**Palli Karma-Shahayak Foundation (PKSF)**

Plot: E-4/B, Agargaon Administrative Area

Sher-e-Bangla Nagar, Dhaka-1207, Bangladesh

**Lending Policy**

In the beginning of its operations in 1990, PKSF set the goal of creating self-employment opportunities in the rural off-farm sector and adopted the strategy of promoting a credit programmed for attaining this goal. PKSF extended its first lending program for the rural poor through  *Jagoron* (Rural Microcredit at that time) program from October, 1990. Based on the field demand and learning, PKSF has diversified its lending programs so as the lending policy time to time.

The broad objective of PKSF’s Lending Policy is to address the changing needs of heterogeneous poverty-stricken segments of the society in a manner so that PKSF can sponsor, promote and provide various forms of assistance including financial, institutional, advisory and training to appropriate pro-poor institutions (hereinafter referred to as the “Partner-Organizations” or “POs”) undertaking activities with a view to generating income and/or employment opportunities and alleviating poverty in conformity with the objects of, and in a manner approved by the PKSF.

 This paper provides key aspects of PKSF’s lending policies, as approved by its Governing Board from time to time.

**A. Category of POs:**

All the POs of PKSF will be categorized under 3 (three) categories based on their overall field loan outstanding.

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| **Sl. No.** | **Category of POs** | **Loan Outstanding at Field** | **Rate of Service Charge (SC)[[1]](#footnote-2)** |
| 1 | Large POs (A) | More than 100 crore taka | 8.0% |
| 2 | Medium POs (B) | More than 50 crore to 100 crore taka | 6.5% |
| 3 | Small POs (C) | Up to 50 crore taka | 5.5% |

**B. Lending Programs:**

To address the demands of different segments of poor loans can be given to the POs under the following seven programs-

| **Sl. No.** | **Loan Program** | **Description** |
| --- | --- | --- |
| 1 | *Jagoron* | *Financial services for rural and urban poor* |
| 2 | *Agrosor* | *Financial services for the microentrepreneurs* |
| 3 | *Buniad* | *Financial services for the ultra poor* |
| 4 | *Sufolon* | *Financial services for the agriculture sector (mainly for the small and marginal farmers).* |
| 5 | *Sahos* | *Financial services for disaster recovery and emergency purposes.* |
| 6 | *Enrich* | *Financial services overall household development* |
| 7 | *Institutional Development (ID)* | *Financial services for POs to buy equipments and build infrastructure that helps smooth operation of lending program.* |

**C. Basic Eligibility Criteria for POs:**

PKSF shall make loans to POs that meet and maintain the following eligibility criteria:

(a) The cumulative recovery rate is at least 95%
(b) The recovery rate of the current loan is at least 92%
(c) The PO shall take effective effort to maintain the debt to capital to 9:1. In order to received loan under Agrosor besides this condition, the PO has to obtain minimum required capital (including grand, surplus etc.) 20.0 lacs
(d) The lowest limit of the savings related liquidity ratio is 15%
(e) The lowest limit of the current ratio is 2.0:1
(f) The lowest limit of the capital adequacy ratio is 15% (for those POs whose number of loanee is more than six thousands) / the lowest limit of the capital adequacy ratio is 10% (for those POs whose maximum number of loanee is six thousands).
(g) The lowest limit of the debt service over ratio is 1.25:1
(h) The lowest limit of the actual return on capital is 15%.

(i) The highest limit of Portfolio of Risk (PAR) is 10%.

**D. General Conditions:**

The PO shall ensure the following matters according to the satisfaction of the PKSF:

According to definition of the PKSF the PO shall organize the potential beneficiaries in groups for the participation in Jagoron / Agrosor / Buniad/Sufolon/Sahos/ENRICH.

The PO shall recover the installment with service charge from the borrowers designing the guidelines acceptable to the PKSF on the duration of loan given to the beneficiaries, corresponding service charge and the procedure of procuring the installments.

Under the lending program, Jagoron / Agrosor / Buniad/Sufolon/Sahos/ENRICH loan program shall be as per definition and direction of the PKSF.

