SHAKTI SUSTAINABLE ENERGY FOUNDATION

SELCO FOUNDATION

End-User Guide for Sustainable Energy Financing

Index

Chapter 1

Impact of Energy in Life and livelihood

Introduction

Energy is the basis of our existence. In our day to day life, some of the key areas where we can not survive without energy include transportation, food, communication, lighting, heating/cooling, etc. All of our current transportation modes including automobiles, trains, buses, airplanes, etc. run on energy (derived from fossil fuels or electricity, etc.). Our food is grown (whether it be grains, vegetables, etc.) with considerable energy expenditure, and its storage and transportation also consumes energy. Our modes of communication, such as telephones, internet, etc. run on energy (electricity). In most regions of the world, we require energy for either heating or cooling during the most part of the year.

Energy has both positive and negative impacts on societies. Access to abundant, affordable, secure, safe, and clean energy is beneficial for humans. But energy extraction, transportation, and use can have negative consequences to the health, environment, and economics of a society. Moreover, relying on imported energy can create vulnerabilities to a nation's security. The impacts of energy decisions are not equal for all people. Poor or marginalized societies are more likely to suffer negative consequences of energy decisions because they have a reduced capacity for adaptation and they may lack negotiating power compared to wealthier societies. Therefore, vulnerable populations can benefit greatly from improvements in energy accessibility, safety, or affordability.

Energy and Climate Change

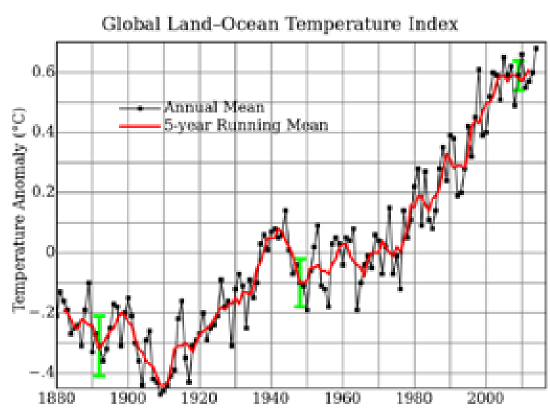
Today, over 1.6 billion people in the world and 240 million in India do not have access to reliable energy.[1] And it is estimated that four out of five people without electricity live in rural areas of the developing world. But this pattern in the deprivation is rapidly changing with the growing urban and semi-urban population. In the absence of clean energy sources, dependence of biomass and fossil fuels is high.

In addition indiscriminate usage of fossil fuels has negatively affected the environment which has been reflected by the climate change. Increased use of fossil fuels and burning of biomass in factories, from vehicles etc have all led to the release of greenhouse gasses such as nitrous oxide and carbon dioxide. This has resulted in the rise in the global temperature in turn causing the melting of the ice-caps, droughts, hurricanes, heat waves, flooding, etc.

7 – 23 inches rise in sea level by 2100

Stronger hurricanes and storms

Melting snow-caps



Global Land-Ocean Temperature Anomaly (C0) 3

Figures: Negative Impact of Climate Change

Energy and Poverty

Absence of clean energy then translates into low incomes and traps the household in the vicious cycle of energy and income poverty. This vicious cycle perpetuates vulnerability and pushes poor households further down the poverty ladder in the face of increasing cost and decreased availability of fossil fuels & biomass and poor access to health, education, finance etc.

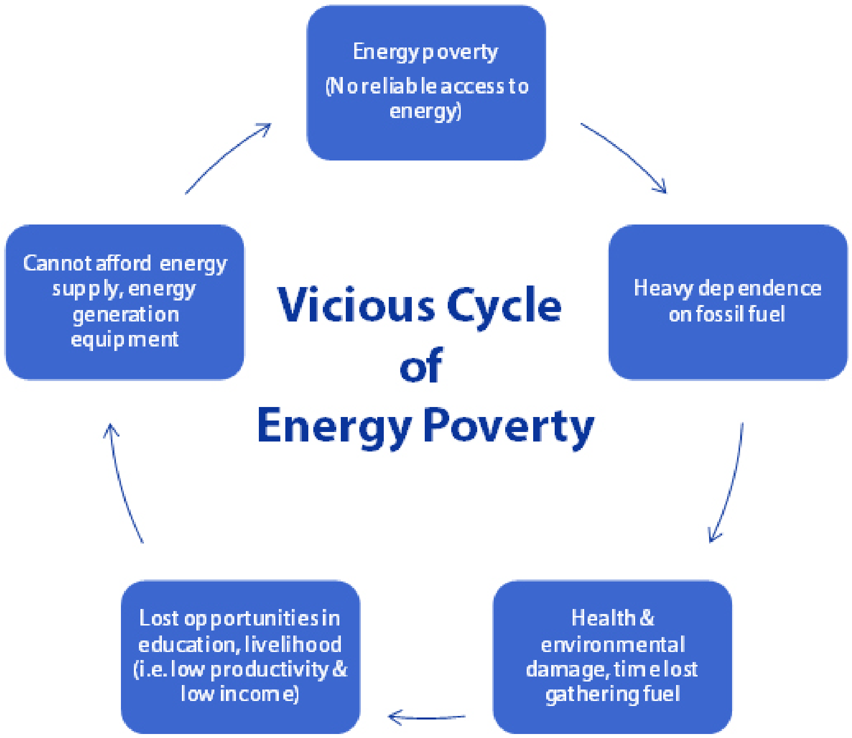


Figure: Vicious cycle of Energy and Income Poverty

Impact of Energy in Rural Livelihoods

Unlike most urban spaces, the rural landscape is usually marked with unreliable and irregular power. As with any livelihood activities, the energy forms an inextricable component in livelihoods process. Most of the rural population engages in agriculture, others engage in stand-alone non-farm activities like kirana shop, blacksmithy, pottery etc. Some of the cases where renewable energy technologies (RETs) have played an important role in improving productivity and reducing drudgery have been listed below:

Case stories

Parvin Babu - A tailoring entrepreneur from Shivamogga:

Mrs. Parvin Bhanu is an entrepreneur from Shivamogga. She is a widow & the only earning member of the family. She approached SELCO through another entrepreneur, Chaitra, who supported the initial pilot test of the 80 W sewing machine. She helps Chaitra in meeting demands from the market and is being paid for this as well. After her husband's demise, it was really hard to meet her family expenses so she used to book functions at nearby hall and was also involved in collecting rents for which she was paid commission. She used to stitch ladies fashion wears and is involved in this since the last 10 years. After intervention, she has plans to only concentrate on sewing bags. Due to frequent power cuts, she faced problems in meeting daily demands from supplier so she decided to switch to DC sewing system. She wanted a higher capacity machine to meet the market demand as 60 W system was not convenient for her usage so 80 W was installed instead. She has plans to engage fulltime in this business and supply directly to the market through line sale. As she is paid very less by middle man, she produces 3000 bags/month and is paid INR 2 to 3/bag while the same bag is sold at INR 35/bag. Her elder daughter also supports her and has further plans to expand and grow.

Ramsingh Kabadi - Tailoring entrepreneur from Odisha

Ramsingh Kabadi is a 35-year-old male entrepreneur from Badchatrang village in Kalahandi District of Odisha. He used a manual sewing machine and was unable to keep up with his orders, especially during the wedding and festival seasons. Even though Ramsingh had electricity at home, he did not want to shift to a motorized sewing machine because of the erratic and poor supply of the grid and instead, wanted to get a solar system installed. Ramsingh needed financial assistance to get the system installed and it was challenging for him as he did not have a bank account. The team facilitated a loan for him from MUDRA (Micro Units Development and Refinance Agency) bank loan from Syndicate Bank, a financial product focussed on financing small businesses. He recollected that approaching the bank for getting assistance and completing the formalities itself was overwhelming for him and it almost took about five months to complete the whole process.

Today, Ramsingh is able to meet the seasonal demands and keep up with the orders, resulting in higher income. Increasing his productivity by 1.5 times per hour, Ramsingh has seen an immediate increase of INR 2500 per month. His earnings have also gone higher during the festival season. Further, a solar light in his shop allows him to work through later in the evenings as well thus, allowing him the flexibility to take large number of orders. Two years hence, Ramsingh has completely repaid the loan amount and interest. Twelve months into his first loan he approached the bank for a second loan to construct and expand his current tailoring shop, buy another machine and solar power it, so that his brother can join him as well.

Apart from the financial gains, the whole experience of installing the solar system helped Ramsingh to be more confident and outgoing with his interactions with formal financial institutions.

Shri Subbha Achari - a master innovator and ethno-entrepreneur.

Shri Subba Achari from Chikkaballapur, Karnataka is 62 years old and has been in the profession of black smithy for last four decades learning ropes from his father and now running his own enterprise serving community members not only in his village but also from nearby villages and towns. His customers are so impressed by his workmanship that keep coming again and again. Such is his motivation that he has come out with products that are not only innovative but have a very practical application some of the products that he has showcased are weed cutter, fodder chopping machine. His intimate knowledge about the agriculture has made products tailored to such requirements.

He has made a successful transition from manual blower to electric blower to Solar-powered Blower and he has come to the conclusion that it is economical and has decreased drudgery and has seen an increase in income and marginal decrease in the expenditure.

Chapter 2

Credit Linkage - Affordable Strategy for Asset Creation and Livelihood Promotion

Introduction:

Poor people share the same goals as all people -- economic security for themselves, their families, and future generations. The main difference is that they have fewer resources and opportunities. Most live in high-risk and unpredictable environments. And, compared to others, they don't have much money. In this context, managing the little money that they have is vital. Good money management is critical for meeting day-to-day needs, dealing with life cycle events and unexpected emergencies, taking advantage of opportunities when they present themselves, and planning for the future.

Building assets is important for poor people in developing countries because they provide the basis for economic security. Common ways that poor people build assets through savings, and investments in land, businesses, and housing. They also build assets by investing in children ís education, health, and the maintenance of reciprocal social relationships that provide support in times of need. Good money management is critical to the process of accumulating all kinds of assets and preserving them. Access to appropriate financial products and services, along with the financial skills to manage these resources well, are key to the process of asset accumulation.

How to exploit available credit facility to improve facilities?

The loan facility for Solar solutions is generally extended in the form of a Term Loan. As per RBI regulations, loans extended for SHLS or any other solar solutions shall be classified depending on the occupation or vocation of the borrower. For instance,

- Loans extended to a farmer for any solar solution should be classified as an agricultural advance.
- A loan granted to a salaried person for solar solutions shall be classified as a non-priority sector advance.
- An investment by an entrepreneur in energy for livelihoods such as a solar-powered refrigerator system or Sewing machine is essentially a capital investment and can be categorized as lending towards MSME.

SELCO Foundation has experimented with banks, mechanisms to bring ‘un-banked’ customer segments into mainstream financing. The mechanisms captured in the below figure were piloted with bankers to encourage bank lending, de-risking the loan, building banker confidence and encourage end-user participation.

Risk Guarantee	Collateral in the form of FD parked with Bank for enterprise and end user financing. Ex. Slum dweller, SELCO incubatee
Interest Subsidy	Interest on FD or upfront partial interest payment made to bank - to credit against loan account on a monthly basis - to ensure EMIs meet cash flows of entrepreneurs. Ex. Sewing machine, solar fridge in bakery
Gap finance	Gap finance for projects that have a component of technical innovations that are considered high-risk. Ex. Entrepreneur model for light rental
Margin Money	For poor end-user, unable to bring in margin money. Ex. Lighting for unelectrified households
Grant	Provided as a last EMI waive i.e back-ended subsidy for encouraging end-users to engage with bankers. Ex. Tribal and nomadic communities
Revolving Risk Fund	To benefit multiple end-users where the fund provide risk-guarantee. Ex. End-users in remote region

The above-mentioned innovations are mainly targeted at the rural poor and under-served. In addition to implementing the above-mentioned strategies, other activities that can be done with bankers include:

- **Banker Workshops**: Aimed at creating a platform for bankers, energy enterprises, policy makers and end-users to share their experiences, discuss the viability of DRE solutions, relevant challenges and design solutions.
- Engage with bankers to institutionalize processes and financing mechanisms for DRE both at end-user and enterprise level.
- Engage with rural training institutes like RSETI to conduct training programs for solar technicians and micro-entrepreneurs .
- Conduct community-based programs as part of Bank and NABARD awareness camps to increase confidence around clean energy for household and livelihood development, by discussing Technology, Costs, Dissemination and maintenance models

Chapter 3

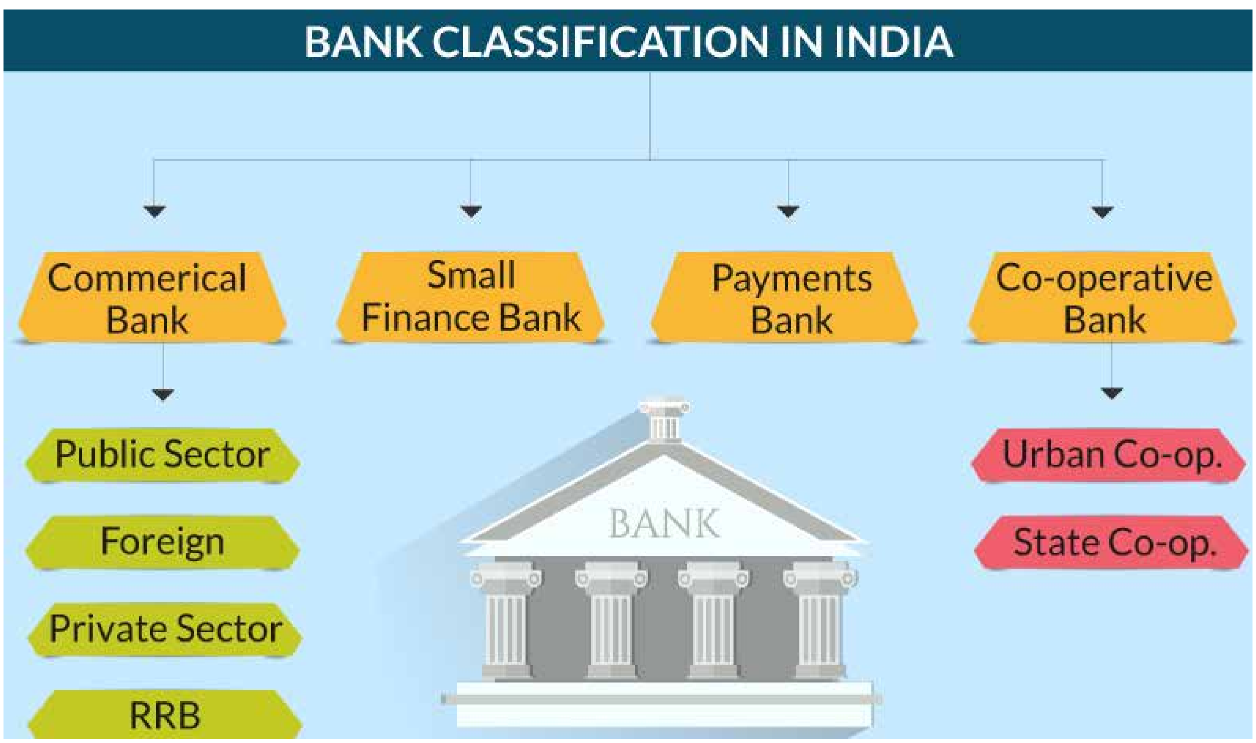
Sources of Finance - About Institutional Mechanisms

Classification of Banks in India

The banking industry handles finances in a country including cash and credit. Banks are the institutional bodies that accept deposits and grant credit to the entities and play a major role in maintaining the economic stature of a country. Given their importance in the economy, banks are kept under strict regulation in most of the countries. In India, the Reserve Bank of India (RBI) is the apex banking institution that regulates the monetary policy in the country.

