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MAHAWELI ENTERPRISE DEVELOPMENT

MED/EIED PROJECT

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OPERATIONAL GUIDE ON FORMATION AND MANAGEMENT OF SAVINGS AND CREDIT SOCIETIES

VOLUME I

by
M.W. Panditha

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INTERNATIONAL SCIENCE AND TECHNOLOGY INSTITUTE INC.

WITH:

ERNST & YOUNG CONSULTANTS (Sri Lanka)
DEVELOPMENT ALTERNATIVES, INC.
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CONSULTANTS TO THE MAHAWELI AUTHORITY OF SRI LANKA

The Mahaweli Enterprise Development Project

The development of the natural and human resources of the Mahaweli river basin has been a high priority of the Government of Sri Lanka and international agencies since the late 1970's. Largely completed are the construction of dams, irrigation and power systems, roads and other physical infrastructure, the settlement of the land and the formation of the agricultural production base. The challenge for the 1990's is to build a diverse, dynamic economy generating higher incomes for Mahaweli families. In meeting this challenge, the private sector has a leading role to play.

The Mahaweli Enterprise Development Project (MED) is a special initative of the Mahaweli Authority of Sri Lanka, with the support of the United States Agency for International Development. MED promotes private investment and job creation in agribusiness, manufacturing, tourism, minerals and services by directly assisting entrepreneurs and companies with technical expertise, marketing support, training, business advisory services and credit. MED also provides policy analysis support to improve official frameworks for sustainable enterprise development in the Mahaweli areas.

The Employment, Investment and Enterprise Development Division of the Mahaweli Authority is responsible for MED implementation. Technical consultancy is provided by a consortium led by the International Science and Technology Institute, Inc., a private consulting firm with head offices in Washington, D.C. Also in the consortium are Agroskills, Development Alternatives, Ernst and Young, High Value Horticulture and Sparks Commodities. Marketing services are provided by SRD Research and Development Group, Inc.

OPERATIONAL GUIDE ON FORMATION AND MANAGEMENT OF SAVINGS AND CREDIT SOCIETIES

VOLUME I

by

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Credit Advisor

PREFACE

This training package was prepared by Mr M.W. Panditha, Credit Advisor, MED Project, for the MED/EIED field staff and the officials of newly-formed Savings and Credit Societies.

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LIST OF ABBREVIATIONS

BEP	.. ..	Break Even Point
BL	.. ..	Block Loans
CFA	.. ..	Collateral Fund Agreement
DSC	.. ..	Debt Service Cover
EIED	.. ..	Employment, Investment and Enterprise Development Division
FBA	.. ..	Field Business Advisor
FBCs	.. ..	Field Business Consultants
FIL	.. ..	Fixed Instalment Loan
GSL	.. ..	Government of Sri Lanka
ISTI	.. ..	International Science and Technology Institute
MASL	.. ..	Mahaweli Authority of Sri Lanka
MBC	.. ..	Mahaweli Business Centre
MED	.. ..	Mahaweli Enterprise Development
MLEs	.. ..	Medium and Large Enterprises
MOA	.. ..	Memorandum of Agreement
NP	.. ..	Net Profit
PIL	.. ..	Project Implementation Letter
SCA	.. ..	Savings and Credit Association
SCSs	.. ..	Savings and Credit Societies
SSEs	.. ..	Small Scale Enterprises
USAID	.. ..	United States Agency for International Development
WC	.. ..	Working Capital

EXECUTIVE SUMMARY

The Mahaweli Enterprise Development (MED) project is a USAID-funded development programme which was launched in 1989 to develop small, medium and large-scale enterprises in Mahaweli Systems.

One of the key elements of the Small Scale Enterprise (SSE) development programme is facilitating access to credit from formal credit institutions to small entrepreneurs.

The programme will assist formation of groups of small entrepreneurs into formal savings and credit societies. Initially, that is during phase I, these societies will inter-alia assist individual members to obtain credit from banks, help access technical and marketing information, provide training in enterprise management and foster saving mobilization. Once the societies gain adequate experience they will graduate to phase II of the programme and commence credit and savings operations directly by borrowing from banks and on lending to their members.