The PO shall utilize loan fund received from the PKSF with the consultation of the PKSF in order to increase income of the beneficiaries for productive and employment generating program and conduct the lending program with in particular geographical area. No addition/alteration of the geographical area shall be made without the written consent of the PKSF. The PO shall not utilize the loan money received from the PKSF other than disbursing as loan among the beneficiaries.

The PO shall formulate and implement appropriate guidelines and work procedures, acceptable to the PKSF for the purpose of supervision and monitoring of the Credit program of the PO with a view to proper implementation and realization of the objects of the loan program at the field level.

The PO shall from definite interval of time on a regular basis in one or more formats as prescribed by the PKSF, submit statement / reports with regard to utilization of the loan. These formats shall contain information regarding lending program funded by the PKSF together with detailed information regarding the overall Credit program of the POs. These prescribed formats may be modified or revised or amended from time to time by the PKSF on reasonable grounds.

For the operation of the lending program, the PO shall utilize its own investment, saving fund, service charge and other funds with the fund received from the PKSF in order to make the lending program sustainable; provided that the PO shall obtain prior permission from the PKSF before using its all categories of fund.

It is absolute responsibility of the PO to realize the loan disbursed by it. Any failure to collect those loans shall not be considered as a reason for not repaying any other than to the PKSF.

After meeting the necessary administrative and capital expenses from the income of the lending program funded by the PKSF, the surplus income shall not be used for any other purposes except only for the Credit program. For the removal of any dispute raised in case of utilization of the mentioned surplus the explanation and decision of the PKSF shall be considered final for the PO. This condition shall also be applicable to the Micro credit program of the PO funded by any other sources other than the PKSF.

The PO shall establish a completely separate department by the able, efficient and experienced officers and staffs for administering the lending program among the beneficiaries and the officers and the staffs of this department shall be involved in credit program only. In this regard the PO shall take all necessary measures.

All activities related to the proposed credit program shall be operated under the direct supervision of the PO. The PO shall execute also the credit program funded by other sources except the PKSF under its direct supervision. The PO shall not execute the credit program by any other person or organization.

The PO shall manage properly the weekly savings deposited by the beneficiaries so that the full security of the savings is ensured.

The PO shall execute credit program pursuing the guidelines of avoiding overlapping of the beneficiaries made by the PKSF.

The PO shall produce report to the PKSF of the total assets of the credit program specially about the qualitative standard of the outstanding credit loan amount the group members of the beneficiaries from a specific interval of time on a regular basis.

The PO shall establish in consultation with the PKSF, necessary provision and other reserve fund on a regular basis against the classified loan. For making loan loss provision for credit, the PO shall follow the guidelines prepared by the PKSF.

The PO shall take necessary measures for making the lending program sustainable.

PKSF reserves the right to supervise the utilization of the loan as well as the management of all affairs under this agreement by the PO and also the management of the overall lending Program by the PO and in this regard the PO shall furnish information, papers, documents to the PKSF and shall also render co-operation in field inspections by the PKSF.

The PO has to continue its operations as an entity registered under the act during its enlistment as a PO of the PKSF. The PO cannot take registration in more than one name. The PO will inform the PKSF before hand in case of any government instruction or any other situation occurred in this regard.

The PO shall have to take approval of the exactly related registration authority with pre-consent of the PKSF if the PO wants to charge the name of PO, its constitution and or any section of the constitution.

Any changes in the Executive committee and the General committee of the PO shall be forthwith informed to the PKSF and shall intimate the registration authority with a copy to the PKSF in the form of an official letter. Acceptance of resignation of member/s of Executive/General Committee by the Executive committee of the PO has to be forthwith intimated to the PKSF.

The PO has to take prior consent of the PKSF for using the proceeds of service charge income for the purpose of purchase of any immovable asset. Submission of a full list of all current immovable assets of the PO to the PKSF will be required to obtain the said consent of the PKSF.

Accounts and information regarding operational expenses of credit program funded by the PKSF shall be maintained by the PO separately as per direction of the PKSF and all financial transactions related to this program will be done through specified Bank Account.

The PO shall not receive loan from any other sources by giving mortgage / securities of its any immovable assets / fixed deposits and movable assets without prior approval from the PKSF.

In regard to repayment by the PO of any outstanding loan the PO, considering the PKSF to have the right as lender on first priority basis, shall at first repay all outstanding loan of the PKSF.