Banks are classified into four categories –

- Commercial Banks
- Small Finance Banks
- Payments Banks
- Co-operative Banks



Commercial Banks can be further classified into public sector banks, private sector banks, foreign banks and Regional Rural Banks (RRB). On the other hand, cooperative banks are classified into urban and rural. Apart from these, a fairly new addition to the structure is Small Finance Banks and Payments Banks.

Commercial Banks

Commercial Banks are regulated under the Banking Regulation Act, 1949 and their business model is designed to make profit. Their primary function is to accept deposits and grant loans to the general public, corporate and government. Commercial banks can be divided into-

Public Sector Banks	**Private Sector Banks**
Foreign Banks	**Regional Rural Banks**

Public Sector Banks

These are the nationalized banks and account for more than 75 percent of the total banking business in the country. Majority of stakes in these banks are held by the government. In terms of volume, SBI is the largest public sector bank in India and after its merger with its 5 associate banks (as on 1st April 2017) it has got a position among the top 50 banks of the world. After the amalgamation of Vijaya Bank and Dena Bank with Bank of Baroda, at present there are a total of 18 nationalised banks in the country.

Private Sector Banks

These include banks in which major stake or equity is held by private shareholders. All the banking rules and regulations laid down by the RBI will be applicable on private sector banks as well.

Foreign Banks

A foreign bank is one that has its headquarters in a foreign country but operates in India as a private entity. These banks are under the obligation to follow the regulations of its home country as well as the country in which they are operating.

Regional Rural Banks

These are also scheduled commercial banks but they are established with the main objective of providing credit to weaker sections of the society like agricultural labourers, marginal farmers and small enterprises. They usually operate at regional levels in different states of India and may have branches in selected urban areas as well. The RRBs are owned by the central government (50%), the state government (15%) and the sponsor bank (35%). Several commercial banks have sponsored RRBs. RRBs were set up to eliminate other unorganized financial institutions like money lenders and supplement the efforts of co-operative banks.

Other important functions carried out by RRBs include-

- Providing banking and financial services to rural and semi-urban areas
- Government operations like disbursement of wages of MGNREGA workers, distribution of pensions, etc.
- Para-Banking facilities like debit cards, credit cards and locker facilities

Small Finance Banks

This is a niche banking segment in the country and is aimed to provide financial inclusion to sections of society that are not served by other banks. The main customers of small finance banks include micro industries, small and marginal farmers, unorganized sector entities and small business units. These are licensed under Section 22 of the Banking Regulation Act, 1949 and are governed by the provisions of RBI Act, 1934 and FEMA.

Payments Bank

This is a relatively new model of bank in the Indian Banking industry. It was conceptualised by the RBI and is allowed to accept a restricted deposit. The amount is currently limited to Rs. 1 Lakh per customer. They also offer services like ATM cards, debit cards, net-banking and mobile-banking.

Co-operative Banks

Co-operative banks are registered under the Cooperative Societies Act, 1912 and they are run by an elected managing committee. These work on no-profit no-loss basis and mainly serve entrepreneurs, small businesses, industries and self-employment in urban areas. In rural areas, they mainly finance agriculture-based activities like farming, livestock and hatcheries.

Urban Co-operative Banks	**State Co-operative Banks**
Urban Co-operative Banks refer to the primary cooperative banks located in urban and semi-urban areas. These banks essentially lend to small borrowers and businesses centred around communities, localities workplace groups.	A State Cooperative Bank is a federation of the central cooperative bank which acts as custodian of the cooperative banking structure in the State.

Banks can also be classified on the basis of Scheduled and Non-Scheduled Banks. It is essential for every individual to check if they are holding their savings or deposit account with a Scheduled Bank or Non-Scheduled Bank. Scheduled Banks are also covered under the depositor insurance program of Deposit Insurance and Credit Guarantee Corporation (DICGC), which is beneficial for all the account holders holding a savings and fixed / recurring deposit account. Under DICGC, bank deposits of up to Rs 1 lakh, including the fixed, savings, current and recurring deposits, per depositor per bank in the event of bank failure are insured

Scheduled Bank

Scheduled banks are covered under the 2nd Schedule of the Reserve Bank of India Act, 1934. To qualify as a scheduled bank, the bank should conform to the following conditions:

- A bank that has a paid-up capital of Rs. 5 Lakh and above qualifies for the schedule bank category

- A bank requires to satisfy the central bank that its affairs are not carried out in a way that causes harm to the interest of the depositors
- A bank should be a corporation rather than a sole-proprietorship or partnership firm

Non-scheduled Banks

Non-scheduled banks refer to the local area banks which are not listed in the Second Schedule of the Reserve Bank of India. Non-Scheduled Banks are also required to maintain the cash reserve requirement, not with the RBI, but with them.

Non Banking Financial Company (NBFC)

NBFC expands to Non-Banking Financial Company is a company registered under the Companies Act, 1956 and regulated by the Central Bank i.e. Reserve Bank of India under RBI Act, 1934. These entities are not banks, but they are engaged in lending and other activities, akin to that of banks like providing loans and advances, credit facilities, savings and investment products, trading in the money market, managing portfolios of stocks, transfer of money and so on.

It is indulged in the activities of hire purchase, leasing, infrastructure finance, venture capital finance, housing finance, etc. An NBFC accepts deposits, but only term deposits and deposits repayable on demand are not accepted by it.

Non Banking Financial Company (NBFC)- Micro Finance Institute (MFI)

The Non-Banking Financial Company: Micro Finance Institution (NBFC-MFI) is a non-deposit taking financial company that has minimum 85% of its assets in the nature of qualifying assets. The Qualifying Assets are those assets which have a substantial period of time to be ready for its intended use or sale.

As per RBI, for a non-banking financial company to be recognized as a microfinance institution must satisfy the following conditions:

- Loan to be disbursed to the borrower with a rural household annual income shall not exceed Rs 1,25,000 and in the case of the urban and semi-urban household income not exceeding Rs 2,00,000.

- The amount of a loan shall not exceed Rs 60,000 in the first cycle and Rs 1,00,000 in the subsequent cycles.
- The tenure of the loan for the amount exceeding Rs 30,000 (with prepayment without penalty) must not be less than 24 months.
- The total indebtedness of the borrower shall not exceed Rs 1,25,000.
- The loan shall be disbursed without any collaterals.
- An aggregate of total loans given for income generation shall not be less than 50% of the total loans given by the MFI.
- The loan is repayable either weekly, fortnightly or monthly, depending on the choice of the borrower.

Thus, by fulfilling all the above conditions any non-banking finance company can perform the operations of a micro-finance institution.

Key Differences Between NBFC and Bank

The difference between NBFC and bank can be drawn clearly on the following grounds:

1. A government authorised financial intermediary that aims at providing banking services to the general public is called the bank. An NBFC is a company that provides banking services to people without holding a bank license.
2. An NBFC is incorporated under the Indian Companies Act, 1956 whereas a bank is registered under the Banking Regulation Act, 1949.
3. NBFC is not allowed to accept such deposits which are repayable on demand. Unlike banks, which accepts demand deposits.
4. Foreign Investments up to 100% is allowed in NBFC. On the other hand, only banks of the private sector are eligible for foreign investment, and that would be not more than 74%.
5. Banks are an integral part of payment and settlement cycle while NBFC, is not a part of the system.
6. It is mandatory for bank maintain reserve ratios like CRR or SLR. As opposed to NBFC, which does not require to maintain reserve ratios.

7. The deposit insurance facility is allowed to the depositors of banks by Deposit Insurance and Credit Guarantee Corporation (DICGC). Such facility is unavailable in the case of NBFC.
8. Banks create credit, whereas NBFC is not involved in the creation of credit.
9. Banks provide transaction services to customers, such as providing overdraft facility, the issue of traveller's cheque, transfer of funds, etc. Such services are not provided by NBFC.

Role of Financial Institutions in DRE

The main emphasis on bank lending has been popularizing new technologies in all walks of production including agriculture and enterprise. In the modern banking philosophy, particularly with the policy of liberalization, any activity of an entrepreneur or purchase of an asset becomes eligible for bank credit.

Several commercial banks, Regional Rural Banks, and Co-operative banks in the country already finance end-users and enterprises for renewable energy but the extent of lending is not currently evaluated. The banking sector can emerge as the driving force enabling access to decentralized renewable energy solutions for the poor.

A small step in this direction can be estimating and systematically lending towards RE and to achieve the same:

- Banks can adopt district level targets for lending towards based on the suggestion of the NABARD or State Level Bankers Committee (SLBC)
- The District Consultative Committee (DCC) can take up the responsibility of monitoring the achievement of these targets
- At the Block Level Banker Committee (BLBC), service providers may be invited to create technological awareness with a focus on the after sales service. The committee can also review the performance of banks and service providers.

The targets can be formulated as "number of loans" extended towards "Renewable Energy" with an emphasis on decentralized solutions and include technologies such as bio-gas, bio-mass, improved cooking solutions , solar (pumping, home lighting, powering small devices — sewing machine, fridge, water purification etc.), small wind, pico-hydro projects etc

Despite banks having participated in the subsidy programs of the Ministry of New and Renewable Energy and NABARD, they are yet to explore their full potential in lending to DRE. Some of the reasons why bankers are reluctant to lend are:

- **Small loan sizes**: Often under-served households and small livelihoods require loans in the range of Rs.10,000 to Rs.1,00,000 which are perceived as small loans with higher administrative cost.
- Repayment collection in remote regions poses additional costs to lending banks

But to overcome the above, the below mitigation mechanisms can be adopted:

- In Karnataka, banks have lent to rural slum dwellers for home lighting and micro entrepreneurship through the **pigmy banking system.**
- Banks in **partnership with NGO's** have participated in private interest subsidy/collateral support programs to benefit micro entrepreneurs such as tailors, bakery owners etc and to energy enterprises.
- **Self Help Groups/Joint Liability Groups** have been funded for taking up renewable energy interventions.
- Banks in their **Corporate Social Responsibility** programs have actively funded RE solutions. The CSR funds can be used to leverage finance and act as risk mitigating fund for village development.

The development of the DRE sector has been hampered by the myths with regard to the provision of Decentralized Renewable Energy Solutions.

Myth 1: The poor cannot maintain DRE systems.

While it is true that for DRE to reach the poor, there needs to be a strong contingent of energy enterprise who can provide servicing, it is not true that the poor cannot manage DRE products. This myth has been debunked by the penetration of solar and bio-gas plants at the village household level. The key is to ensure strong servicing networks to ensure long term sustainability of the solution and its operation. The poor must be given the freedom of choice to procure these products and this leads us to the second myth.

Myth 2 : The poor cannot afford sustainable technology and are not bankable

While poor households cannot purchase DRE solutions in one go, banks can play an important role in facilitating finance at convenient terms to these households. This type of financial linkage that facilitates banking access to the poor also helps build their credit score and enables a culture of saving and paves a path for potential livelihood development. The cost of solar for example has drastically reduced and become affordable due to technological changes and increasing number of enterprises providing similar services.

Myth 3 : Social Enterprises are not Sustainable

There are an increasing number of social enterprises providing DRE solution in the rural regions but one of the primary challenges they face is not market but affordable financing. Enterprises face difficulties in accessing debt finance and working capital. Bankers need to take cognizance of the need and provide enterprise and end-user finance that will not only improve energy access but also lead to the socio-economic development of the country.

Approach

It is a myth that the financial assistance to the poor should always be in the form of subsidy or grant. All the sustainable financial linkages available in the country can also be utilized productively by the poor if a little effort is put in to implement small innovations to overcome hindrances.

- Out of the above-mentioned banking options, Regional Rural Banks (RRBs) are the best suited and most reliable financial linkage in remote regions. RRBs were established with the objective to ensure sufficient institutional credit for agriculture and other rural sectors. They have matured into institutions that are largely responsible for the financial inclusion objective of the nation. RRBs are truly the last-mile bank connectivity for the end consumer financing.
- Cooperative banks are also easy and a good start. Once the trust of the Chairman is gained, it is easy to approach all the branches related to that particular cooperative bank, since the Chairman of the bank stands as a major decision-maker.

Chapter 4

Schemes for Energy Solutions

Importance of schemes

Financial Inclusion and access has been a high priority agenda for the government. With this priority, a large number of policies and programs have been developed by the government. This financial programs catalyze and facilitate marginalized & vulnerable population to access financial credit. But financial literacy is a challenge to unlock this opportunity. Hence, a fair understanding of the financial policies and schemes specially designed for these vulnerable communities will benefit them.

Here we list out the schemes that can be leveraged for DRE.

List of available schemes

SL No.	Name of Scheme	Eligibility Conditions	Scheme Highlights
1	MUDRA Yojana (Micro unit Development & Refinancing Agency)Yojana	1.Both in Commercial banks & RRBs. 2.Available for Micro, Small & medium entrepreneurs Artisans and others for taking up income generating activities. 3.providing employment to unemployed youths.	1.Three types of loans a)Shishu-Loans up to Rs. 50,000/-b) Kishore-Loans above Rs 50,000/-up to Rs. 5 Lakh. c) Tarun-Loans of above Rs.5 Lakh. 2.Term loan or working capital loan can be provided. 3.Margin 15-20% of project cost. 4.0ther guidelines as applicable for Priority sector advances.
2	PMEGP Scheme (Prime Minister's Employment Generation Programme). - implemented by KVIC	1.Providing employment to unemployed youths. 2.5hold be an 8th pass. 3.Age 18-45 years. 4. Commercial banks, RRBs 5.Application through DIC (District Industry Centre) and KVIC(Khadi& Village Industries Commission) or KVIB(Khadi& Village Industries Board) & Banks. 6.Selection through a Task Force committee.	1.For general category-Margin 10% , loan 90% of the cost of project and subsidy from Govt. is 15%.. For Sc/ST and women-margin is 5%, Loan -95% of the cost of project and Govt. subsidy is 25%. 2. Repayment period 3 to 7 years 3.No Collateral security for loans up to Rs. 10 lakh. Asset created out of loan shall be the security. 4.beneficiaries have to undergo Skill training provided by Govt. for 2-3 weeks before financing by banks. 5.FreeTraining is provided by Govt.