The credit programme is to be supported by the establishment of Collateral Funds in banks participating in the scheme. These accounts are to be funded through a USAID grant and contributions of members of societies. A field business advisory service has been set up to assist enterprise development and formation of societies and other associations.

The formation and management of Savings and Credit Societies will require a high degree of support from Field Business Consultants and EHED field staff attached to Field Business Centres. The officials of these nascent societies too will need guidance during initial stages of society formation. This guide is intended to fulfill this need and serve as a training package.

This document has been prepared in two volumes. Volume I contains 12 chapters. Each chapter could be taken up as a separate training module. For easy reference and presentation each chapter begins with the objectives and contents of that chapter. Volume II contains attachments relating to chapters 3, 4, 5, 9 and 12 of Volume I.

Chapter 1 is intended to provide an understanding of the MED project in general and the MED credit programme in particular.

Chapters 2 and 3 set out the overall plan of forming societies, the seven major activities of a society during phase I of the programme, and steps that should be taken under activity one (i.e., a step by step account of the procedures involved in forming a society).

Chapter 4 explains the procedures involved in obtaining grants under the USAID Grant Fund and the relevant legal documentation.

Chapter 5 deals with different aspects of facilitating access to credit institutions. It provides an overview of development lending concepts, appraisal techniques, sequence of lending activities, lending considerations and the project approach to credit.

Chapter 6 deals with techniques of savings mobilization and development of rural financial markets through the intervention of societies.

Chapters 7 and 8 deal with non-credit services of societies including guidelines for the preparation of business plans.

Chapter 9 deals with measures to develop the institutional capacity of societies. It also provides guidelines and formats for the introduction of book-keeping records and accounts in societies. The description of the main activities of societies ends with this chapter.

Chapter 10 deals with the credit approach to entrepreneurs operating outside societies.

Chapter 11 covers the role of banks.

Chapter 12 deals with the information requirements of the programme.

CHAPTER 1

INTRODUCTION

OBJECTIVE: To provide an understanding of the Mahaweli Enterprise Development (MED) project and its small enterprise credit programme

OUTLINE:

A. An introduction to MED the project and its small enterprise credit programme

B. MED Activities

C. MED SSE Credit Programme

D. Outline of the proposed credit programme during Phase I

E. Proposal to facilitate access to credit for non-farm small scale enterprises

CHAPTER 1

INTRODUCTION

A. AN INTRODUCTION TO MAHAWELI ENTERPRISE DEVELOPMENT PROJECT

PURPOSE	:	To accelerate creation of permanent private enterprise employment. Secondarily, to strengthen Government of Sri Lanka commitment to market-oriented approaches to Mahaweli development.
OBJECTIVES	:	To encourage new investments and expansion of existing investments by Medium and Large Enterprises (MLEs) and Small Scale Enterprises (SSEs) in the Mahaweli.
FUNDING	:	USAID GRANT : US$15.0 million (Rs. 600 million) SRI LANKA GOVT : US$ 2.8 million (Rs. 112 million) PRIVATE INVESTMENTS : US$ 6.2 million (Rs. 248 million)
AGREEMENT	:	BETWEEN USAID AND THE MAHAWELI AUTHORITY OF SRI LANKA.
LIFE OF PROJECT	:	1989 -1995

B. MED ACTIVITIES

1. Medium and large-scale enterprise development activities:

   Identification of export markets for high value agribusiness
   Pre-investment programmes to assist companies initiate operations, investment promotion, manufacturing, tourism, minerals, services

2. Small scale enterprise development activities:

   Training, technical assistance and special activities

   Facilitating access to credit

   Policy and institutional support

   Monitoring and evaluation

3. Policy and procedure reforms activities:

   Land and water regulations for private firms

   Policy guidelines for development of outgrower agribusiness.

