to the competition -
- a. Key Success Factors
 - i. Location: Good/ same as others / poor
 - ii. Quality: Good/ same as others / poor
 - iii. Variety: Large/ same as others / small
 - iv. Pricing: High/ same as others/ low
 - v. Credit: High/ same as others/ low credit given to customers
 - b. Missing product segments: - e.g., ladies' items in Kirana, garments at tailoring, ladies' bags etc.
 - c. Missing customer segment: A particular segment of customers who are less targeted may become loyal customer base, if the entrepreneur starts targeting them for their products
6. Exercise: Try to fill below information and table by visiting around five enterprises in vicinity e.g., five Kirana stores or five bakeries or five hotels –

	Business-1	Business-2	Business-3	Business-4	Business-5
A. Number of customers per day					
B. Average spend of one customer					
C. Monthly Sale (C = A * B)					
D. Location of raw material purchase					
E. Quantity of purchase (In Rs)					
F. Frequency of purchase (In days)					
G. Monthly purchase (=E × 30 ÷ F)					
H. Other business expenses per month					
I. Profit or loss per month (= C – G – H)					

f) MUDRA – Key Features as of June’2022

Given the extensive reach of Public Sector Banks, MUDRA a government promoted scheme to support MSME is likely to be one of the most prevalent ones. Listed below are some of the salient features of MUDRA scheme as detailed in their website.

1) Brief background for introduction of MUDRA Loan Scheme by Govt. of India

As per NSSO survey (2013), there are around 5.77 crore small/micro units in the country, engaging around 12 crore people, mostly individual proprietorship/Own Account Enterprises. Over 60% of units are owned by persons belonging to Scheduled Caste, Scheduled Tribe or Other Backward Classes. Most of these units are outside the formal banking system, and hence are forced to borrow from informal sources or use their limited owned funds. MUDRA Loan Scheme has been proposed to bridge this gap. MUDRA Loan Scheme will aim to increase the confidence of the aspiring young person to become first generation entrepreneurs as also of existing small businesses to expand their activities.

2) Brief details of the Product MUDRA loans are extended by banks, NBFCs, MFIs and other eligible financial intermediaries as notified by MUDRA Ltd.

The Pradhan Mantri MUDRA Yojana (PMMY) announced by the Hon’ble Prime Minister on 8th April 2015, envisages providing MUDRA loan, up to ₹ 10 lakh, to income generating micro enterprises engaged in manufacturing, trading, and services sectors. The overdraft amount of ₹ 5000 sanctioned under PMJDY has been also classified as MUDRA loans under Prime Minister MUDRA Yojana (PMMY).

The MUDRA loans are extended under following three categories:

- ✓ Loans up to ₹ 50,000/- (Shishu)
- ✓ Loans from ₹ 50,001 to ₹ 5 lakh (Kishore)
- ✓ Loans from ₹ 5,00,001/- to ₹ 10 lakh (Tarun)

Accordingly, all advances granted on or after 8th April 2015 falling under the above category are classified as MUDRA loans under the PMMY. The application forms for such loans shall also carry the name “Pradhan Mantri MUDRA Yojana”.

3) Eligible borrowers

Individuals
Proprietary concern.
Partnership Firm.
Private Ltd. Company.
Public Company.
Any other legal forms.

The applicant should not be defaulter to any formal financial institution and should have a satisfactory credit track record. The individual borrowers may be required to possess the necessary skills/experience/ knowledge to undertake the proposed activity. The need for educational qualification, if any, need to be assessed based on the nature of the proposed activity, and its requirement.

4) Purpose of Assistance

Nature of assistance. Need based term loan/OD limit/composite loan to eligible borrowers for acquiring capital assets and/or working capital/marketing related requirements. The MUDRA loans are provided for income generating small business activity in manufacturing, processing, service sector or trading. The Project cost is decided based on business plan and the investment proposed. MUDRA loan is not for consumption/personal needs.

For the purpose of working capital limit, MUDRA has launched a new product called “MUDRA Card”, which is a Debit card issued on RuPay platform, and provides hassle free credit in a flexible manner

5) Amount of assistance

Up to 10 lakhs in three categories viz. Shishu, Kishore and Tarun

6) Margin/Promoters Contribution

Margin/Promoters Contribution is as per the policy framework of the bank, based on overall guidelines of RBI in this regard. Banks may not insist for margin for Shishu loans.

7) Interest rate

Interest rates are to be charged as per the policy decision of the bank. However, the interest rate charged to ultimate borrowers shall be reasonable. Scheduled Commercial Banks, RRBs and Cooperative Banks wishing to avail of refinance from MUDRA will have to peg their interest rates, as advised by MUDRA Ltd., from time to time.

8) Upfront fee/Processing charges.

Banks may consider charging of upfront fee as per their internal guidelines. The upfront fee/processing charges for Shishu loans are waived by most banks.

9) Security

- A. First charge on all assets created out of the loan extended to the borrower and the assets which are directly associated with the business/project for which credit has been extended.
- B. DPN (wherever applicable).
- C. CGTMSE (wherever felt desirable)/MUDRA Guarantee cover.

In terms of RBI guidelines issued vide Master Circular on lending to MSME Sector (para 4.2) dated July 01, 2014, in respect of loans up to ` 10 lakh, banks

are mandated not to accept collateral security in the case of loans up to ` 10 lakh extended to units in the Micro Small Enterprises (MSE) Sector. Banks are required to encourage their branch level functionaries to avail of the Credit Guarantee Scheme cover, wherever felt desirable.

10. Tenor of Assistance

Based on the economic life of the assets created and also the cash flow generated. However, MUDRA's refinance assistance will be for a maximum tenor of 60 months which will also be aligned to terms of allotment of MUDRA funds by RBI from time to time

11. Repayment

Term Loan: To be repaid in suitable instalments with suitable moratorium period as per cash flow of the business.

OD & CC Limit: Repayable on demand. Renewal and Annual Review as per internal guidelines of the Bank.

12. Availability of the loan

Mudra loan under PMMY is available at all bank branches across the country. Mudra loan is also issued by NBFCs / MFIs who are engaged in financing for micro enterprises in small business activities.

13. RBIs relevant regulations:

-Definition of MSME: <https://rbi.org.in/Scripts/NotificationUser.aspx?Id=12319&Mode=0>

-Master Direction - Lending to Micro, Small & Medium Enterprises (MSME) Sector:
<https://rbi.org.in/scripts/NotificationUser.aspx?Mode=0&Id=11060>

-Master Circular on Priority Sector Lending:

https://rbi.org.in/Scripts/BS_ViewMasDirections.aspx?id=11959

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