3	MSME scheme (Micro, Small and Medium Enterprise) Scheme.	1.For Micro, Small and Medium enterprises in the Manufacturing, Business and Service sector. 2.Solar loans can be under all the three sectors. 3.providing employment to unemployed youths.	1. Under service sector-Micro enterprises-up to Rs. 10 lakh. Small enterprises-loans from above Rs 10 Lakh and up to 2 Crore. Medium enterprises-loans from above 2 crore and up to 5 crore 2. Banks are mandated not to accept collateral security in the case of loans up to Rs.10 lakh extended to units in the MSE sector. 3. Banks are also advised to extend collateral-free loans up to Rs. 10 lakhs to all units financed under the Prime Minister Employment Generation Programme (PMEGP).
4	Credit Guarantee Fund Trust for micro and small enterprises (CGTMSE)	Guarantee Fee: 1. Upto 5 Lakhs- 1 % + Risk Premium (RP) 2. Above 5 lakhs and upto 50 lakhs- 1.35% + RP 3. Above 50 lakhs and upto 200 lakhs - 1.8% + RP	1.Micro and Small Enterprises (MSE) are eligible 2.Credit guarantee cover up to Rs.2 crore available for loans sanctioned to MSE 3.No collateral security and no third-party guaranty should be obtained. 4.Both manufacturing and service sectors are covered. 5.Credit to Retail, educational/training institutions & SHGs are not eligible.
5	SHG/JLG schemes	All weaker section loans including solar loans	1.1nstead of financing Individuals group financing is made by Banks. 2.Banks prefer SHG/JLG lending
6	Bank of India -Solar Pump set	Target Segment: Farmers owning land with access to source of water	Interest rate : linked to base rate Repayment period: 5 to 7 years, Amount of loan : 75% of the cost of the equipment Margin:25%

7	Canara Bank-Housing cum solar loan	1)Salaried individuals confirmed in the service with a minimum service of 3 years 2)Individuals engaged in business/professionals and self-employed persons. Such applicants should have been in the business/profession for a minimum period of 3 years. 3)The age of the borrower should be less than 60 years at the time of availing the loan. 4)Persons 60 years and above are also eligible subject to certain stipulations. 5)Should be having free rooftop to install the Solar Equipment 6)NTH (Net Take Home) to be 25%..	1)Loan for the purchase of Solar Equipment can also be sanctioned to applicants who are having sunsiting Housing Loans 2)Loan to individuals for installation of Grid connected RoofTop Solar Photovoltaic(PV) System along with the Housing Loan 3) Should be having free rooftop to install the solar Equipment **Solar Loan Component:** 1)20% of eligible quantum under Housing Loan Component or 80% of the Cost of the Solar system or Rs. 10.00 Lacs whichever is less 2)Margin in solar component:20% of the project cost 3)Interest rate: Women borrower: 8.6%,Others: 8.65% **Repayment**: Maximum 20 Years in EMIs OR the repayment period stipulated under Housing Loan, whichever is earlier.
8	India Overseas Bank- IOB Surya	1) All Individuals satisfying 50% take home pay norms. 2)Institutions like Educational Institutions, Hospitals, Hotels/Restaurants etc	**For individuals** 1)85% of the project cost which includes the cost of the system ,accessories,transportation & installation 2)Minimum loan amount :Rs 30000 3)interest rate:11.75% 4)Repayment period upto 5 years without holiday period **For institutions** 1)80% of the project cost which includes the cost of the system ,accessories,transportation & installation 2) Minimum loan amount : Rs 1 lakh and max 10 lakh 3)interest rate: 12% 4) Repayment period upto 5 years without holiday period
9	Punjab National Bank -PNB Saur Urja Yojana	Small/Farmers / Marginal Farmers /Share cropper /Tenant farmers/ Share cropper/Tenant Farmers/ Other Farmers and Agri-entrepreneurs,will be	1)Extent of Loan: Need based with a maximum limit of Rs 50000 2)Repayment of Loan: 5 years in yearly/half yearly installments

		eligible under the scheme.	
10	UCO Bank Scheme for Solar Irrigation Pumpset	1)The farmers land should have adequate source of water.In acse any Public /govt source is being used ,water right certificate from the concerned authority should be produced . 2)in case of wells they should have sufficient recouping capacity to irrigate area proposed to be brought under irrigation 3)Farmers should have own an economic land holding with a minimum of 10 acres.However ,loan can be considered even if the benefiting area is less than 10 acres provided the farmer is able to sell surplus water.	1) Quantum of Loan:Maximum 75% of the cost of the pumpset including accessories 2)Rate of Interest: Base Rate + 1.00% 3)Margin:25% of the total cost to be paid by Beneficiary If subsidy is available, the same can be considered as Margin and the Branches should not insist the borrower for margin separately. 4)Capital Subsidy:40% capital subsidy will be available under Jawaharlal Nehru National Solar Mission (JNNSM) for installation of solar Pumpsets for those farmers who have not installed any pump set.
11	Syndicate Bank-Syndsolar	1)Existing / New housing loan customers availing loan for independent house construction. 2)House owners who intend to install solar roof-top system who have not availed Housing loan with any bank can also be covered.	1)Solar PV Capacity: 1 KWP **Margin:**25% of project cost. Capital subsidy if any provided by Ministry of New and Renewable Energy may be taken as part of margin. **Loan amount :**75% of the cost of the project with maximum of ` 375000/- **Rate of Interest**:1 year MCLR+ 0.10% **Tenure**: Maximum 10 Years
12	Syndicate bank-Synd Solar Jyothi Scheme for Solar Lighting system	Applicable only for solar systems financed for industrial units	Under SyndJyothi Scheme, loans are extended at competitive interest rates with liberal lending norms Repayment:Max 5 years

13	NEDFI Equity Fund Scheme (North Eastern states)	Broad Investment Criteria: Strong and committed core team : 1)The businesses should be managed by a person or team with a demonstrated performance track record, commitment and energy 2)Growth potential : The businesses should have potential for sustainable high growth 3)Long-term competitive advantage : The business should have innovative business operations with a sustainable competitive advantage 4)Viable business plan : The applicant should have a viable business plan which offers above average profitability leading to attractive return on investment.	1)Mode of investment:Equity Capital or Partly / Fully Convertible Debentures. In case of investment in the form of convertible debentures, the interest rate shall be stipulated at the time of sanction. 2)Investment range: 50 lakhs to 300 lakhs 3)Investment period: min 5 years
14	DRI (Differential Rate of Interest) Scheme.	1. Available only in Commercial Banks. 2.To poor sections of the society-both in rural & urban areas. 3. Family income is not more than Rs 18,000/-in rural area and Rs.24,000/- in Urban areas.	1. Interest rate is 4% Per annum. 2. Loan limit is Rs. 15,000/- 3. Loan is granted for income generating activities-Lights for livelihood activities, entrepreneurs for generating income by hiring etc. 4. Income proof if available can be produced. Otherwise Bank Manager can make assessment of income by visiting the household.
15	General Credit card (GCC) Scheme	1.Both Commercial & RRBs 2.Poor section of society . 3.No specific activity. Any non farm activity. 4.Micro Entrepreneur can take the benefit.	1.Loans up to Rs.25,OOO/- 2.No collateral to be provided. 3.No guarantor is required. 4.Hypothecation of asset from loan 5.Margin 5-15%.

16	KUSUM scheme (Kisan Urja Suraksha Evam Utthaan Mahaabhiyan)	All farmers are eligible under this scheme	The Scheme consists of three components: a) Component A: 10,000 MW of Decentralized Ground Mounted Grid Connected Renewable Power Plants of individual plant size up to 2 MW. b) Component B: Installation of 17.50 lakh standalone Solar Powered Agriculture Pumps of individual pump capacity up to 7.5 HP. c) Component C: Solarisation of 10 Lakh Grid-connected Agriculture Pumps of individual pump capacity up to 7.5 HP.

Some of the prominent schemes from above is given below in more details:

MUDRA – MICRO UNITS DEVELOPMENT AND REFINANCING AGENCY

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 ` 10000 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)

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 bank or 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

Upto INR 10 lakh 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

Banks are mandated by RBI not to accept collateral security in the case of loans upto `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 36 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 installments 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.

CHECKLIST TO BE GIVEN TO THE NEW CUSTOMERS BY BRANCH) OF DATA TO BE KEPT READY/SUBMITTED BY THE CUSTOMER

1. Proof of identify – Voter's ID card/Aadhar Card / passport/driving license/PAN card/signature identification from present bankers of proprietor, partner or director (if a company)
2. Proof of residence – Recent telephone bills, electricity bill, property tax receipt/voter's ID card of proprietor, partner or director (if a company)
3. Proof of business address along with trade license, wherever applicable
4. Duly filled loan application form.
5. Assets and liabilities statement of entrepreneur and guarantors along with latest income tax returns. if applicable
6. Rent agreement (if business premises is on rent)
7. Copy of MSME registration/Entrepreneur's Memorandum if applicable.
8. Quotation of the machinery/equipment along with the accessories to be purchased from the authorized dealers.
9. Income certificate
10. Project report containing details of the entrepreneur, product choice, location, process of production, technical know-how, cost of the project, means of finance,

gestation period, marketability, selling arrangements, economics of the scheme, working capital assessment, SWOT analysis (strength, weakness, opportunities, threats) and such other details

(The checklist is only indicative and not exhaustive. Depending upon the local requirements at different places, addition could be made as per necessity)

PRIME MINISTER'S EMPLOYMENT GENERATION PROGRAMME (PMEGP)

Government of India has approved the introduction of a new credit linked subsidy programme called **Prime Minister's Employment Generation Programme (PMEGP)** by **merging the two schemes** that were in operation till 31.03.2008 namely **Prime Minister's Rojgar Yojana (PMRY) and Rural Employment Generation Programme (REGP**) for generation of employment opportunities through establishment of micro enterprises in rural as well as urban areas. PMEGP will be a central sector scheme to be administered by the Ministry of Micro, Small and Medium Enterprises (MSE).

Objectives: To generate employment opportunities in rural as well as urban areas of the country **through setting up of new self-employment ventures/projects/micro enterprises.**

Quantum and Nature of Financial Assistance
Levels of funding under PMEGP

Categories of beneficiaries under PMEGP	Beneficiary's contribution (of project cost)	Rate of subsidy (of project cost)	
		Urban	Rural
General	10%	15%	25%
Special (including SC/ST/OBCs/Minorities/Women/Ex-servicemen/Physical Handicapped/NER/Hill and Border Areas	05%	25%	35%

Note:
(1) The maximum cost of the project/unit admissible under manufacturing sector is Rs. 25lakh.
(2) The maximum cost of the project/unit admissible under business/service sector is Rs. 10lakh.
(3) The balance amount of the total project cost will be provided by Banks as term loan.

Weightage should be given to all social categories while implementing the Scheme in the field level. **The percentage of coverage of each social category under the scheme is as under:**

Scheduled Caste (SC)	15%
Scheduled Tribe (ST)	7.50%
Other Backward Classes (OBC)	27%
Ex-Serviceman	1%
Physical Handicap	3%
Women (overall)	30%

4. **Eligibility Conditions of Beneficiaries:**

i. Any individual, **above 18 years** of age

ii. There will be **no income ceiling for assistance** for setting up projects under PMEGP.

iii. For setting up of project costing **above Rs.10 lakh in the manufacturing sector** and **above Rs. 5lakh in the business /service sector,** the beneficiaries should possess at **least VIII standard pass educational qualification.**

iv. Assistance under the Scheme **is available only for new projects sanctioned** specifically under the PMEGP.

v. Self Help Groups (including those belonging to BPL provided that they have not availed benefits under any other Scheme) are also eligible for assistance under PMEGP.

vi. Existing Units and the units that have already availed Government Subsidy under any other scheme of Government of India or State Government **are not eligible.**

Other eligibility conditions:

i. A certified copy of the caste/community certificate or relevant document issued by the competent authority in the case of beneficiaries belonging to special categories.

ii. Project cost will include Capital Expenditure and one cycle of Working Capital. Projects without Capital Expenditure are not eligible for financing under the Scheme. Projects costing more than Rs.5 lakh, which do not require working capital, need clearance from the Regional Office or Controller of the Bank's Branch.

iii. Cost of the land should not be included in the Project cost. Cost of the ready built as well as long lease or rental Work-shed/Workshop can be included in the project cost subject to restricting such cost of ready built as well as long lease or rental work shed/workshop to be included in the project cost calculated for a maximum period of 3 years only.

Note: Only one person from one family is eligible for obtaining financial assistance for setting up of projects under PMEGP. The 'family' includes self and spouse.

5. Implementing Agencies:

The Scheme will be implemented by Khadi and Village Industries Commission (KVIC), Mumbai, which will be the single nodal agency at the national level. At the State level, the scheme will be implemented through State Directorates of KVIC, State Khadi and Village Industries Boards (KVIBs) and District Industries Centres in rural areas.

The Government subsidy under the Scheme will be routed by KVIC through the identified Banks for eventual distribution to the beneficiaries / entrepreneurs in their Bank accounts.

6. Financial Institutions:

(i) All Public Sector Banks.
(ii) All Regional Rural Banks.
(iii) Co-operative Banks approved by State Level Task Force Committee headed by Principal Secretary (Industries)/Commissioner (Industries)
(iv) Private Sector Scheduled Commercial Banks approved by State Level Task Force Committee headed by Principal Secretary (Industries)/Commissioner (Industries).
(v) Small Industries Development Bank of India (SIDBI).

7. Identification of beneficiaries:

The identification of beneficiaries will be done at the district level by a Task Force consisting of representatives from KVIC/State KVIB and State DICs and Banks. The Task force would be headed by the District Magistrate / Deputy Commissioner / Collector concerned.

8.Margin Money:

10% from beneficiaries belonging to General Category and 5% from beneficiaries belonging to Special Categories.

9. Bank Finance:

9.1 The Bank will sanction 90% of the project cost in case of General Category of beneficiary/institution and 95% in case of special category of the beneficiary/institution, and disburse full amount suitably for setting up of the project.

9.2 Bank will finance Capital Expenditure in the form of Term Loan and Working Capital in the form of cash credit. Project can also be financed by the Bank in the form of Composite Loan consisting of Capital Expenditure and Working Capital.

10.Margin Money Subsidy:

a. The financing branch of the bank, after receipt of the Margin Money (subsidy) from the nodal branch will place the said amount under Term Deposit Receipt at branch in the name of the beneficiary. **No interest will be paid on the TDR and no interest will be charged on loan to the corresponding amount of TDR.**

11. Entrepreneurship Development Programme (EDP):

After sanction of the credit facility, the beneficiary has to undergo EDP training arranged through KVIC/KVIB/DIC/Ministry of MSME/Accredited Training centres within a period of one month of the receipt of sanction communication for the purpose of release of funds.

11. Rate of Interest:

Bank will charge applicable rate of interest on the facilities granted.

13. Security:

- Hypothecation of assets created out of loan.
- As per RBI guidelines, the project costing upto Rs.10 lakhs are free from collateral security.
- CGTMSE provide collateral guarantee for the project beyond Rs.5.00 lakhs upto 25.00 lakhs under PMEGP loan.

14. Repayment Schedule:

Repayment schedule may range between 3 to 7 years with an initial moratorium as may be stipulated by the Bank depending upon the nature of activity proposed.

15. Checklist for the applicants:

1. Proof of identify – Voter's ID card/Aadhar Card / passport/driving license/PAN card/signature identification from present bankers of proprietor, partner or director (if a company)
2. Proof of residence – Recent telephone bills, electricity bill, property tax receipt/voter's ID card of proprietor, partner or director (if a company)
3. Proof of business address along with trade license, wherever applicable
4. Duly filled loan application form.
5. Assets and liabilities statement of entrepreneur and guarantors along with latest income tax returns. if applicable.
6. If the applicant belongs to Special category, copy of the certified Caste/Community Certificate issued by the competent authority.
7. Rent agreement (if business premises is on rent)
8. Copy of MSME registration/Entrepreneur's Memorandum if applicable.
9. Quotation of the machinery/equipment along with the accessories to be purchased from the authorized dealers.
10. Project report containing details of the entrepreneur, proposed project, location, process of production, technical know-how, cost of the project, means of finance, working capital assessment, economics of the scheme, marketing arrangements, gestation period, and such other details.
11. Copy of the EDP (Entrepreneurship Development Programme) Training certificate.

MICRO, SMALL AND MEDIUM ENTERPRISES

1. The concept of SSI / SME has been modified with the new concept of Micro, Small and Medium Enterprises (MSME). MSME sector is subdivided in to Manufacturing enterprises and Service enterprises. The manufacturing enterprises are defined in terms of investment in plant and machinery, whereas Service enterprises are defined in terms of investment in equipment under MSMED Act, 2006 as detailed below.