MED SSE CREDIT PROGRAMME

OBJECTIVES:

Facilitating access to formal credit

Reducing transaction costs of credit

Improving credit worthiness of SSEs

APPROACH:

Formation of Savings and Credit Societies

Financial assistance for collateralizing loans

Provision of advisory service

Borrowing from banks and lending to members

STRATEGY - TWO PHASES OF ASSISTANCE THROUGH SOCIETIES

Phase I	Phase II
Recommend members' loans to banks	Borrow from banks and lend to members
Extend other assistance	Extend other assistance

D. OUTLINE OF THE CREDIT PROGRAMME DURING PHASE I

AREA OF OPERATION	:	Systems H, B, C, G, U/Walawe and Kotmale
CLIENTELE	:	Existing and aspiring non farm small scale entrepreneurs
BUSINESS ADVISORY SERVICE	:	Role of field business consultants and Employment, Investment and Enterprise Development Division (EIED) field staff 1) Assist formation and expansion of SSEs 2) Assist formation and growth of Savings and Credit Societies and Entrepreneur Associations
FORMATION OF SAVINGS AND CREDIT SOCIETIES	:	To facilitate access to credit, reduce transaction costs and improve credit worthiness of SSEs
ASSISTANCE FROM GRANT FUNDS	:	1) Collateral Fund (maximum Rs. 80,000 per society) 2) 50% start-up assistance (Initial and Operational)
MAINTENANCE OF ESCROW ACCOUNTS	:	Initially as partial security to support borrowing by members of societies
ROLE OF SOCIETIES	:	1) Assist members to obtain credit 2) Promote savings 3) Assist in other areas of enterprise development viz technical, management and marketing aspects
CREDIT DECISIONS	:	By the banks on the recommendation of societies
SECURITY	:	Project assets collateral funds and inter - se guarantee of two members
INTEREST RATES	:	Market rates with concessions for prompt payment. Lower rates with refinanced funds
LEVERAGE	:	Five times the collateral funds (sum of grants (12%) and capital (8%) of each loan)
INDIVIDUAL LOAN SIZE	:	Maximum Rs.50,000 and average loan Rs.40,000/
CREDIT FOR SSEs OUTSIDE SOCIETY SPONSORSHIP	:	1) Business advisory service and loan counselling 2) Direct references to banks 3) Assist informal group credit

E. PROPOSALS TO FACILITATE ACCESS TO CREDIT FOR NON-FARM SMALL SCALE ENTERPRISES (SSES)

The Mahaweli Enterprise Development project commenced operations in 1989 following the signing of a Grant Agreement between the Government of Sri Lanka and United States of America.

1. The implementing agency of this project is the Employment, Investment and Enterprise Development Division (EIED) of Mahaweli Authority of Sri Lanka (MASL).

2. The objectives of the project as quoted from the agreement are to: "accelerate the creation of permanent jobs in private enterprise in the Mahaweli Settlement Areas by facilitating the development of small enterprise, encouraging the formation of medium and large scale enterprise and developing a market oriented environment conducive to sustained increases in employment in private enterprises of all sizes."

3. These objectives are to be achieved by a three pronged approach: 1) investment promotion, technical assistance and marketing support to medium and large scale investors; 2) advisory services, training and improved access to credit for small scale enterprises; 3) policy assistance to improve access to resources such as land, water and the legal and institutional framework for enterprise development in the Mahaweli settlement areas.

4. One of the critical issues addressed in the MED project design was access of SSEs to credit. Pre-project surveys found three out of four SSEs in Mahaweli considered lack of finance to be a major constraint to expansion. Access to credit for SSEs is to be improved by reducing transaction costs through the formation of Savings and Credit Associations and improving the credit worthiness of SSE borrowers by encouraging thrift and savings and providing business advice.

   Annex 1 of the grant agreement refers to the proposed financial plan as follows: "It is expected that the project will facilitate the formation of entrepreneur associations which will access the existing banking system by borrowing as associations and relending to members. It is planned that partial collateral will be held by banks and will consist of contributions of group members' savings matched by an USAID grant. It is estimated that 50 to 60 associations will be formed, with an average of 10 members each. Field Business Advisors will assist associations to form and organize. The scheme will be developed in detail during the first 18 months of the project..."

5. The main technical assistance to this project is provided by a consortium of consulting firms led by International Science and Technology Institute (ISTI), a private consultancy firm based in Washington.

6. Studies were conducted by the credit consultants of ISTI in the latter part of 1990 to assess the feasibility of implementing the proposed financial programme in the Mahaweli Systems. This team noted, inter-alia, that, "Although several non-farm SSE credit schemes are implemented by credit institutions, access to these facilities is constrained by several factors. The major constraints in improving financial services to Mahaweli SSEs are: 1) limited borrower capacity and capability; 2) inadequate business advisory services; 3) bank branch organization and staffing problems; and 4) internal operational procedures of financial institutions."