In case of default by the PO in repayment of principal and service charge within the stipulated time as per loan repayment schedule annexed to this agreement, the PO shall pay for the duration of the delay additional service charge at the incremental rate fixed by the PKSF on the installment amount in full or part (as the case may be).

The loan fund received by the PO from the PKSF for the management of the “Micro-credit program” shall not be transferred to any other project or sector of the PO.

The PO shall not execute the loan program by any other organization or person by providing loan fund out of loan or grant.

**E. Product-wise Lending Criterion-**

1. **Jagoron**

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| No. | **Item** | **PKSF-PO** | **PO-beneficiary** |
| 01 | PO/Program participant Selection Criteria | *As per Basic Eligibility Criteria illustrated in section “C”* | *i) Rural or urban poor (below poverty line) ii) member of a Savings Group organized and monitored by the PO directly and (iii) preference to women borrower**For Rural: (i) possesses arable land not exceeding half an acre; (ii) total assets do not exceed the value of one acre of arable land in his/her locality; For Urban (ii) a resident of the locality for a minimum of three years; (ii) should have a permanent/temporary business in the locality, sound business expertise.* |
| 02 | Nature of Activities | *Providing financial services to the Rural and Urban Poor*  | *Any legal and environment friendly income generating activity* |
| 03 | Loan Limit | *NA* | *Maximum Tk. 30,000* |
| 04 | Loan Tenure | *3 years* | *1 year* |
| 05 | Repayment Mode | *10 Quarterly Installments with 6 months Grace period*  | *46 weekly installments with 15 days grace period, 11/12 monthly installments with 1 month grace period.* |
| 06 | Service Charge (Declining balance Method) | *‘A’ Category-8%**‘B’ Category-6.5%**‘C’ Category-5.5%* | *Maximum 25%* |
| 07 | Debt Equity Ratio | *Max 9:1* | *NA* |

1. **Agrosor**

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| No. | **Item** | **PKSF-PO**  | **PO-Program Participants**  |
| 01 | Borrower Selection Criteria | *Two years experience of successfully implementing microfinance program as a PO of PKSF.**Should have minimum 20 lac taka as equity.**The debt to equity ratio can be maximum 9:1.**Should have separate monitoring cell at regional and central level for the monitoring of the micro enterprise activities.**Must create required LLP as per guideline of PKSF.* | 1. *Capable and successful in operating micro enterprise and has a visible business entity having investment within BDT 40,000 to BDT 15 Lac (excluding land and building used in the enterprise).*
2. *Progressive members or Individual Microentrepreneurs.*
3. *Any other member (e.g., spouse/son/daughter) from the household of the progressive microcredit borrower.*
4. *Has to invest 20% of the total investment in micro enterprise from his own resources.*
5. *Has to be engaged for minimum 25% of daily working hour in the micro enterprise.*
6. *Maximum Debt to equity ratio-80:20*
 |
| 02 | Nature of Activities | *Providing financial services to the microentrepreneurs* | *Any legal and environment friendly enterprises under trade, farming, processing and service sectors.*  |
| 03 | Loan Limit | *NA*  | *Minimum TK. 30,000 to maximum TK. 10,00,000, Maximum 100,000 (for fisrt loan)* |
| 04 | Loan Tenure | *3 years* | *Up to 2 years depending on the demand of the business* |
| 05 | Repayment Mode | *10 Quarterly Installments with 6 months Grace period*  | *There should be flexibility in the installment collection procedure. It can be collected weekly/fortnightly/ monthly/single installment/balloon payment etc. as per the the nature of the activities undertaken.* |
| 06 | Service Charge (Declining balance Method) | *‘A’ Category-8%**‘B’ Category-6.5%**‘C’ Category-5.5%* | *Maximum 25% in declining balance method.* |