Manufacturing sector	**Investment in plant and machinery**
Micro enterprises	Not exceeding Rs. twenty-five lakh.
Small Enterprises	More than Rs.25 lakh but not exceeding Rs. 5 crores
Medium Enterprises	More than Rs.5 crore but not exceeding Rs.10 crore
SERVICE Sector	**Investment in equipment**
Micro enterprises	Not exceeding Rs. Ten lakhs
Small Enterprises	More than Rs. 10 lakhs but not exceeding Rs. 2 crores
Medium Enterprises	More than Rs 2 crore but not exceeding Rs.5 cores

2. Priority Sector Guidelines for MSME sector

Bank loans to Micro, Small and Medium Enterprises, for both Manufacturing and Service sectors are eligible to be classified under the Priority Sector as per the following norms:

2.1 Manufacturing Enterprises

The Micro, Small and Medium Enterprises engaged in the manufacture or production of goods to any industry specified in the first schedule to the Industries (Development and Regulation) Act, 1951 and as notified by the Government from time to time. The Manufacturing Enterprises are defined in terms of investment in plant and machinery as indicated above.

2.2 Service Enterprises

All bank loans to MSMEs, engaged in providing or rendering of services as defined in terms of investment in equipment under MSMED Act, 2006, (as indicated above) shall qualify under priority sector without any credit cap.

2.3 Khadi and Village Industries Sector (KVI)

All loans to units in the KVI sector will be eligible for classification under the sub-target of 7.5 percent prescribed for Micro Enterprises under priority sector.

2.4 Other Finance to MSMEs

(i) Loans to entities involved in assisting the decentralized sector in the supply of inputs to and marketing of outputs of artisans, village and cottage industries.

(ii) Loans to co-operatives of producers in the decentralized sector viz. artisans, village and cottage industries.

(iii) Loans sanctioned by banks to MFIs for on-lending to MSME sector.

(iv) Credit outstanding under General Credit Cards (including Artisan Credit Card, Laghu Udyami Card, Swarojgar Credit Card, and Weaver's Card etc. in existence and catering to the non-farm entrepreneurial credit needs of individuals).

(v) Overdrafts extended by banks up to Rs.10,000/- under Pradhan Mantri Jan Dhan Yojana (PMJDY) accounts provided the borrower's household annual income does not exceed Rs.100,000/- for rural areas and Rs.1,60,000/- for non-rural areas.

3. Targets / sub-targets for lending to Micro, Small and Medium Enterprises (MSME) sector by Domestic Commercial Banks

3.1 Advances to Micro, Small and Medium Enterprises (MSME) sector shall be reckoned in computing achievement under the overall Priority Sector target of 40 percent of Adjusted Net Bank Credit (ANBC).

3.2 Banks are required to achieve a **sub-target of 7.5 percent of ANBC** for lending to Micro Enterprises.

3.3 In terms of the recommendations of the Prime Minister's Task Force on MSMEs, banks are required to achieve:

(i) 20 per cent year-on-year growth in credit to micro and small enterprises,

(ii) 10 per cent annual growth in the number of micro enterprise accounts and

(iii) 60 per cent of total lending to MSE sector as on corresponding quarter of the previous year to Micro enterprises.

4. Common guidelines / instructions for lending to MSME sector

4.1 Issue of Acknowledgement of Loan Applications to MSME borrowers

Banks are advised to mandatorily acknowledge all loan applications, submitted manually or online, by their MSME borrowers and ensure that a running serial number is recorded on the application form as well as on the acknowledgement receipt.

Banks are expected to dispose of MSE loan application for a credit limit or enhancement in the existing **credit limit up to Rs.5 lakh within two weeks**; and for **credit limit above Rs.5 lakh and up to Rs.25 lakh within 3 weeks**; and for **credit limit above Rs.25 lakh within 6 weeks** from the date of receipt, provided the application is complete in all respects and is accompanied by documents as per 'check list' provided.

4.2 Collateral

Banks are **mandated not to accept collateral security in the case of loans up to Rs.10 lakh extended to units in the MSE sector**. Banks are also advised to extend collateral-free loans up to Rs. 10 lakhs to all units financed under the Prime Minister Employment Generation Programme (PMEGP).

Banks may, on the basis of good track record and financial position of the MSE units, increase the limit to dispense with the collateral requirement for loans up to Rs.25 lakhs (with the approval of the appropriate authority).

4.3 Composite loan

A composite loan limit of Rs.1 crore can be sanctioned by banks to enable the MSE entrepreneurs to avail of their working capital and term loan requirement through Single Window.

4.4 Credit Linked Capital Subsidy Scheme (CLSS)

Government of India, Ministry of Micro, Small and Medium Enterprises had launched Credit Linked Capital Subsidy Scheme (CLSS) for Technology Upgradation of Micro and Small Enterprises subject to the following terms and conditions:

(i) Ceiling on the loan under the scheme is Rs.1 crore.

(ii) The rate of subsidy is 15% for all units of micro and small enterprises up to loan ceiling at Sr. No. (i) above.

(iii) Calculation of admissible subsidy will be done with reference to the purchase price of plant and machinery instead of term loan disbursed to the beneficiary unit.

(iv) SIDBI and NABARD will continue to be implementing agencies of the scheme.

5. Margin money and Rate of Interest

To be decided by the Banks in terms of their Board approved policy within the overall guidelines of Reserve Bank issued from time to time.

6. CHECKLIST TO BE GIVEN TO THE NEW CUSTOMERS BY BRANCH) OF DATA TO BE KEPT READY/SUBMITTED BY THE CUSTOMER

1. Proof of identify – Voter's ID card/Aadhar Card / passport/driving license/PAN card/signature identification from present bankers of proprietor, partner or director (if a company)
2. Proof of residence – Recent telephone bills, electricity bill, property tax receipt/voter's ID card of proprietor, partner or director (if a company)
3. Proof of business address
4. Proof of Minority/SC/ST issued by the competent authority
5. Memorandum and Articles of Association, Certification of incorporation of the Company/Partnership Deed of the partnership firm or LLP /Trust Deed of the Trust/Bye Laws of the Society, etc.
6. In case of company, copies of return filed with ROC (Registrar of Companies), latest Search Report.
7. Assets and liabilities statement of promoters and guarantors along with latest income tax returns.
8. Rent agreement (if business premises is on rent)
9. Clearance from Pollution Control Board/Sanction from Electricity Board for supply of water, if applicable
10. Copy of MSME registration/Entrepreneur's Memorandum if applicable
11. Profile of the unit (includes names of the promoters, directors of the unit/company, the activity being undertaken, addresses of all offices/plants, shareholding pattern etc.

12. Last 3 years Balance Sheets of the unit/s along with income tax/sales tax returns etc. (applicable for all cases of loans above Rs.25000/-). However, for cases below Fund Based limits of Rs.20 lacs, if Audited Balance Sheets are not available, unaudited Balance Sheets may be acceptable as per extant instructions of the Bank. For cases of Rs.20 lacs and above, the Audited Balance Sheets are necessary. In case the Audited Balance Sheet is more than 6 months old, Provisional Balance Sheet of recent date to the submitted. (In case of loans upto Rs.25000/-, drawing of financial statement is a statutory requirement, the same to be submitted along with the application).
13. Projected Balance Sheets for the next 2 years in case of working capital limits and for the period of the loan in case of term loan (for all cases of above Rs.25000/-).
14. Form of Credit Monitoring Arrangement (CMA) data in the prescribed format of the Bank (applicable in case of aggregate fund based working capital limit of Rs.1 crore and above).
15. In case of take-over of advances, letters of sanction for facilities being availed from existing bankers/financial institutions along with detailed terms and conditions, pass sheet/statement of account for the last 12 months.
16. Position of accounts from the existing bankers/financial institution and confirmation about the asset being Standard with them.
17. Project report (for loans of Rs.10 lacs and above) containing details of the promoter, product choice, market survey, industry profile, government consents, location, process of production, collaboration/patent/technical know-how, cost of the project, means of finance, project schedule, gestation period, marketability, selling arrangements, management, operating/profitability statements, fund flow analysis, break even analysis, ratio analysis, working capital assessment, SWOT analysis (strength, weakness, opportunity, threats) and such other details (applicable in case of term loans – new/expansion/modernization projects).
18. Project implementation progress report issued by Chartered Accountant/Chartered Engineer (in case of term loans sought in respect of projects already under implementation/expansion/ modernization of the existing units already undertaken).
19. Month wise sales, production, imported raw materials, indigenous raw material, value of stocks in process, finished goods (quantity and value to be indicated in all cases), debtors, creditors, bank's outstanding for working capital limits, term loan limits, bills discounted etc.
20. Photocopies of the lease deed/title deeds of all the properties being offered as primary/collateral security.
21. Last 3 years Balance Sheets of the Associate/Group Companies (if any).
22. Latest Credit Risk Rating Report (not older than 12 months) obtained if any from any recognized credit risk rating agency (CRISIL, ICRA, Dun & Brad Street, Fitch, SMERA etc.).
23. If the unit is export oriented, details of products being exported, quantum of exports made in the last 3 years, details of pending GR forms.

Sample Loan application form

Bank

Branch

Sol Id

APPLICATION FORM FOR MICRO, SMALL & MEDIUM ENTERPRISES (MSME)
To be submitted along with documents as per the checklist

Application for MSME Loan

1) Activity Proposed# ____
#if a different activity other than existing activity is proposed.

1. Names of Associate Concerns and Nature of Association:

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

Relationship of Proprietors/ Partners/ Directors with the officials of the Bank/ Director of the Bank: Please select (Yes/ No) __

2. Banking/Credit Facilities (Existing) (Rs. in lakh)

Type of Facilities	Limit (in lakh)	Outstanding as on 31st Dec, 2017	Presently Banking With	Securities	Rate of Interest	Repayment Terms
Current Account						
Cash Credit						
Term Loan						
LC/BG						
Others						
Total						

If banking with our Bank, customer ID be given here: _________

18. Credit Facilities (Proposed)*

Type of Facilities	Amount (in lakh)	Purpose for which Required	Security Offered	
			Primary Security(Details with approx. value to be mentioned)	Whether Collateral Security Offered (If , yes, then provide details on column 20)(Yes/ No)
Cash Credit**				
Term Loan				
LC/BG				
Others				
Total				

*Mandatory Fields

**Basis of Cash Credit Limit applied

Cash Credit	**Projected**						
	Sales	**Working Cycle in months**	**Inventory**	**Debtors**	**Creditors**	**Other current assets**	**Promoters Contribution**
Not Applicable							

19. In case of term loan requirements, the details of machinery may be given as under:

Type of Machine/ Equipment	Purpose for which Required	Whether Imported or Indigenous	Name of Supplier	Total Cost of Machine (in case of an imported machine, the breakup of basic costs, freight, insurance and customs duty may be given)	Contribution being made by the promoters	Loan Required (Rs.)

20. Details of Collateral Securities Offered, if any, including third party guarantee (As per RBI guidelines banks are not to take collateral security for loans up to Rs.10 Lakhs to MSME Units)

a) Third-Party Guarantee:

Sl.No.	Name of Guarantor	Residential Address	Telephone No. (Residence)	Mobile No	Net worth Rs. in lakh)	PAN No
1.						
2.						

Sl.No.	Name of the owner of Collateral	Collateral Security		
		Nature	Details	Value (Rs. in lakh)
1.				
2.				
3.				

21. Past Performance / Future Estimates-

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 until the proposed year of repayment of the loan)				
Rs. in lakh	Past Year 1 (Actual)	Past Year 2 (Actual)	Present Year (Estimate)	Next Year (Projection)
Net Sales				
Net Profit				
Capital (Net Worth in case of Companies)				

22. Status Regarding Statutory Obligations:

Statutory Obligation: Remarks (Any details in Connection with the relevant obligation to be given)

Whether Complied with (select Yes /No). If not applicable then select N. A.		
1. Registration under Shops and Establishment ACT	Yes/ No/ NA	
2. Registration under MSME (Provisional /Final)	Yes/ No/ NA	
3. Drug License	Yes/ No/ NA	
4. Latest Sales Tax Return Filed	Yes/ No/ NA	
5. Latest Income Tax Returns Filed	Yes/ No/ NA	
6. Any other Statutory dues remaining outstanding	Yes/ No/ NA	

23. a) ID Proof (Any of following):Passport/ Voter Identity Card/ PAN Card/ Driving Licence/ Job Card/ Aadhaar Card/ Identity Card (subject to the satisfaction of bank) ID Proof No. PAN Card-

b) Address Proof (Any of the following:

Electricity Bill/ Telephone Bill/ Bank Account Statement of any other bank/ Letter from reputed employer/ Letter from recognized public authority verifying the address of the customer to the satisfaction of the bank/ Ration Card
Address Proof No:______________________________

Declaration:
I/We hereby certify that all information furnished by me/us is true; that I/We have no borrowing arrangements for the unit except is in the application; that there is no over dues/ statutory dues against me/us/promoters except as indicated in the application; that I/We shall furnish all other information that may be required connection with my/our application that this may also be exchanged by you with an agency you may deem fit and you, your representatives or Reserve Bank of India or any other agency as authorised by you, may at any time, inspect/ verify my/our assessment of account etc. in our factory/business premises as given above.

Signature:
*(To be signe*d at the designated branch only

ACKNOWLEDGEMENT OF LOAN APPLICATION

To

`

Your Loan Application dated: _____

Dear Sir,
We acknowledge receipt of your application for Loan of Rs._______On.
The application is being taken up for processing. We shall get in touch with you shortly for any further information if required in this regard and shall communicate disposal of the application in due course.

Yours Faithfully

Branch Manager

NOTE:-

1. Processing of application is subject to the submission of all necessary information/documents required for processing theapplication.
2. Sanction of loan is subject to conformity with Bank's policy and procedures and is entirely at Bank's discretion.
3. You may please contact the branch manager giving the above application no. and date of receipt for any further information/clarifications.

COUNTERFOIL FOR ACKNOWLEDGEMENT ISSUED

Acknowledgement issued to _________________________ for his/her/their loan application dated_________ with application No._______dated___.

Signature of the Applicant **Branch Manager**

Application No:	Application
Receipt date:	

CREDIT GUARANTEE FUND TRUST FOR MICRO AND SMALL ENTERPRISES (CGTMSE)

Salient Features:

- Micro and Small Enterprises (MSE) are eligible
- Credit guarantee cover up to Rs. 2crore available for loans sanctioned to MSE
- No collateral security and no third-party guaranty should be obtained.
- Both manufacturing and service sectors are covered.
- Credit to Retail, educational/training institutions & SHGs are not eligible.