7. The MED project's consultants' recommendations to address these constraints are summarized below:

a) Extend assistance to access credit to all categories of non-farm SSEs.

b) Assist the formation and growth of Savings and Credit Associations (SCA) and help members to access credit from financial institutions.

c) Advise other SSEs operating outside SCAs on loan documentation and loan negotiations.

d) Provide technical training to upgrade skills and encourage group formation to access village level credit sources for working capital needs.

e) Facilitate linkages between Medium and Large Scale Enterprise buyers and SSE producers by encouraging the use of financial instruments like inland bills.

f) Strengthen management capacity and skills of Savings and Credit Societies.

g) Assist in improving loan assessment skills of credit institution staff and forge closer links between SSEs and financial institutions.

h) Support credit institutions and SSEs by helping in better credit utilization, follow up and recovery.

i) Strengthen operational efficiency of credit institutions on a selective basis by providing micro computers to institutions participating in the MED credit programme.

j) Aid in the publicity of financial services to promote credit to SSEs.

k) Assist in accelerating issue of transferable title to land.

8. In view of the limited capacity of Mahaweli settlers to manage SCAs the above mentioned team recommended the introduction of the concept of lending through SCAs in stages, i.e. a phased programme under which newly formed SCAs will during the first phase, facilitate direct borrowing by their members from credit institutions, and after gaining experience and financial capacity, enter the second phase of borrowing as associations from credit institutions for relending to their members.

9. First phase of the MED Credit Programme:

a) **Areas of operation**: Mahaweli Systems H, B, G, C Uda Walawe and Kotmale.

b) **Clientele**: Clientele would be the existing and aspiring non-farm SSEs operating in the above systems and new enterprises. A survey conducted in 1988 indicated that there were about 4700 enterprises operating in systems H, F, G and C covering about 85 types broadly categorized under : 1) agriculture and fishing; 2) manufacturing; 3) trade and hotels; and 4) services, The preferred market segment would be micro enterprises including those trained under entrepreneur development programmes with potential to provide permanent employment for more than one person.

c) **Business Advisory Service**: The MED project plans to set up eight Business Centres in major towns of Mahaweli Systems within the next few months. These centres will be manned by a team of field officers of the EIED and consultants contracted by the MED project. This advisory service will transfer business skills and technology to SSEs and will also assist in the formation and growth of group schemes such as Savings and Credit Societies, private business associations and entrepreneur development associations.

d) **SCSs**: The Business Advisory Service will assist in the formation of SCSs. Thesesocieties will be legally constituted and registered under the Societies Ordinance. Incorporation of SSEs under the Companies Act and the Cooperative Societies Act will also be acceptable. These Societies will have the capacity to borrow, lend to members and to guarantee credit given to members. It is estimated that about 65 societies would be formed under this programme with a membership of about 1,000.

e) **Size of Societies**: Groups of about 10 to 20 small scale-entrepreneurs who operate enterprises individually will be assisted by the advisory service to form into Societies. These entrepreneurs will subscribe to the capital of these Societies by purchasing shares. The minimum share contribution of a member is expected to be Rs.1000. The actual share contribution will, however, be a percentage of the credit facility which a bank would consider giving to a member. In identifying members

for formation of Societies, priority will be given to those entrepreneurs who have already followed Entrepreneur Development Programmes sponsored by the EIED of the MASL.

f) **Assistance from Grant Funds**: These Societies will be entitled to grants from USAID up to 1.5 times the share capital contribution of members to a society.

To be eligible for grant assistance a society should first join the MED credit programme by entering into a formal agreement with the MASL. These funds would eventually revert to members subject to prior claims of the Society.

g) **Maintenance of Collateral Fund Accounts in Banks**: A Society will deposit its share contributions and grant funds in separate interest-bearing accounts in a bank acceptable to the project. These deposits may range from Rs. 20,000 to Rs. 80,000 per society depending on the size of the share contributions. These funds will form partial security for credit facilities granted by a bank to the members of a Society under this scheme.

h) **Role of Societies in improving access to credit and reducing transaction costs**: These Societies will, inter-alia, assist their members to obtain credit and banking facilities from credit institutions. Such assistance will include negotiation with banks on behalf of members, form filling, business and credit advice, viability studies of projects, supervision and loan recovery. Societies would also assist in identifying appropriate credit institutions and help submit loan applications of members to such institutions together with their recommendations.