**3. Buniad**

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| No. | **Item** | **PKSF-PO** | **PO-beneficiary** |
| 01 | Borrower Selection Criteria | *As per Basic Eligibility Criteria illustrated in point “C”* | 1. *Ultra poor[[2]](#footnote-3), but preference will be given to*
2. *Household having maximum 10 decimal of land.*
3. *Ultra poor living in and around areas prone to river erosion.*
4. *Ultra poor households in and around vulnerable coastal area.*
5. *Dependent female headed –households.*
6. *Divorced, widowed, Separated and abandoned women.*
7. *Landless day- laborers, and other unskilled workers.*
8. *Bonded labor and domestic help.*
9. *Helpless people having no earning members in the households.*
10. *People who are physically or mentally retarded of the poor households and elderly people.*
 |
| 02 | Nature of Activities | *Providing financial services to the ultra-poor.* | 1. *Any legal and environment friendly income generating activity*
2. *Land purchase/ lease.*
 |
| 03 | Loan Limit | *NA* | *First installment-Max. Tk.10,000/-**There is no cap of upper ceiling; it depends on the nature of IGA and the capacity of the borrowers.*  |
| 04 | Loan Tenure | *2 years*  | *1 Year* |
| 05 | Repayment Mode | *6 Quarterly Installments with 6 months Grace period* | *Weekly/monthly/Quarterly/Yearly/one-shot as per the the nature of the activities undertaken.* |
| 06 | Service Charge (Declining balance Method) | *1%*  | *Maximum 20% in declining balance method.* |

**4. Sufolon**

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| No. | **Item** | **PKSF-PO** | **PO-beneficiary** |
| 01 | Borrower Selection Criteria | *As per Basic Eligibility Criteria illustrated in point “C”* | 1. *Member of Jagoron, Buniad, Agrosor program*
2. *Small and marginal farmer as per the definition of PKSF[[3]](#footnote-4).*
 |
| 02 | Nature of Activities | *Financial services for the agriculture sector( mainly for the small and marginal farmers).* | *Any kind of agriculture related activity (crop, livestock, fisheries)* |
| 03 | Loan Limit | *NA* | *Maximum 60,000 Tk., in case of double loan 100,000 Tk.* |
| 04 | Loan Tenure | *Maximum 14 months* | *Maximum 12 months* |
| 05 | Repayment Mode | *Single or multiple installment as per the demand* | *There should be flexibility in the installment collection procedure. It can be collected weekly/fortnightly/ monthly/single installment/balloon payment etc. depending on the nature of the activities undertaken.* |
| 06 | Service Charge (Declining balance Method) | *‘A’ Category-8%**‘B’ Category-6.5%**‘C’ Category-5.5%* | *Monthly 2%, Annually 24%* |

**5. Sahos**

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| No. | **Item** | **PKSF-PO** | **PO-beneficiary** |
| 01 | Borrower Selection Criteria | *Any PO having affected program participants* | *Any affected program participant* |
| 02 | Nature of Activities | *Financial services for disaster management* | *Disaster recovery (Pre, post and during), Livelihood restoration, Rehabilitation,*  |
| 03 | Loan Limit | *NA* | *Maximum 10,000Tk., in case of double loan 15,000 Tk.* |
| 04 | Loan Tenure | *Maximum 30 months* | *Minimum 12 Months, Maximum 25 months* |
| 05 | Repayment Mode | *2 yearly installments with 6 months grace period* | *There should be flexibility in the collection procedure. It can be collected weekly/fortnightly/ monthly/single installment/balloon payment etc as per the situation.* |
| 06 | Service Charge (Declining balance Method) | *0.5%* | *Maximum 8%* |

**6 A. ENRICH, Income Generating Activities (IGA) Loan**

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| No. | **Item** | **PKSF-PO** | **PO-beneficiary** |
| 01 | Borrower Selection Criteria | 1. *Demonstrated commitment to pursuing social mission;*
2. *Wide acceptability and experience in implementing multi-sector programmers at the union level;*
3. *Substantial involvement and good performance in microcredit and social development interventions;*
4. *Demonstrated capability of the CEO in implementing multi-dimensional programmers and projects; and*
5. *An untainted transaction record with PKSF*
 | *All household except solvent households of the selected PO in the selected union are eligible for the financial services under ENRICH. IGA Loan is a family based loan instead of the traditional member-based loan. Those who have already received loans under Agrosor programmed can also receive this loan.*  |
| 02 | Nature of Activities | *Providing financial services to the Rural and Urban Poor*  | *Any legal and environment friendly income generating activities* |
| 03 | Loan Limit | *NA* | *Maximum BDT 1,00,000/- (One Lac) for the first term and* *Maximum 10, 00,000/- (Ten Lac) afterwards.* |
| 04 | Loan Tenure | *3 years* | *Maximum 2 years. Period may be shorter, considering the nature of IGAs.*  |
| 05 | Repayment Mode | *10 Quarterly Installments with 6 months Grace period*  | *Single/ weekly/ fortnightly/monthly/annual installment(s) depending on the nature of the activities undertaken.*  |
| 06 | Service Charge (Declining balance Method) | *‘A’ Category-8%**‘B’ Category-6.5%**‘C’ Category-5.5%* | *Maximum 25%* |