Guarantee Fee:

Annual Guarantee Fee

Credit Facility	Women, MEs and units in NE Region	Others
Up to Rs.5.00 lakhs	1.00% + RP	1.00%+ R.P
Above Rs. 5.00 lakhs and Up to Rs. 50.00 lakhs	1.35% + RP	1.50% + RP
Above Rs. 50.00 lakhs and up to Rs 200 lakhs	1.80% + RP	1.80% + RP

RP: Risk Premium

Charging Annual Service Fee:

This fee is payable every year depending upon the level of NPA in the Guaranteed Portfolio of the Bank and Claim Payment ratio of the guaranteed amount as under

Risk premium on NPA Guaranteed Portfolio		Risk Premium on Claim Payment Ratio	
NPA Percentage	**Risk Premium**	**Claim Payment in %**	**Risk Premium**
0-5%	**SR**	0-5%	**SR**
More than 5-10%	10% of SR	More than 5– 10 %	10% of SR
More than 10-15%	15% of SR	More than 10-15%	15% of SR
More than 15-20%	20% of SR	More than 15-20%	20% of SR
More than 20%	25% of SR	More than 20%	25% of SR

GUARANTEE COVERAGE:

Maximum Extent of Guarantee Cover

Category	Max. up to Rs.5.00 Lakhs	More than Rs.5.00 lakhs up to Rs. 50 lakhs	More than Rs. 50.00lakh up to 200 lakhs
Micro Enterprises	85% of amount in default. Max Rs.4.25 lakh	75% of amount in default. Max Rs.37.50 lakh	75% of amount in default subject to max. of Rs. 150 lakh
Women Entpr./units located in NE other than loan up to 5.00 lakh to ME	80% of the amount in default subject to max. Rs. 40 lakh	80% of the amount in default subject to max. Rs. 40 lakh	75% of amount in default subject to max. of Rs. 150 lakh
All other category of borrowers	75% of the amount in default subject to max. Rs.37.50 lakh	75% of the amount in default subject to max. Rs.37.50 lakh	75% of amount in default subject to max. of Rs. 150 lakh

CLAIM:

Within a maximum period of 3 years from the date of NPA OR within 3 years from the lock-in period.

Lock in period = 18 months

CLAIM SETTLEMENT:

- 75% of the guaranteed amount within 30 days.
- Balance 25% of guaranteed amount on conclusion of recovery proceedings.

FINANCING SELF HELP GROUPS

1. Micro Credit:

Micro Credit is defined as provision of thrift, credit and other financial services and products of very small amount to the poor in rural, semi-urban and urban areas for enabling them to raise their income levels and improve living standards. Micro Credit Institutions are those which provide these facilities.

2. Self-Help Groups (SHG) :

A Self-Help Group (SHG) is a registered or unregistered group of micro entrepreneurs having homogenous social and economic background voluntarily, coming together to save small amounts regularly, to mutually agree to contribute to a common fund and to meet their emergency needs on mutual help basis.

3. Characteristics of the Self-Help Groups (SHGs):

- The SHGs start savings and conducts meetings regularly.
- After a period of 6 months, they start maturing in terms of regularity in savings/ conducting meetings / internal lendings.
- SHG should be practicing ***'Panchasutras' i.e.*** **Regular meetings; Regular savings; Regular inter-loaning; Timely repayment; and Up-to-date books of accounts;**
- Thereafter, SHGs are graded by a grading mechanism put in place by the bank.
- SHGs prepare a credit plan for the group as a whole based on the credit needs of the members.
- This plan may be for one common activity or for multifarious activities, including consumption needs.
- Loan is sanctioned to SHGs based on such group plans; however, the same is linked to their savings in the ratio of 1:4.
- Each member of the SHG gives mutual guarantee

4. Opening of S.B. Account for the SHG:

SB A/c in the name of SHG could be opened after obtaining from the group the following documents:

a) Resolution from the SHG:

The SHG has to pass a resolution in the group meeting, signed by all members, indicating their decision to open SB a/c with the bank.

b) Authorisation from the SHG:

The SHG should authorise at least three members, any two of whom, to jointly operate upon their account.

c) Photographs of authorised representatives.

d) copies of ID and address proof of authorised representatives.

e) Duly filled SHG -Saving Bank Account Opening Form.

5. Assessing SHGs for Bank Linkage :

A grading format as suggested by NABARD/ IBA is used to assess each SHG in a simple, but effective manner. Only **A** (80 or more marks) and **B** (70-79 marks) graded SHGs are to be considered for credit linkage.

6. Sanction of Credit Facility to the SHGs:

The loan is sanctioned in the name of the group, (Not in the name of the individual members).

7. Quantum of Loan:

It would be necessary that the group prepares a credit plan for its members and an aggregate of that is submitted to the Bank. Generally, the amount of loan to the SHG can be to the tune of 1 to 6 times of the savings with the minimum of INR100000 in the 1st Dose**,** and INR200000 in the 2nd Dose and INR 300000 in the 3rd Dose and INR 500000- in the 4th Dose depending upon their corpus and past satisfactory recovery record. The SHGS should submit Micro Credit Plan for availing credit from 3rd Dose onwards.

The following constitutes the savings(corpus) of the Group:

- ✔ The group's balance in the SB a/c
- ✔ Amount held as cash with the authorised persons
- ✔ Amount internally lent amongst the members
- ✔ Amount received as interest on the loans

Loans may be granted by SHGs to their members for various purposes including consumption. The bank does not decide the purposes for which SHG gives loans to its members. The purpose can be emergency needs like illness in the family, social needs like marriage etc. or buying assets for income generation /acquisition of assets as well as for housing, education and debt swapping. The group will discuss and decide about the purpose for which loans are to be given to its individual members by the SHG.

8. Type of Credit:

SHGs can avail either Term Loan (TL) or a Cash Credit Limit (CCL) loan or both based on the need. The amount of credit under different facilities should be assessed as follows:

Cash Credit Limit (CCL):

In case of CCL, minimum loan of ` 5 lakhs to each eligible SHGs may be sanctioned for a period of 5 years with a yearly drawing power (DP). The drawing power may be enhanced annually based on the corpus and repayment performance of the SHG. The drawing power may be calculated as follows:

- DP for First Year: 6 times of the existing corpus or minimum of ₹ 1 lakh whichever is higher.
- DP for Second Year: 8 times of the corpus at the time review/ enhancement or minimum of ₹ 2 lakh, whichever is higher.

- DP for Third Year: Minimum of ₹ 3 lakhs based on the Micro credit plan prepared by SHG and the previous credit history.
- DP for Fourth Year onwards: Minimum of ₹ 5 lakhs based on the Micro credit plan prepared by SHG and the previous credit History.

Term Loan:

In case of Term Loan, eligible loan amount may be assessed in doses as mentioned below:

- First Dose: 6 times of the existing corpus or minimum of ₹ 1 lakh whichever is higher.
- Second Dose: 8 times of the existing corpus or minimum of ₹ 2 lakh, whichever is higher
- Third Dose: Minimum of ₹ 3 lakhs based on the Micro credit plan prepared by the SHGs and the previous credit history
- Fourth Dose: Minimum of ₹ 5 lakhs based on the Micro credit plan prepared by the SHGs and the previous credit History.

9. Repayment schedule:

- The First year/ first dose of loan will be repaid in 12-18 months in monthly/ quarterly instalments.
- The Second year/ Second dose of loan will be repaid in 18-24 months in monthly/ quarterly instalments
- The Third year/ Third dose of loan will be repaid in 24-36 months in monthly/ quarterly instalments.
- The loan from Fourth year/ Fourth dose onwards has to be repaid between 3-6 years based on the cash flow in monthly/ quarterly installments.

10. Security and Margin:

No collateral and no margin will be charged up to ₹ 10.00 lakhs limit to the SHGs. No lien should be marked against savings bank account of SHGs.

10. List of documents to be submitted by SHGs while applying for Bank Loan assistance:

i. Duly filled in SHG Loan Application Form for credit linkage.

ii. Resolution signed by all members of SHG to borrow from the Bank.

iii. Financial status of SHG as on -------------(date)

iv. Inter-se Agreement executed by all the members of the Self Help Group authorizing inter alia to borrow on behalf of the SHG.

v. Details of member-wise requirement of loan- Micro Credit Plan (Compulsory from 3rd linkage onwards)

(**The checklist is only indicative and not exhaustive. Depending upon the nature /purpose of the project, additional documents may be required).**

11. Interest rate charged on loans to SHGs:

Interest rate to be charged to the SHGs as per the policy decision of the bank keeping in view of the RBI guidelines issued from time to time.

12. Disbursement of loan:

The authorised functionary of the SHG withdraws money from the bank by way of cash or by cheque. Further the loan amount to the individual borrowers within the group is decided collectively by the group based on the demand /needs of the individual members in their group meetings.

13. Presence of defaulters in SHGs:

The defaults by a few members of SHGs and /or their family members to the financing bank should not ordinarily come in the way of financing SHGs per se by banks provided the SHG is not in default to it. However, the bank loan may not be utilized by the SHG for financing a defaulter member to the bank

FINANCING JOINT LIABILITY GROUPS

1. Introduction:
Innovations such as SHG-Bank linkage programme have proved to be successful in providing financial services from the formal banking sector to very poor people.

The results of the various programmes conducted by NABARD and State Governments have demonstrated that the JLG approach can be successfully adopted by banks to reach clients like tenant farmers, share croppers, oral lessees, farmers with small land holdings without proper land records etc. and other poor individuals taking up farm/ non-farm activities. The formal banking system has rarely been able to provide credit to tenant farmers on account of their inability to offer collaterals. However, the mechanism of JLG would enable banks to extend credit on the basis of mutual guarantee provided by the members of JLG. It would also reduce transaction costs of both the bank's and the borrowers' and help in loan recovery.

2. Objectives:
The scheme aims at the following objectives:

a) To augment flow of credit to tenant farmers cultivating land, either as oral lessees or sharecroppers, and small farmers who do not have proper title of their land holding, other poor individuals taking up farm activities, off-farm activities and non-farm activities.
b) To extend collateral free loans to target clients through JLG mechanism.
c) To build mutual trust and confidence between banks and target group.

3. General features of JLG:

- ✔ A Joint Liability Group (JLG) is an informal group comprising preferably 4 to 10 individuals, coming together for the purposes of availing bank loan either singly or through the group mechanism against mutual guarantee.
- ✔ The JLG members would offer a joint undertaking to the bank that enables them to avail loans.
- ✔ Generally, JLG members would engage in a similar type of economic activity. In certain groups, members may prefer different types of activities as well.

4. Criteria for Selection of JLG members:

JLGs can be formed primarily consisting of tenant farmers and small farmers cultivating land without possessing proper title of their land and other poor individuals taking up farm/off-farm and non-farm activities.

- ➢ Members should be of similar socioeconomic status and background carrying out farming and allied activities, non-farm activities and who agree to function as a joint liability group
- ➢ The groups must be organized by the likeminded farmers/individuals and develop mutual trust and respect.
- ➢ The members should be residing in the same village/area and should know and trust each other well enough to take up joint liability for group/individual loans
- ➢ The group members should not be a defaulter to any other formal financial institution
- ➢ More than one person from the same family should not be included in the JLG
- ➢ There is a need for a very active member of the group to ensure leadership role and ensure the activities of the JLG.

5. Size of the JLG:

The group should be formed preferably with 4 to 10 members to enable the group members to offer mutual guarantee.

6. Formation of JLGs:

Normally, NGOs and other individual rural volunteers and line departments of State Government promote the concept and formation of joint liability groups.

7. Savings by JLG :

The JLG is intended primarily to be a credit group. Therefore, savings by the JLG members is voluntary. All the JLG members may be encouraged to open an individual savings bank account. However, if the JLG chooses to undertake savings as well as credit operations through the group mechanism, such groups should open a Savings Bank account **in the name of the JLG,** with at least two members being authorised to operate the account on behalf of the group.

8. JLG Models:
Banks can finance JLGs by adopting any of the following two models.

(a). Model A – Financing individuals in the JLG:

Each member of the JLG should be provided an individual Kisan Credit Card (KCC)/General Credit Card (GCC) or term loan. The financing bank can assess the credit requirement, based on the crop to be cultivated, available cultivable land/activity to be undertaken and the credit absorption capacity of the individual. Similar credit assessment need would be done in case of off-farm activities like dairy, poultry, etc. and nonfarm activities. All members would jointly execute a loan document, making each one jointly and severally liable for repayment of all loans taken by individuals belonging to the group.
The mutual agreement needs to ensure consensus among all members about the amount of individual debt liability that will be created including liability created out of the individual KCC. Any member opting out of the group or joining the group, will necessitate a new loan agreement, to be kept on record in the bank branch.

(b). Model B – Financing the JLG as a Group:

The JLG functions, operationally as one borrowing unit in this model. The group would be eligible for accessing single loan, which could be the combined credit requirements of all its members. The credit assessment of the group could be based on the available cultivable area by each member of the JLG/activity to be undertaken for farm sector, off-farm sector or non-farm sector. All members would jointly execute the document and own the debt liability jointly and severally.

The mutual agreement needs to ensure consensus among all members about the amount of individual debt liability that will be created. Any change in composition of the group, will lead to a new document being executed by the JLG.

9. Critical factors in JLG approach:

The success of JLG concept depends on several factors. However, the following factors are critical:

- The concept depends primarily on mutual trust within the groups and on peer pressure for repayment of loans
- The quality of group leadership is critically important for sustainability of the group

10. Credit Appraisal:

Banks conduct a thorough credit appraisal to avoid under or over-financing. Suitable assessment tools will be applied by the banks for the purpose of rating of JLGs. The finance to JLG is expected to be a flexible credit product addressing the credit requirements of its members including crop production, marketing and investment credit, besides other productive purposes in agriculture, allied sectors as well as non-farm activities. All other norms of lending including rate of interest, margin on security, documentation, coverage under crop insurance scheme and personal accident insurance etc., will be followed by banks as per its regular norms.

12. Loan limit:
Considering that the loan to be granted is against the mutual guarantee offered by the group, the maximum loan amount is restricted to Rs.50,000/= per individual, both under Models A & B.

13. Rate of interest:
Interest to be charged should be as applicable for KCC/ Agricultural term loan/non-farm activities.

14. Margin and Security Norms:
Hypothecation of assets created out of bank loan. No collateral securities should be taken for the loans granted to JLGs. However, the mutual guarantees offered by the JLG members are taken for the loan. Margin as per the usual norms of the bank.

15. List of documents to be submitted by JLGs while applying for Bank Loan:

1. Proof of identify – Voter's ID card/Aadhar Card / passport/driving license/PAN card
2. Proof of residence – Recent telephone bills, electricity bill, property tax receipt
3. Duly filled JLG loan application form.
4. Quotation of the machinery/equipment along with the accessories to be purchased for Off-farm or Non-farm activities.

   (**The checklist is only indicative and not exhaustive. Depending upon the nature /purpose of the project, additional documents may be required)**

Deendayal Antyodaya Yojana - National Rural Livelihoods Mission (DAY-NRLM)

1. Background

1.1 The Ministry of Rural Development, Government of India launched a new programme known as National Rural Livelihoods Mission (NRLM) by restructuring and replacing the Swarnjayanti Gram Swarozgar Yojana (SGSY) scheme with effect from April 01, 2013. NRLM was renamed as **Deendayal Antyodaya Yojana – National Rural Livelihoods Mission (DAY-NRLM)** with effect from March 29, 2016.

1.2 DAY-NRLM is the flagship program of Govt. of India for promoting poverty reduction through building strong institutions of the poor, particularly women, and enabling these institutions to access a range of financial services and livelihood services.

1.3 A women's Self-Help Group (SHG), coming together on the basis of mutual affinity is the primary building block of the DAY-NRLM community institutional design. DAY- NRLM focuses on building, nurturing and strengthening the institutions of the poor women, including the SHGs and their Federations at village and higher levels. In addition, DAY- NRLM promotes livelihood institutions of rural poor. The mission provides a continuous hand-holding support to the institutions of poor for a period of 5 – 7 years till they come out of abject poverty.

1.4 The implementation of DAY-NRLM has been in a Mission Mode since April, 2013. DAY-NRLM adopts a demand driven approach, enabling the States to formulate their own State specific poverty reduction action plans. DAY-NRLM enables the State rural livelihoods missions to professionalize their human resources at State, district and block level.