These recommendations will be backed by the assignment of their Collateral Fund deposits and the guarantee of the Society.

i) **Credit Facilities**: Participating Credit institutions are expected to provide credit through any of their ongoing special credit schemes or under general credit that befit the credit needs of non-farm, micro and small scale entrepreneurs. Initially individual loans up to Rs 50,000 are envisaged. Credit purposes may cover both working capital and fixed asset requirements of existing and new enterprises. In addition provision of normal banking facilities is envisaged.

j) **Credit Decisions**: Decisions to lend directly to individual members sponsored by Societies would be left to the discretion of the credit institutions concerned.

k) **Security**: Assets of projects financed would be available as security to lenders. In addition the guarantee of the Society backed by the assignment of their Collateral Fund deposits would form supplementary security cover. If personal guarantees are required such guarantees will be confined to inter-se guarantee of members.

l) **Interest Rates**: MED would not canvass for reduced lending rates of interest for loans sponsored by these Societies, but would suggest that a rebate on interest be given to those borrowers who repay their loans promptly. Given the type of back-up advisory service and assistance in follow-up and supervision, it is envisaged that the transaction costs of credit institutions could be reduced.

m) **Leverage**: MED expects that credit institutions would eventually extend credit to individual members of Societies to a cumulative amount up to 10 times the deposit assigned to a lender by a Society. Initial arrangements could be up to five times the deposit. This proposed ratio is subject to negotiation.

n) **Savings promotion and capital formation**: These Societies would also actively encourage savings habits among members and assist savings mobilization through normal banking channels.

o) **Credit access to those operating outside Societies**: Since the majority of SSEs are not expected to form into Societies, assistance to such entrepreneurs would be extended by the Business Advisory Service on a one to one basis or as groups and would include loan counselling, business advice and intermediation with banks so as to facilitate access to credit from financial institutions.

The partial security of the collateral fund referred to under 9g will, however, not be available to secure such advances.

10. **Second phase of the MED Credit Programme**:

Once these Societies have reached a reasonable level of experience in sponsoring members' borrowing and credit management activities, and have acquired a reasonable level of financial credibility and sustainability, then it would be possible for such Societies to embark on a fully fledged financial intermediation role by engaging in borrowing and lending activities and in savings mobilization thereby fostering the development of a sustainable rural financial market.

CHAPTER 2

SUMMARY OF ACTIVITIES UNDER PHASE I OF THE PROGRAMME

OBJECTIVE: To provide an overview of activities of Savings and Credit Societies (SCSs) during the formative period.

OUTLINE:

A. Summary of activities

B. Financial requirements of the programme

CHAPTER 2

SUMMARY OF ACTIVITIES UNDER PHASE I OF THE PROGRAMME

A. SUMMARY OF ACTIVITIES

Savings and Credit Societies (SCSs) were formed to facilitate access to credit for non-farm small and micro-scale enterprises under phase I of the MED credit programme. An outline of the initial steps in forming these Societies and the functions of SCSs during the first phase of the credit programme follows:

1. Formation of Savings and Credit Societies

2. Obtaining USAID grant funds

3. Facilitating members' access to financial services from banks

4. Fostering the growth of thrift and savings among members

5. Assisting in providing technical and marketing support to members

6. Encouraging the development of business practices amongst members

7. Strengthening the institutional capacity of societies to undertake higher responsibilities of deposit acceptance, borrowing and relending to members during phase II.