**6 B. ENRICH Livelihood Improvement Loan (LIL)**

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| No. | **Item** | **PKSF-PO** | **PO-beneficiary** |
| 01 | Borrower Selection Criteria | *Same as ENRICH, IGA loan* | *All household except solvent households of the selected PO in the selected union are eligible.* |
| 02 | Nature of Activities | *Providing financial services to the Rural and Urban Poor.*  | 1. *To enable poor families to install quality sanitary system;*
2. *To help the poor recover from asset loss or depletion;*
3. *To empower poor families socially and economically;*
4. *To increase the involvement of the poor in different socio-economic activities;*
5. *To help the poor to ensure their give food security; and*
6. *Overall, to help the poor to improve their standards of living.*
 |
| 03 | Loan Limit | *NA* | *the total amount a family can borrow under LIL in the same period is Tk. 10,000;* |
| 04 | Loan Tenure | *The maximum repayment period is 30 months including 6 months’ grace period;* | *The maximum repayment period of this loan along with appropriate service charges from the participant to the PO is two years including one month grace period;* |
| 05 | Repayment Mode | *8 Quarterly Installments with 6 months Grace period*  | *Single/ weekly/ fortnightly/monthly/annual installment(s) depending on the nature of the activities undertaken.*  |
| 06 | Service Charge (Declining balance Method) | *2%* | *Maximum 8%* |

**6 C.ENRICH, Asset Creation Loan**

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| No. | **Item** | **PKSF-PO** | **PO-beneficiary** |
| 01 | Borrower Selection Criteria | *Same as ENRICH,IGA Loan* | *All household except solvent households of the selected PO in the selected union are eligible...* |
| 02 | Nature of Activities | *Providing financial services to the Rural and Urban Poor*  | * *Assisting poor households to purchase, lease in or mortgage in land for economic use towards increasing family income;*
* *Supporting purchase of assets other than land; and*
* *Supporting skill enhancement training of household members to improve opportunities for the family.*
 |
| 03 | Loan Limit | *NA* | *BDT 30,000* |
| 04 | Loan Tenure | *The maximum repayment period is 42 months including 6 months grace period;* | *The maximum repayment period of this loan from the members to the PO is 36 months including 3 months grace period;* |
| 05 | Repayment Mode | *12 Quarterly Installments with 6 months Grace period*  | *Single/ weekly/ fortnightly/monthly/annual installment(s) depending on the nature of the activities undertaken.*  |
| 06 | Service Charge (Declining balance Method) | *2%* | *Maximum 8%* |

**7. Institutional Development (ID) Loan**

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| No. | **Item** | **PKSF-PO** | **PO-beneficiary (NA)** |
| 01 | Borrower Selection Criteria | *As per Basic Eligibility Criteria illustrated in section “C* | *NA* |
| 02 | Nature of Activities | *Financial services for POs to buy equipments and build infrastructure that helps smooth operation of lending program.* |
| 03 | Loan Limit | *Maximum 50 lac.* |
| 04 | Loan Tenure | *2 Years* |
| 05 | Repayment Mode | *6 Quarterly Installments with 6 months Grace period* |
| 06 | Service Charge | *‘A’ Category-7%**‘B’ Category-6%**‘C’ Category-5%* |

1. Applicable to Jagoron, Agrosor and Sufolon only. [↑](#footnote-ref-2)
2. *As per HIES 2010* [↑](#footnote-ref-3)
3. *Marginal-Farm holding equal to .05acre (own) to 0.49 acre (including leased/rented/share cropped), Small- Farm holding equal to .50 acre (own) to 2.49 acre (including leased/rented/share cropped)* [↑](#footnote-ref-4)