2. Women SHGs and their Federations

2.1 Women SHGs under DAY-NRLM consist of 10-20 persons. In case of special SHGs i.e. groups in the difficult areas, groups with disabled persons, and groups formed in remote tribal areas, this number may be a minimum of 5 persons.

2.2 DAY-NRLM promotes affinity-based women Self Help Groups (SHGs).

2.3 Only for groups to be formed with Persons with disabilities, and other special categories like elders, trans genders, DAY-NRLM will have both men and women in the Self-Help Groups.

3. Financial Assistance to the SHGs

3.1 **Revolving Fund (RF):** DAY-NRLM would provide Revolving Fund (RF) support to SHGs in existence for a minimum period of 3/6 months and follow the norms of good SHGs, i.e. they follow **'Panchasutras' – regular meetings, regular savings, regular internal lending, regular recoveries and maintenance of proper books of accounts.** Only such SHGs that have not received any RF earlier will be provided with RF, as corpus, with a minimum of ₹10,000 and up to a maximum of ₹15,000 per SHG. The purpose of RF is to strengthen their institutional and financial management capacity and build a good credit history within the group.

3.2 **Capital Subsidy has been discontinued under DAY-NRLM:** No Capital Subsidy will be sanctioned to any SHG under DAY-NRLM.

4. Introduction of Interest subvention:

DAY-NRLM has a provision for **interest subvention,** to **cover the difference between the Lending Rate of the banks and 7%,** on all credit from the banks/ financial institutions **availed by women SHGs, for a maximum of ₹ 300,000/- per SHG.** This will be available across the country in two ways:

4.1 **Category 1 Districts:**

In 250 identified districts, banks will lend to the women **SHGs @7% up to an aggregated loan amount of ₹ 300,000/.** The SHGs will also get **additional interest subvention of 3% on prompt payment, reducing the effective rate of interest to 4%.** The list of identified **districts coming under category 1 in the States of Assam, Bihar, Jharkhand, Karnataka, Odisha, Manipur, Meghalaya and Tamilnadu** are furnished in ***Annexure 1***.

4.2 **Category 2 Districts:**

In the remaining districts, the banks will lend at their respective lending rate applicable to SHGs. All women SHGs under DAY– NRLM, will be **eligible for interest subvention on prompt payment to the extent of difference between the lending rates and 7% for the loan up to Rs. 300,000/- subject to maximum of 5.5 %** or as prescribed by the MoRD. This part of the scheme will be operationalized by SRLMs.

5. Role of banks:

5.1 **Opening of Savings accounts:**

SB A/c in the name of SHG could be opened after obtaining from the group the following documents:

a) <u>Resolution from the SHG:</u>

The SHG has to pass a resolution in the group meeting, signed by all members, indicating their decision to open SB a/c with the bank.

b) Authorisation from the SHG:

The SHG should authorise at least three members, any two of whom, to jointly operate upon their account.

c) Photographs of authorised representatives.

d) Copies of ID and address proof of authorised representatives.

e) Duly filled SHG -Saving Bank Account Opening Form.

6. Lending Norms:

6.1 The eligibility criteria for the SHGs to avail loans:

- SHG should be in active existence at least since the last **6 months** as per the books of account of SHGs and not from the date of opening of S/B account.
- SHG should be practicing ***'Panchasutras' i.e.*** **Regular meetings; Regular savings; Regular inter-loaning; Timely repayment; and Up-to-date books of accounts;**
- Qualified as per grading norms fixed by NABARD/suggested by IBA. As and when the federations of the SHGs come to existence, the grading exercise can be done by the Federations to support the Banks.
- The existing defunct SHGs are also eligible for credit if they are revived and continue to be active for a minimum period of 3 months.

6.2 **Loan Application:** Banks to use the Common Loan Application Forms recommended by Indian Bank's Association (IBA) for extending credit facility to SHGs.

6.3 **Loan amount**: Emphasis is laid on the multiple doses of assistance under DAY-NRLM. This would mean assisting an SHG over a period of time, through repeat doses of credit, to enable them to access higher amounts of credit for taking up sustainable livelihoods and improve on the quality of life.

6.4 SHGs can avail either **Term Loan (TL) or a Cash Credit Limit (CCL) loan or both based on the need.**
The amount of credit under different facilities should be as follows:

Cash Credit Limit (CCL): In case of CCL, banks may sanction minimum loan of 5 lakhs to each eligible SHGs for a period of 5 years with a yearly drawing power (DP). The drawing power may be enhanced annually based on the repayment performance of the SHG. The drawing power may be calculated as follows:

- DP for First Year: 6 times of the existing corpus or minimum of ₹ 1 lakh whichever is higher.
- DP for Second Year: 8 times of the corpus at the time review/ enhancement or

minimum of ₹ 2 lakh, whichever is higher.

- DP for Third Year: Minimum of ₹ 3 lakhs based on the Micro credit plan prepared by SHG and appraised by the Federations /Support agency and the previous credit history.
- DP for Fourth Year onwards: Minimum of ₹ 5 lakhs based on the Micro credit plan prepared by SHG and appraised by the Federations /Support agency and the previous credit History.

Term Loan: In case of Term Loan, banks sanction loan amount in doses as mentioned below:

- First Dose: 6 times of the existing corpus or minimum of ₹ 1 lakh whichever is higher.
- Second Dose: 8 times of the existing corpus or minimum of ₹ 2 lakh, whichever is higher
- Third Dose: Minimum of ₹ 3 lakhs based on the Micro credit plan prepared by the SHGs and appraised by the Federations /Support agency and the previous credit history
- Fourth Dose: Minimum of ₹ 5 lakhs based on the Micro credit plan prepared by the SHGs and appraised by the Federations /Support agency and the previous credit History

(Corpus is inclusive of revolving funds, if any, received by that SHG, its own savings, interest earning by SHG from on-lending to its members, income from other sources, and funds from other sources in case of promotion by other institutes/NGOs.)

6.5 Purpose of loan and repayment:

6.5.1 The loan amount will be distributed among members based on the Micro Credit Plan (MCP) prepared by the SHGs. The loans may be used by members for meeting social needs, high cost debt swapping, construction or repair of house, construction of toilets and taking up sustainable livelihoods by the individual members within the SHGs or to finance any viable common activity started by the SHGs.

6.5.2 In order to facilitate use of loans for augmenting livelihoods of SHG members, it is advised that at least 50% of loans above ₹ 2 lakhs and 75% of loans above ₹ 4 lakhs be used primarily for income generating productive purposes. Micro Credit Plan (MCP) prepared by SHGs would form the basis for determining the purpose and usage of loans.

6.5.3 Repayment schedule could be as follows:

- The First year/ first dose of loan will be repaid in 12-18 months in monthly/ quarterly instalments.

- The Second year/ Second dose of loan will be repaid in 18-24 months in monthly/ quarterly instalments

- The Third year/ Third dose of loan will be repaid in 24-36 months in monthly/ quarterly instalments.

- The loan from Fourth year/ Fourth dose onwards has to be repaid between 3-6 years based on the cash flow in monthly/ quarterly installments.

6.6 **Security and Margin:** No collateral and no margin will be charged up to ₹ 10.00 lakhs limit to the SHGs. No lien should be marked against savings bank account of SHGs and no deposits should be insisted upon while sanctioning loans.

6.7 **Dealing with Defaulters:**

6.7.1 Willful defaulters shall not be financed under DAY-NRLM. In case willful defaulters are members of a group, they might be allowed to benefit from the thrift and credit activities of the group including the corpus built up with the assistance of Revolving Fund. But at the stage of accessing bank loan by SHG for financing economic activities by its members, the **willful defaulters should not have the benefit of such bank loan until the outstanding loans are repaid.**

List of eligible Districts for the Interest Subvention on the loan upto Rs. 3 lakh at 7% and additional interest Subvention of 3% on the prompt repayment in Assam, Bihar, Jharkhand, Karnataka, Odisha, Tamilnadu, Manipur and Meghalaya States.

Sl No	States	Name of Districts
1	ASSAM	Chirang, KarbiAnglong, Sonitpur, Tinsukiya, Hailakandi, Dhemeji, Jorhat, Nagaon
2	BIHAR	Saharsa, Supaul, Madhepura, Nalanda, Khagria, East Champaran (Motihari), Arwal, Aurangabad, Gaya, Jamui, Jehanabad, Kaimur, Munger, Nawada, Rohtas, Paschim Champaran, Sitamarhi
3	JHARKHAND	Pakkur, Dumka, Godda, Bokarao, Chatra, Garhwa, Giridh, Gumla, Hazaribagh, Khunti, Kodarma, Latehar(N), Lohardaga, Paschim Singhbhum, Palamu, Purbi Singhbhum, Ramgarh, Ranchi (Rural), Saraikela(N), Simdega(N)
4	KARNATAKA	Bijapur, Chamarajanagar, Chitra Durga, Gulbarga, Mysore, Tumkur, Gadag, Koppal
5	MAHARASHTRA	Solapur, Ratnagiri, Thane, Wardha, Beed, Sindhurdurg, Chandrapur, Gadchiroli, Gondia, Jalna, Osmanabad, Nandurbar, Yavatmal
6	ODISHA	Angul, Bhadrak, Balasore, Cuttack, Balangir, Devagarh, Gajapati, Ganjam, Jaipur, Kalahandi, Kandhamal, Kendujhar, Koraput, Malkangiri, Mayurbhanj, Nabarangpur, Nayagarh, Nuapada, Rayagada, Sambalpur, Sonapur, Sundargarh
7	TAMIL NADU	Cuddalore, Nagapattinam, Thanjaore, Trichy, Dindugal, Vilupuram, Vellore, Thiruvannamalai, Dharmapuri
8	MANIPUR	Chandel, Imphal East
9	MEGHALAYA	West Garo Hills, South West Khasi Hills, West Khasi Hill

KUSUM (Kisan Urja Suraksha Evam Utthaan Mahaabhiyan)

Ministry of New and Renewable Energy (MNRE) has launched the Pradhan Mantri Kisan Urja Suraksha evem Utthan Mahabhiyan (PM KUSUM) Scheme for farmers for installation of solar pumps and grid connected solar and other renewable power plants in the country.
The scheme aims to add solar and other renewable capacity of 25,750 MW by 2022 with total central financial support of Rs. 34,422 Crore including service charges to the implementing agencies.

Scheme Components

1. Component A (to be initially in pilot mode for 1000 MW)

- 10,000 MW of de-centralised ground- mounted grid-connected renewable power plants
- Renewable power plants of capacity 500 kilowatts (kW) to 2 MW will be set up by individual farmers, cooperatives, panchayats, or farmer producer organisations (FPO) on their barren or cultivable lands.
- The power generated will be purchased by the distribution companies (discoms) at the feed-in tariffs determined by respective state electricity regulatory commissions (SERC). The scheme will open a stable and continuous source of income to rural landowners. Performance-based incentives at Rs 0.40 per unit for five years will be provided to discoms.

2. Component B (full replication mode)

- Installation of 17.50 lakh standalone solar powered agricultural pumps
- Individual farmers will be supported in installing standalone solar pumps of capacity up to 7.5 horsepower (HP). Solar PV capacity in kW equal to the pump capacity in HP is allowed under the scheme.
- Central Financial Assistance (CFA) of 30 percent of the benchmark cost or the tender cost, whichever is lower, will be provided. The states will give a subsidy of 30 per cent, and the remaining 40 per cent will be provided by the farmer (alternatively- bank finance may be made available for meeting 30 percent of the cost while the remaining 10% provided by farmer).

3. Component C (to be initially in pilot mode for 1lakh pumps)

- Solarisation of 10 lakh grid-connected solar-powered agricultural pumps
- Individual farmers will be supported to solarise pumps of capacity up to 7.5 HP. Solar PV capacity up to two times of pump capacity in kW is allowed under the scheme. The farmer will be able to use the generated energy to meet the irrigation needs and the excess available energy will be sold to discom. This will help to create an avenue for extra income to the farmers, and for the states to meet their renewable purchase obligation (RPO) targets.
- Central Financial Assistance (CFA) of 30 percent of the benchmark cost or the tender cost, whichever is lower, will be provided. The states will give a subsidy of 30 per cent, and the remaining 40 per cent will be provided by the farmer. (alternatively- bank finance may be made available for meeting 30 percent of the cost while the remaining 10% provided by farmer).

PRIORITY SECTOR CREDIT

The origin of priority sector dates back to 1968 when commercial banks were asked to increase their involvement in financing of priority sector. The description of the priority sector was formalized in the year 1972 on the basis of the report submitted by the informal study group relating to advances to the priority sector. The Reserve Bank of India revised the priority sector guidelines in the year 2015 based on the recommendations of Internal Working Group set up in July 2014.

The salient features of revised priority sector guidelines are as under.

1. **Categories under priority Sector**

    - Agriculture
    - Micro, Small and Medium industries
    - Export Credit
    - Education
    - Housing
    - Social Infrastructure
    - Renewable Energy
    - Others.

2. **Targets/sub-targets for Priority sector**

    - Total Priority Sector : 40% of ANBC*
    - Agriculture : 18% of ANBC, of which 8% of ANBC to Small and marginal Farmers
    - Micro Enterprises : 7.5% of ANBC
    - Weaker Section Advance: 10% of ANBC

    ***ANBC means Adjusted Net Bank Credit**

3. **Description of MSME and Renewable Energy categories under Priority Sector.**
    - **Micro, Small and Medium Enterprises (MSME)**

MSME sector is subdivided in to Manufacturing enterprises and Service enterprises. The manufacturing enterprises are defined in terms of investment in plant and machinery, whereas Service enterprises are defined in terms of investment in equipment under MSMED Act, 2006 as detailed below.

Manufacturing sector	Investment in plant and machinery
Micro enterprises	Not exceeding Rs. twenty-five lakh.
Small Enterprises	More than Rs.25 lakh but not exceeding Rs. 5 crores
Medium Enterprises	More than Rs.5 crore but not exceeding Rs.10 crore
SERVICE Sector	**Investment in equipment**
Micro enterprises	Not exceeding Rs. Ten lakhs
Small Enterprises	More than Rs. 10 lakhs but not exceeding Rs. 2 crores
Medium Enterprises	More than Rs 2 crore but not exceeding Rs.5 cores

Bank loans to Micro, Small and Medium Enterprises, for both manufacturing and service sectors are eligible to be classified under priority sector.

- **Renewable Energy**

Bank loans **upto a limit of Rs.15crore to borrowers** for purposes like solar based power generators, biomass based power generators, wind mills, micro-hydel plants and non-conventional energy based public utilities viz. street lighting systems and village electrification. For **individual households, the loan limit will be Rs.10 lakh per borrower.**

4. **Bank/Govt. schemes which can be leveraged for financing individuals upto Rs.10 lakhs under Renewable Energy.**

   - Micro Unit Development and Refinance Agency (Mudra)
   - Micro, Small and Medium Enterprises (MSME)
   - Prime Minister's Employment Generation Programme (PMEGP)
   - Self Help Group and Joint Liability Group (SHG and JLG)
   - National Rural Livelihood mission (NRLM)
   - Agriculture and Allied activities schemes
   - Differential Rate of Interest (DRI) and General Credit Card (GCC)
   - Housing Loan Scheme.
   - Eligible State Sponsored Schemes

How to fix one's need into Available schemes

Financing should be designed based on the cash flow of the customer to significantly improve the affordability of the product. For example, a farmer growing a crop such as sugarcane receives income once every six months. A loan demanding monthly repayment can be extremely inconvenient for him. However, the same farmer can pay a six-monthly instalment as it matches with his cash flow. Institutional finance for the consumer has multiple benefits as well. Financing Solar Systems is a relatively new area for commercial banks, Regional Rural Banks, and cooperatives. The technical feasibility of solar systems has been established beyond doubt. Photovoltaic (PV) lighting can provide the user/customer with several benefits such as financial, health, and convenience if the fairly large up-front capital cost can be financed with reasonable and affordable terms. Financing PV systems is more or less the same as financing any other project/product. Each bank may have its own specific guidelines on various aspects of financing solar systems.