B. FINANCIAL REQUIREMENTS OF PROGRAMME

Items		Year 1	Year 2	Year 3	Total	US$
1. Societies formed		8	24	33	65	
2. No. of members (average 15 per SCS)		120	360	495	975	
3. Member's capital contribution (mx.Rs. 53,000)	Rs	424,000	1,272,000	1,749,000	3,445,000	US$86,125
4. Matching funds for collateral: ratio 1.5 : 1 (Rs.80,000 US$2,000)	Rs	640,000	1,920,000	2,640,000	5,200,000	US$130,000
5. Initial SCS start-up cost (Rs.14,000 Per SCS)	Rs	112,000	336,000	462,000	910,000	US$22,750
6. Initial year's operating cost (Rs.12,000 Per SCS)	Rs	96,000	288,000	396,000	780,000	US$19,500
7. USAID matching funds for start up and initial year's operating cost	RS	104,000	312,000	429,000	845,000	US$21,125

SUMMARY

	RS.	$
1. USAID Collateral Funds	5,200,000	130,000
2. USAID matching funds for start up.	455,000	11,375
3. USAID contributions for initial operational cost.	390,000	9,750
TOTAL	6,045,000	151,125

CHAPTER 3

ACTIVITY I: FORMATION OF SAVINGS AND CREDIT SOCIETIES

OBJECTIVE: To provide the know-how to form a society.

OUTLINE:

A. Steps in forming a society under the Societies Ordinance

B. Identification of potential members

C. Requirements for registration of a society under the Societies Ordinance

D. Duties and obligations of a society registered under the Societies Ordinance

E. Matters to be provided by the rules of societies registered under the Societies Ordinance

ATTACHMENTS: See Volume 11

3-A Application to become a member of a society
3-B Model by-law/rules of a society
3-C Letter to the bank to accept a deposit
3-D Affidavit by the committee members
3-E Application to register a society
3-F Letter to the Registrar of Companies
3-G Guidelines for partial reimbursement of start-up costs and operational costs of societies
3-H Form of bond

CHAPTER 3

ACTIVITY I: FORMATION OF SAVINGS AND CREDIT SOCIETIES

A. STEPS IN FORMING A SOCIETY UNDER THE SOCIETIES ORDINANCE

1. Identify members:

   - With assistance from entrepreneur associations
   - Through training programmes
   - Introductory discussions with potential entrepreneurs
   - Informal discussions with credit institutions; field level officers of other development agencies (see guidelines below in section b: identification of potential members)
   - Application form for member (see attachment 3-a).

2. Convene first formal meeting:

   - Give notice
   - Arrange venue
   - Contact potential members
   - Prepare agenda covering steps 3 and 4.

3. Adopt by-laws (rules) to form Society:

   - Discuss model by-laws, (refer to attachment 3-b)
   - Adopt by-laws with amendments, if any
   - decide on a name for the society (e.g., _____ Credit and Savings Society, Ltd
   - Decide on minimum share contribution for a member
   - Fix annual subscription
   - Decide on a bank to implement the credit scheme
   - Decide on maintenance of books and records.

4. Elect Committee(s):

   - Elect general committee
   - Elect subcommittee on credit/savings
   - Obtain bonds from committee members (refer to attachment 3-h,for specimen).

5. Adopt work plan for the first year:

5. Adopt work plan for the first year:

   - Include activities set out in chapter II.

6. Collect initial capital from members.

7. Deposit initial capital in individual member's savings accounts in selected bank.

8. Adopt credit policy for Society to facilitate members' access to credit (refer to chapter 5, section b: policy guidelines for model credit policy):

   - Discuss model policy guideline
   - Decide on the maximum credit limit per member
   - Decide on maximum guarantees per member
   - Adopt a policy.

9. Adopt savings plan for members (refer to chapter 6, section b for guidelines on preparing savings plans):

   - Discuss guidelines
   - Adopt policy
   - Decide implementation plan.

10. Deposit capital funds in bank in suspense account (refer to attachment 3-c for specimen letter):

    - Obtain letters of authority from members
    - Request bank to transfer funds from member accounts
    - obtain certificate for deposit from bank.

11. Open office:

    - Select premises for office
    - Enter into rent agreement
    - Fix name board
    - Procure stationery (refer to attachment 3-g for eligible items for reimbursement).
    - Obtain a receipt book.

12. Apply for registration to Registrar of Companies, Colombo (refer to sections c and d below):

    - Fill application form by reference to specific requirements as per by-laws (refer to attachment 3-e for application form)
    - Obtain affidavits from eight members certified by a Justice of the Peace (refer to attachment 3-d for affidavit)
    - Send application in duplicate with a covering letter (refer to attachment 3-f for cover letter).