How to determine if the customer needs financing?

First, the best-suited solution should be identified for the energy needs of a customer. If the initial cost of this solution is not affordable upfront by the customer, then financing can be considered as a suitable alternative. The money the family/household spends currently on fuel/ energy source can be diverted towards repaying the loan. For example, a rural household spending Rs.150/- per month on kerosene for lighting can avail of a loan to install a bright 2 light solar system. The loan can be repaid fully within a 5 year period with monthly instalments of Rs.150/-, an amount that it was spending for kerosene. The system if properly serviced has an average life of 7 to 8 years. An interim replacement of the battery will add another 7 to 8 years of life. In addition, if the solar light can support their livelihood activity for more hours after dusk (extends the working hours of their shop, weaving, handicraft making, etc), the extra income will contribute amply towards the repayment amount.

How to determine if the customer can afford the equipment even if financed?

Affordability is determined based on the existing income and expenditure of the household. The expenditure on the existing source of fuel/light is calculated and diverted towards paying for the solar apparatus. For example, a household with a monthly income of Rs. 5000 may be spending Rs. 150 per month on kerosene for lighting. The cost of the solar product is approximately Rs. 7000 with no monthly expenditure. This household can easily buy the product as well as save Rs.150 per month that it was spending on kerosene. Savings which can be made by switching to solar as a mode of power supply should also be kept in mind. This forms the basis for calculating the affordability for the customer.

How should financing be designed for the customer?

Financing should be designed based on the cash flow of the customer to significantly improve the affordability of the product. For example, a farmer growing a crop such as paddy receives income once every six months. A loan demanding monthly repayment can be extremely inconvenient for him. However, the same farmer can pay a six-monthly instalment as it matches with his cash flow. Institutional finance for the consumer has multiple benefits as well.

Chapter 5

Check Your Eligibility for Loan

End-user financing

The end-user segment that is eligible for financing are:

1. Individuals such as farmers, traders, professionals, businessmen, salaried persons including employees of the bank, artisans, craftsmen, daily wage earners, etc.
2. Organisations such as firms, companies, institutions, associations.
3. Individuals who have a source of income adequate enough to repay the loan with interest as stipulated by the bank
4. Individuals who are residents in the service area or the command area of the bank. (He/she need not be a permanent resident/domicile of that area especially in case of salaried persons.)
5. An existing customer whose past dealings have been satisfactory.

How FIs Evaluate Loan Eligibility of the Proposal & Borrower?

Loan Proposal
Firstly, the loan application is submitted by the applicant in the form prescribed by the bank. The applicant shall furnish all the necessary information as required by the bank. The enterprise team will help the customer in furnishing the details.

Appraisal of the Proposal: On receipt of the loan proposal for financing DRE Systems along with the requirements, the bankers analyze several risk categories as given below:

Technical Aspects: Product Specification, Warranty, Life & Recurring cost, Technology & Servicing

Product Specification: During appraisal of the loan application, it is ensured that the products & components and manufacturer/system integrator meet the standards specified by MNRE.

Life and Recurring Cost: The banker also ensures that the manufacturer/dealer of the systems offer Annual Maintenance Contracts (AMC) covering supply of spares (excluding batteries) and services after the five years mandatory warranty period to ensure satisfactory operation of the system on a sustainable basis. The terms of the AMC are to be agreed upon by the system supplier and the end user.

Warranty: In addition the banker shall insist on a minimum warranty of five years for the complete system (except for the luminaries) including battery, charge regulator and other components, and for a minimum of 5 years for the PV module. Warranties should commence from the date of installation.

Ensure technology and Servicing: The banker shall demand that the equipment for which the loan is being installed by eligible enterprises are from the NABARD list of vendors. Strong after-sales servicing and support network must be available in the region for technical sustainability.

Non-Technical Aspects: Repayment capacity, Surety/Guarantor, Credit history, KYC Documents, Documentation & Disbursement, Security, Repayment method, Service Charges, Rate of Interest

Repayment Capacity

Commercial banks stipulate that the loan for the system to be repaid within a stipulated period. Hence, the product itself needs to be designed such that the system cost when converted into a loan or instalment, makes it affordable and provides maximum benefit (or payback) within the repayment period.

Surety / Guarantor

The banks usually ask for creditworthy party (preferably third party) as the loan transaction **Surety / Guarantor.**

Credit History

The banks check the credit history of the borrower to determine the individual's ability and track record of repaying a debt. Request a copy of the credit report well in advance of submitting the loan application, so that it can be reviewed and any errors may be corrected.

KYC Documents

KYC stands for “Know Your Customer”. KYC documents along with the customer’s photograph have been made mandatory to reduce as much fraud as possible and as an anti money laundering measure, these documents have been made mandatory by every bank.

Documentation & Disbursement

Upon fulfillment of the terms and conditions, the loan will be provided by obtaining the loan documents produced by the borrower and the surety (wherever applicable). Depending on the quantum of loan and its category, hypothecation of the system is obtained. Wherever required, collateral like mortgage of land, building etc. or pledge of **NSC, KVP** or assignment of **LIC** etc. is obtained. The loan amount along with the margin contribution (if any) is released to the manufacturer or supplier upon a satisfactory report of installation of the system is confirmed by the borrower.

Note: The original invoice and stamped receipt must be obtained from the manufacturer/ dealer.

Security

- **Hypothecation** of the asset created out of the loan is the Solar System itself
- Creation of charge on the property or mortgage of immovable property as collateral security wherever required (normally when the loan amount exceeds Rs. 25,000)
- **Collateral** such as NSC, KVP, LIC of adequate value are also acceptable.

Repayment method

The repayment method of the loan, either monthly/quarterly/half-yearly/yearly instalments over a period of five years is established depending on the source of income of the borrower. Interest, however, shall be paid quarterly or as and when debited to the loan account.

Note: Initial moratorium of three months from the date of loan may be given for repayment whenever found necessary.

Service Charges

One time processing and other charges are normally at 0.1% to 0.25% of the loan amount at the time of arranging the loan. The rate of service charges varies from bank to bank, and is applied as per the bank's guidelines.

Rate of Interest

Banks charge interest rate as priority sector advance as per the policy guidelines in accordance with guidelines issued by RBI from time to time. Penal interest at 2% above the normal rate may be levied for overdue loans where the loan amount exceeds Rs. 25,000 in case of Priority Sector and Rs.5000 in case of Non Priority Sector.

Borrower Assessment

To frame a proposal quickly, it is suggested that the bank manager, borrower and the enterprise providing the solution, to meet and discuss at a common place. The assessment standards will vary from person to person, depending upon the size of the loan, experience of the banker, the dealings of the borrower and so on. The following brief should help one understand how the bankers assess the borrower efficiently:

The background of the beneficiary/end-user/entrepreneur should include the following details
- Who is the borrower?
- What business is he doing?
- Is he a customer of the bank?
- If he is not, which bank has he been dealing with so far?
- Why did he not approach that bank for credit requirements?
- If he is a customer of the bank, then has he borrowed from it in the past? What is his track record?
- In case of a new borrower, the banker may wish to collect further details. The banker may prefer to meet the borrower directly and not through any agency or third person. It also helps the banker to check the various statements and figures furnished in the proposal/ application.

It is seen whether the cost estimates are reasonable as per the standard rates, and whether any capital and/or interest subsidy is available. The time required to install and energize the equipment is also clearly and correctly assessed.

All documents required by the banker are to be submitted along with the application.

The availability of after-sales services must be ensured. There should be an arrangement to provide spares in case of defective materials supplied or for replacement, whenever required.

Initial payment should be specific and fixing of the instalments (whether monthly, quarterly, half yearly, etc.) must be done considering the source of income.

The following aspects must also be looked into
- What is the amount of loan required?
- What will the loan mean to the borrower from the profit point of view?
- When and how will the loan be repaid?
- Where will the funds come from for repaying the loan?
- Will the system being installed help the borrower to reduce expenditure and increase savings to repay the loan?
- Does the borrower have a basic idea about the possible amount of net savings/ profit after the installation?
- How will the borrower bring in the required margin money?
- Does the borrower have the necessary technical skill to handle the PV system and its maintenance or does he need any training?
- Has he properly assessed the special features such as the no. of hours of working, no. of units produced per hour, back-up of the system, the number of lights required etc.?

Documentation Checklist for Loan appraisal

Table 1: KYC Documents by Customers

Proof of Identity (Any one)

- Aadhar Card copy
- PAN Card copy
- Voter's ID Card copy
- Driver's License
- Passport copy
- Two recent passport size photographs of the applicant.

Proof of Residence (any one)

- Electricity bill
- Recent Telephone bills
- Proof of tenancy like rent agreement in case the applicant is the tenant occupant of the house.
- Ration card copy
- Aadhar Card
- Passport

In addition, the following requirements may be obtained depending on the category of the applicant and/or loan scheme.

- Record of Right (ROR) or village accountant's certificate or Adangal or Chitta or Pahani
- 10-1 extract or Patta book furnishing of land holding in case of farmers and agriculture.
- Tax paid receipt of the property Khata/1-11 or 12 (survey record from village panchayat)
- Copy of the Patta/Khatha or possession certificate issued by the Town Panchayat, Municipality or City Corporation in case of urban or metropolitan areas furnishing details of house property.
- Latest land revenue/ Municipal Tax/ House tax paid receipt.
- Affidavit/Declaration of Family Tree (Vamsha Vruksha)

- The applicant shall also submit original title deeds of the property, encumbrance certificate, legal opinion, property valuation certificate, and other supporting documents whenever the loan is required to be secured by mortgage.
- Salary certificate/Pay slip (income proof for the salaried)
- In case of corporate clients and firms, audited financial statements for the last three years, partnership deed, memorandum of understanding, articles of associations, board resolution to borrow, etc.
- Income Tax assessment order or the copy of the return filed with the ITO (wherever applicable).

Table 2: Bank documents to be executed by the banker/customer/guarantor

- Loan Application Form cum appraisal
- Inspection Report by the banker
- Terms and conditions letter
- Demand Promissory Note (DPN) and Demand Promissory(DP) Note delivery letter
- Deed of Hypothecation cum Guarantee Agreement

Table 3: Documents from the Supplier/ Enterprise

- Quotation
- Order Acknowledgement copy
- Cash Receipt
- Delivery Challan
- Invoice copies & Receipts
- Installation Completion Statement
- Warranty Card Copy
- Customer Satisfactory letter
- Annual Maintenance Contract

Chapter 6

Approaching the FIs

Do's & Don’ts while pushing a loan proposal

The weight given to a banker's assessment of a borrower's character can vary tremendously between banks and between individual bank officers. Many small businesses have found more success "selling" their reputation and good character to smaller community banks who may be more directly affected by the economic health of the surrounding community.

As a general rule, the following traits are considered important when a bank considers loan application for an entrepreneur:

- Successful prior business experience
- An existing or past relationship with the bank (e.g., prior credit or depositor relationship)
- Referrals by respected community members and good customers of the bank
- References from professionals (accountants, lawyers, business advisers) who have reviewed your proposals
- Community involvement
- Evidence of your care and effort in the business planning process

Many banks consider the amount of investment the owners themselves are committing to the business as evidence of a borrower's "character." On top of that, many commercial lenders want the owner to finance between 15 percent to 25 percent of the projected cost of a new project. If your investment is considered insignificant, the banker may consider it a lack of both owner confidence and dedication to the business.

Socio-economic Aspects and Background and need of entrepreneur:

The social and economic background of the customer and his needs should be one of the critical aspects to understand the importance of the loan.

Ensure the Repaying Capacity of the entrepreneur: The loan proposal should be thoroughly discussed with the applicant. The proposal should be appraised taking into consideration the technical, financial, economic, commercial, managerial and legal aspects to determine the technical feasibility, financial viability and overall bankability of the proposal. Once the repaying capacity of the borrower is carefully assessed, there will be enough confidence and evidence to approach a bank for financing. Care should be taken that the borrower does not have a default history.

Market potential of the entrepreneur & the services: The market potential of entrepreneur and his/her products or services have to be assessed by enquiring into his past sales, market knowledge on distributors & different sales channels.

Arrange for spot inspection: Arrange for the Branch Manager or any other officer designated by him to undertake a pre-sanctioned spot inspection of the location/site where the System is to be installed.

Chapter 7

Art of Communicating with Financial Service Providers

Even though communication seemingly seems to be the simple act of transferring information from one person to another, it's obstacle-ridden and comes with many pitfalls. The central problem of communication arises when we're not able to effectively convey the ideas we have in mind. Therefore, the quality in which information is transmitted and received greatly depends on our communication skills. This is very much true with the communication process to unlock finance whether it is through formal or informal credit delivery institutions.

Core Features to remember in communication for end user financing

- **It is continuous and Dynamic process:** Continuous interaction promotes understanding and exchange of information relevant for decision-making. It takes different forms and medium depending upon their moods and behaviour and that keeps changing in different situations.
- **Pervasive:** Take it to the appropriate levels, in all functional areas of a financing process.
- **Exchange:** Communication involves exchange of information, ideas and opinions both written and oral as per requirement.
- **Means of unifying organizational activities:** Communication unifies internal banking environment with external potential borrower environment. It also integrates the human and physical resources and converts them into desired output.
- **Goal-oriented:** Communication is goal-oriented. Unless the receiver and sender know the purpose they intend to achieve through communication, it has little practical utility
- **A means, not an end:** Communication is not an end. Effective communication is a means towards achieving the end, here the closing of a loan proposal Has to be effective throughout all processes in the credit delivery.

Some tips for Communicating Effectively with FIs and End Users

1. Be at the level of your partner

Great communicators establish comfort and trust by meeting listeners on their level. To accomplish this, they subtly match their conversational partner's language style, body language, facial expression, mood and energy level. This would mean that speak with the banker at his/her level with end user a different level and enterprise still different.

2. Be a flexible listener

Listening often proves to be the trickiest part of a conversation. Not only do many people lack sufficient listening skills, but they also prefer a one-sided communication. But also those who are good listeners often struggle with the difficulty of comprehending what is said and maintaining the conversation.

Skillful communicators are not just listening to the spoken words. They also carefully seek to read between the lines of what is spoken. Even more so, they pay great attention to subtle nuances of the conversation, such as the tone in which words are spoken and nonverbal indicators.

Listening attentively helps proficient communicators to identify the (hidden and) underlying motifs of a person. In many cases, to fully understand what a person is communicating, we need to carefully note how they transmit certain messages because it allows communicators to know the right time to address sensitive subjects and when to better avoid them.

3. Cultivate Curiosity

Most simple and effective technique is to maintain curiosity. By developing a natural interest in the people you communicate with, you'll quickly build up mutual trust and respect. Not only this, but curiosity will also help you to better understand the motivations of other people. Something that is crucial when it comes to convincing others of your ideas.

The willingness to learn more about the people around you can also help you to form deep bonds with them. Even more importantly, it switches our focus from continuously trying to dominate a conversation back to actually listening.