    - Enclose the following:
        - Two certified copies of Society's by-laws
        - Bank certificate
        - Eight affidavits from eight members
        - Uncancelled stamps for Rs. 25.

13. Obtain registration:

    - Obtain acknowledgement
    - Follow up regularly
    - Obtain copy of gazette notification
    - Obtain certificate of registration and certified by-laws.

14. Complete introduction of book-keeping and filing.

15. Issue share certificates to members.

B. IDENTIFICATION OF POTENTIAL MEMBERS

1. Willingness to work together as a group with mutual trust, confidence and commitment for self improvement and the development of the members of the society.

2. Small scale entrepreneurs engaged in or aspiring to engage in non-farm small scale enterprise activities with the following characteristics:

   - Have had difficulties in accessing formal credit
   - Credit requirements are in the range of about Rs. 20,000 to Rs. 50,000
   - Are in a position to contribute at least 8 percent of their credit requirements to the collateral fund
   - Are willing to contribute to a savings programme which will be arranged by the Society
   - Have undergone training in entrepreneur development
   - Have the capacity to contribute to the equity of the project with cash or other inputs
   - Have the potential to generate permanent employment for at least one other person through the member's project.

C. REQUIREMENTS FOR REGISTRATION OF A SOCIETY UNDER THE SOCIETIES ORDINANCE

The following societies may be registered under the Societies Ordinance:

1. A) Mutual provident societies established with the object of providing thrift, giving relief to members in times of sickness or distress, aiding them when in pecuniary difficulties and making provision for their widows and orphans

   B) Other societies established for promoting educational and religious objects and improving agricultural, industrial, and social services may be registered as "specially authorised Societies"

2. No society can be registered unless it has a subscribed capital of at least Rs. 10,000, And a statement from an authorised bank confirming the amount held in the name of the Society should be submitted with the application.

3. The application form signed by eight members including the president, secretary and treasurer and two written, typed or printed copies of the rules must be submitted with uncancelled stamps to the value of Rs. 25.

4. Each signatory to the application must furnish an affidavit stating:

   A) That he/she is a member of the Society and the office held

   B) The period of residence at the given address

   C) Particulars of his/her social standing, position held under government or private sector, professional standing and annual income

   D) Whether he/she has been convicted of any offence or been found guilty of moral turpitude in a court of law

   E) Whether or not the declarant owns any movable or immovable property and the extent and the value of such property.

5. The word "Society Limited" shall be the last words in the name of the society. If exemption is sought from the use of these words reasons for such exemption must be specified.

D. DUTIES AND OBLIGATIONS OF A SOCIETY REGISTERED UNDER THE SOCIETIES ORDINANCE

1. Should have a registered office.

2. The name board should be affixed outside the office.

3. The name of the society should be mentioned in society's letter heads and similar documents.

4. Should have the annual accounts audited as at December 31, annually by a public auditor approved under the ordinance and a copy sent to Registrar before June 1.

5. Display a copy of the last balance sheet in the office.

7. Supply a copy of the annual returns to any member and other persons interested in the funds of the society.

8. Hold a general meeting of the Society within six months of its registration.

9. Maintain a register of members.

E. MATTERS TO BE PROVIDED BY THE RULES OF SOCIETIES REGISTERED UNDER THE SOCIETIES ORDINANCE

1. The name and place of office of the society.

2. The whole of the objects for which the society is to be established, the purposes for which the funds there of shall be applicable, the terms of admission of members, the conditions under which any member may become entitled to any benefit assured thereby, and the fines and forfeitures to be imposed on any member.

3. The mode of holding meetings and the right of voting and the manner of making, altering or rescinding rules.

4. The appointment and removal of a committee of management (by whatever name) and of a treasurer and other officers, and of trustees, and in the case of a society with branches the composition of a central body and the conditions under which a branch may secede from the society.

5. The investment of the funds, keeping of accounts and the audit of same once a year at least.

6. Annual returns to Registrar of receipts, funds, effects, and expenditure and the number of members of the society.

7. The inspection of books of the society by every person having an interest in the funds of the society.

8. The manner in which disputes between the society and any of its members, or any person making claims through a member, or under the rules, shall be settled.