4. Suspend the Ego

Often the situation is such that while one person speaks, the others wait patiently for the speaker to finish. Next, another person will step to the foreground and starts talking about something related. In most cases, the second person will attempt to portray a (more exciting) story of their own life. Therefore, many conversations consist of people switching from one subject to another, without ever getting into great detail. The self-centeredness of each speaker simply does not allow a harmonious conversation.

Excellent communicators are people who are able to resist the urge to follow this standardized pattern. Instead of trying to dominate the conversation, try to understand the position of other person and build on from what they reveal.

5. Stay positive

Another important communication technique lies in the maintenance of a positive attitude during conversations. A positive attitude sets the stage for productive conversations. Good communicators know that being constructive is crucial for every kind of conversation. They understand that harsh criticism or negativity only causes their counterpart to build up defenses. And when this happens, people shut down. It is therefore even more difficult to convey the intended message.

6. Communicate with enthusiasm

Enthusiasm truly is contagious. You can make use of it not only to communicate more effectively, but also to communicate in a more powerful and engaging manner. Enthusiasm greatly aids powerful communication. Effective communication consists of using well-timed doses of enthusiasm to make the spoken message a lot more powerful. People are more likely to respond positively to enthusiastic speakers that are able to address their feelings.

7. Try to approve and not bargain hard

People tend to respond very well to approval. Some even so much that they actively seek to get other people's approval. Effective communication can also be established by opening other people for the conversation and lightning their mood by showing them approval. By telling your listeners in a subtle but forthright manner what you admire about them, you'll be able to quickly connect with them. Giving other people approval in an honest fashion can be especially effective to win them over to your side.

8. Understand the importance of eye contact

Eye contact is an important aspect of one's communication. Unfortunately, finding the right balance of eye contact during a conversation can be quite difficult. Skilled communicators are neither staring excessively nor do they avoid any kind of eye contact. Instead, they maintain a healthy balance. Especially when listening, they look their counterpart in the eyes (without staring) to communicate that they are attentively listening. But also when speaking, skillful communicators make sure that they keep the right amount of eye contact to maintain the attention of their listeners.

9. Avoid information overload

Whenever we communicate, we almost always focus on conveying the message in a clear manner. Effective communication, however, also requires that the flood of information can be properly processed by the recipient. Confronting listeners with too much information at once can overwhelm them quickly. In these cases, you can deliver the message as clearly and precisely as you want, but it will never fully reach the listener.

SELCO approach With FI Officers

- Building personal rapport and relationship with Bank manager is an important process in unlocking finance in the area. Many times, we approach bank manager only to fulfill immediate financial requirements. There should be multiple visits to identified bank branches. TIme should be scheduled each month for informal visits and it can also be part of targets/deliverables.
- Inspiring the bank managers to undertake the specific case as a cause beyond their duty.
- Networking with Lead District Manager (LDM) ; LDM can provide details of interested financiers for development and solar based livelihoods. If relationship is properly maintained and LDM is kept aware of the latest development, he/she can be mould into a champion. He/She has the capacity of persuading financiers into the idea of DRE financing.
- Networking with Regional Manager (RM) in the regional office -
  - Developing relationships with RM can open up opportunities in mapping with branch managers who are interested in building energy portfolio within their area.
  - Regional Manager can also share the energy budget within the bank's annual plan and the geographical focus of the bank. Accordingly, an organization can design financial plan for unlocking finance in identified districts.
- The conversations should portray a reversal in attitude that conveys we are also supporting the bank in achieving their targets.
- Involvement in customer meets and bankers meet, if possible present brochure and demos.
- Inviting nearest branch managers for inaugurations of any solar livelihoods.
- Being presentable and professional every time one meets the officer.
- Bankers meet to be arranged after calling for appointment. Most of the bankers prefer fixing the meeting in the second half of the day.
- Be aware about busy timings of FI officer especially during harvest period since they will be processing the crop insurance and agri-loans.

- ➔ When approaching FI, one should have full details on the cost of livelihood project to be financed including its economics for the information of FI officer.

SELCO approach With Enterprise/Incubatee

- ➔ Identifying credit worthy customers before going to meet FI officer. Some amount of due diligence should be done as well. This could be done by talking to neighbours or
- ➔ Have an understanding of different financial institutions and when to approach each one of them.
- ➔ Documentation for end user is the major challenge. Maintain documents based on the checklist before visiting the branch. This will ensure speedier approval of the loan process.
- ➔ Be professional in approaching the FI person.
    - ○ Dress code to be professional.
    - ○ Body language to be open and warm.
    - ○ Presenting the visiting card with two hands.
    - ○ Drinking tea/coffee before manager.
    - ○ Creating a genuine interest in the person by not delving too fast into the financial matter.
    - ○ Carrying appropriate marketing collaterals while visiting the FI office.

SELCO approach With end-user

- ➔ The end-user has to accompany the Enterprise/Incubatee with the follow-up meetings.
- ➔ End-user has to be motivated to follow up with the bankers directly. Hence, he/she has to be educated on the loan process. So this is also practise for financial inclusion.
- ➔ Sometimes, there needs to be change in perspective regarding repayment amounts. If we breakdown the monthly amounts to weekly, it reduces the financial burden.

Group Activity - Would You Give a Loan to yourself?

Typically, people think they are great candidates for a loan, whether it's a car loan, a personal loan, or home loan. This activity forces participants to flip the conversation and discuss what it would take for them to give a loan to someone else or even themselves, especially if their own money or livelihood were on the line. Break the participant group into small groups of 3-4 members. Assign one group member to act as a bank while the remaining group members to act as loan applicants. Once roles have been assigned, tell the participants that are acting as bank employees to conduct interviews of loan applicants to determine who they would and would not give a loan to. Some key components to consider while bankers are interviewing their applicants include:

- Does the applicant have a verifiable income? Applicants should be prepared to provide ways to verify income.
- What other proof (collateral/assets/guarantee) would you need of the borrower's ability to repay?
- Ask bankers to decide if income is enough to determine this as well as list what other factors (debts, credit history for example) play a role and why.
- How much experience does the loan applicant have for running the business or who is standing as a mentor or supporting structure for their business?
- Bankers should ask questions to determine the reason for a loan. This will constitute good and bad reasons for a loan.

Annexure

A. Financing and Policy

Q 1. Have banks provided loans for DRE?

Ans 1. Several banks in India today are actively lending to decentralized renewable energy, with some banks also coming up with tailor-made schemes. A number of nationalized and rural banks including Syndicate Bank, Aryavarth Grameen Bank, Prathama Grameen Bank, Canara Bank, Karnataka Vikas Grameen Bank, Pragathi Krishna Grameen bank, SBI, SBM, SBH, Bank of Baroda have been financing Decentralized renewable energy solutions, particularly solar PV and Thermal for more than 10 years.

The National Solar Mission (off-grid component) also used the bank financing channel to route subsidies to end-users for Decentralized solar systems. Beyond basic solar home systems and rooftop systems, in recent times a few banks have also financed productive livelihoods- sewing machines, refrigerators and roti-rolling machines powered off solar energy, albeit in very small numbers.

The critical gap is the lack of data regarding the number of systems financed and the high rate of repayment that can provide assurance to bankers. To address this, bankers need to start classifying all renewable energy loans. This will provide data on repayments and project profiles which in turn will encourage new managers to lend.

Q 2. Can DRE be classified under Priority Sector Lending of the RBI?

Ans. The RBI in its notification on "Priority Sector Lending – Targets and Classification" has clearly stated that Renewable Energy is an eligible category under priority sector.

"Renewable Energy -Bank loans up to a limit of ₹ 15 crores to borrowers for purposes like solar-based power generators, biomass-based power generators, windmills, micro-hydel plants and for non-conventional energy based public utilities viz. street lighting systems, and remote village electrification. For individual households, the loan limit will be ₹ 10 lakh per borrower."

-RBI notification on "Priority Sector Lending – Targets and Classification" (No.: RBI/2014-15/573 FIDD.CO.Plan.BC.5 4/04.09.01 /2014-15) dated 23rd April 2015

In addition, banks can lend towards DRE and claim eligibility under the following categories:

a) **Agriculture** – Irrigation i.e. solar pumping, cold storage powered by Renewable Energy, Agro-processing i.e. dryers and diary processing using renewable energy etc.
b) **Advances to Weaker Sections** – SHG's, Artisans, village and cottage industries, Scheduled Castes and Scheduled Tribes, Self Help Groups, women beneficiaries and minority communities for the adoption of renewable energy-based livelihoods or renewable for their livelihoods for powering their appliances and machinery. Banks can also extend loans under the Differential Rate of Interest (DRI) scheme for DRE.
c) **Micro, Small and Medium Enterprises** – Banks can lend to energy enterprises during the start-up phase of operation or for growth.
d) **Social Infrastructure**: Lending towards drinking water facilities such as water purification powered by renewable energy.

Q 3. Should bankers only lend when there is a subsidy scheme?
Ans. No, lending for Decentralized Renewable Energy systems is similar to lending for any other asset. The original MNRE-NABARD subsidy scheme was merely created to incentivize this lending and adoption amongst end-users. As of 2016 March, the scheme has been reintroduced with certain system/product specifications. However, independent of whether or not there is a subsidy scheme, financing for Decentralized renewable energy needs to be institutionalized, similar to any other asset financing that banks undertake.

Q 4. How to categorize a loan given for solar intervention in livelihood?
Ans. An investment by an entrepreneur in energy for livelihoods such as a solar-powered refrigerator system or Sewing machine is essentially a capital investment and can be categorized as lending towards MSME. However, ideally, banks should create a section for Renewable Energy lending (as it is part of the Priority sector) and such loans can be categorized accordingly.

B. Risk Mitigation

Q 4. What is critical when providing a loan for DRE?
Ans. Apart from the general business/product viability analysis that banks undertake focus must also be made on the quality of the vendor and his service.
MNRE provides details on the technical specifications of products eligible for bank financing. Despite these lists, there is hesitation amongst banks to lend for solar on account of the risk of non-functioning systems, lack of credibility of vendors and potential for loan default.
To overcome this issue, bankers can use this checklist of ideal criteria to determine the credibility of vendors and their ability to maintain systems while financing for SHS. This will allow the bank to use their discretion while financing systems of particular vendors and consequently reduce the risk of Non-performing assets (NPAs) under the SHS portfolio.

Vendor details:

a) Vendors should have sold SHS in India for a period of at least 2 years. They should have installed at least 1,000 SHS in India.
b) They should operate in at least 2 districts in the state and should have Sales Offices and Service Centres in both the designated districts.
c) They should have adequate experience in installing SHS in houses and small businesses in rural areas.
d) They should have provisions to ensure the training of local technicians to service SHS installed by them.

Specifics on after-sales service:
There should be at least one Service Centre within a radius of 70 km of the location of the SHS. The bank should be satisfied that the Service Centre is located at a reasonably close distance from the customer’s premises to provide a high level of service, preferably within 48 hours of the call. The vendor should provide information on Service Centers established by them, the area covered by each and the facilities available in each.

- The vendor should have a pre-determined schedule for maintenance and after-sales service. A maintenance schedule should be disclosed in product literature. Both the customer and the Bank should be made fully aware of the schedule of maintenance that will be supported by the Vendor during the period of the warranty and the Bank Loan.

- Warranty and Guarantee of the product: Ensuring the quality of the product will also assure repayments and loan recovery.
- In the case of community-based projects it is important to ascertain community cohesion and partner with NGOs/gram panchayat in the region to provide mentorship to the project.

Q 5. Often DRE loans are small and consume as much effort and time as bigger loans. How can bankers rationalize administrative costs?

Ans. Banks, in general, prefer loans with tenures less than 5 years as it allows for better asset and liability management. In this context, small loans are a better option for banks especially to diversify their risks. If the loan is structured to meet the cash flows of the project, recovery will not pose a problem. In order to reduce the administrative costs banks can:

- Develop Pigmy banking facilities or Business correspondents to rationalize efforts towards all small loans and deposits, particularly in remote areas.
- Lend for DRE through JLGs/SHGs, wherever relevant.
- Build partnerships with energy enterprises to bundle small loans, where possible.
- Conduct Renewable Loan Melas similar to other credit melas where they can simultaneously address the demands of multiple borrowers. This can also be championed by the Lead District Manager in the state and involve multiple bankers.

Q 6. How to guard against Non-Performing Assets while lending for DRE?

Ans. Banks can take up measures to ensure that loans do not fail.

a) List of Technical Experts and Specialists: Banks could avail the services of experts for performing due diligence on the projects- particularly larger ones.
b) Restructuring and Rehabilitation: Bankers could provide prompt restructuring facilities that encourage repayments. Restructure loan if it is a matter of non-repayment owing to seasonal variations in income (more importantly, structure loans to meet cash flows at the very beginning.
c) Banker awareness programs where technology risks are addressed and mitigation mechanisms are discussed. Such workshops can be organized by NABARD, SLBC, Banker Institute of Rural Development etc. in partnership with NGOs, business development associations such as CLEAN and energy enterprises.
d) Ensure Vendor qualifications are kept in mind while lending- particularly service networks;
e) Ensure energy enterprise provides one individual as a representative in case of bulk issues with systems financed
f) In extreme cases or where households are of very low income, undertake informal buy-back guarantees with enterprises or use other public funds for partial credit guarantee
g) Work with enterprises and industry representatives such as CLEAN to undertake an overview of the NPA assets for the bank branch/regional office that could provide insights into the real reasons for any minimal NPA in DRE loans

In addition;

a) CLEAN the industry body could be approached for its support in identifying technical experts and specialists.
b) Banker Awareness Programs can be encouraged by banks; there are several NGOs and practitioners in the country who are capable of supporting the same.
c) During appraisal ensuring the quality and certification of the products.

C. Technical

Q7. Will solar technology work under foggy conditions and during monsoons?
Ans. The solar Photovoltaic technology is well proven internationally in regions which have harsh winters and are cloudy/foggy and in many pockets of the country. Solar technology works effectively in cloudy weather as well since most established rural energy enterprises ensure a 2-3 day autonomy on their system, only the running time might reduce to 3-4 hours which during sunny days would be 5-6 hours. In case of any issues, the household is advised to switch off the system for a day and allow it to recharge before using it the next day.

Q 8. How do we know if a region is suitable for generating solar?
Ans. The National Institute of Wind Energy has created an Indian Solar Radiation Atlas that present the long term annual average radiation values for any 3km x 3km grid in the country. The atlas can be accessed at http://www.niwe.res.in/indian_solar_atlas.php

Q 9. Can an automotive lead-acid battery be used for solar?
Ans: Deep-Cycle Lead-acid battery and Lithium-ion battery are only batteries suitable for storing the photovoltaic energy:

- For one or two light solar systems Lithium-ion battery can be used, it's higher cost makes it unviable for higher capacity systems. Lithium-ion batteries have a shorter life span; generally, these batteries will last for 2.5 to 3 years.
- Deep-Cycle Lead-acid battery: Tubular battery, most suitable for larger systems because of slow charge and slow discharge. The automotive battery does not have this property.

Q 10. Where can I find data on the solar rooftop program and state policies?
Ans. The IREDA has published a compilation of all state policies sector-wise (solar, wind, small hydro and biomass) that is available at:
http://www.ireda.gov.in/writereaddata/CompendiumStatePolicyRE/Program.htm
The MNRE has published a Technical Manual for Banks & FIs on Grid-Connected Rooftop Solar Power and it is available at: http://mnre.gov.in/file-manager/UserFiles/TERI-Technical-Manual-Banks-FIs.pdf, http://mnre.gov.in/file-manager/UserFiles/TERI-technical-manual-bank.pdf+


A solar powered flour mill unit used as a site for testing flour mill technologies

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