CHAPTER 4

ACTIVITY II - OBTAINING USAID GRANT FUNDS

OBJECTIVE: To understand the process of getting assistance under the MED project

OUTLINE:

A. Action by the society

b. Action by the Mahaweli Business Centre (MBC)

c. Action by ISTI

d. Guidelines for selection of a society

e. Main points of the Memorandum of Agreement (MOA)

f. Main points of the Collateral Fund Agreement (CFA)

g. Equity/grant contributions to the Collateral Fund

h. Flow of grant funds

ATTACHMENTS: See Volume II

4 - A1 Request to open the No.1 Account in a bank.
4 - A2 Application to enter into an agreement with MASL
4 - A3 Resolution of a society to join the programme
4 - A4 Memorandum of agreement (MOA)
4 A5 Request to open the No.2 Account in a bank.
4 - A6 Request to a bank to enter into a Collateral Fund Agreement with the society.
4 - A7 Collateral Fund Agreement (CFA)
4 - A8 Request to open a general Account.
4 - A9 Grant proposal.
4 - B1 Memo to the MED Grants Committee from Mahaweli Business Centre
4 - B2 List of members and their present status
4 - B3 Memo from MBC recommending a grant disbursement
4 - C1 Memo from the Chief of Party/MED to the MED Grants Committee.
4 - C2 Memo from MED credit advisor to COP/MED regarding disbursements
4 - C3 Letter of remittance to the bank from ISTI

CHAPTER 4

ACTIVITY II - OBTAINING USAID GRANT FUNDS

A. ACTION BY THE SOCIETY

STEPS

1. Assess members' credit requirements:

   * Interview members
   * Train members in business planning
   * Visit project site
   * Assist in preparing business plans
   * Ascertain equity participation
   * Collect credit information
   * Conduct credit evaluation
   * Ascertain viability and repayment capacity
   * Identify credit schemes
   * Prepare list of members and their present status (refer page 43 of Volume II)
   * Estimate grant requirements.

2. Sign agreement with MASL to join credit programme (MOA):

   * Pass resolution (refer page 17 of Volume II)
   * Open No.1 A/c. with a bank
   * Submit application to MED grant committee, MASL with memo from Business Centre (refer page 41 of Volume II) through ISTI
   * Enclose List of members and their present status
   * Sign agreement with MASL (Three sets)
   * Obtain copy of agreement with ISTI acknowledgement.

3. Sign Collateral Fund Agreement with bank:

   * Pass resolution
   * Apply to the bank (refer page 30 of Volume II)
   * Sign agreement (Three sets)
   * Arrange to send agreement to ISTI for acknowledgement
   * Ascertain return of agreement by ISTI to bank and society.

4. Recommend members' loans to the participating bank:

   * Obtain bank loan papers and assist completion
   * Evaluate loans
   * Prepare covering memo to bank (refer page 49 of Volume II)
   * Recommend loans to bank
   * Assist members in discussions with bank
   * Ascertain loan decisions from bank.

5. Deposit members' collateral funds in No.1 A/c. in bank:

   * Assess member borrowers' contributions
   * Deposit contribution funds in bank
   * Obtain a certificate of deposit from bank.

6. Apply for grant funds to MASL through ISTI:

   * Obtain letter of approval of loans from bank
   * Obtain from bank, account number (of No.2 A/c.) for deposit of grants
   * Obtain certificate from bank confirming deposits in No.1 A/c. up to 8 percent of loans approved
   * Submit grant proposal with supporting documents to ISTI through MBC - for collateral grants.

7. Ascertain deposit of grant funds in No. 2 A/c by ISTI in bank and assign funds to bank.

8. Open a general account in the bank.

B. ACTION BY MAHAWELI BUSINESS CENTRE (MBC) FIELD STAFF

1. Assist Societies in steps 1 to 8

2. Prepare statement of members' present status

3. Submit MOA with covering memo to MED office

4. Submit grants proposals of Societies with covering memo.

C. ACTION BY ISTI

1. Submit MOAs to MED Grants Committee

2. Obtain MOAs signed by Director General (MASL) and Secretary General (MASL)

3. Obtain signature of Societies to MOA

4. Acknowledge MOA

5. Return one set of MOA to society with copy to MBC

6. Assist to submit CFA to bank

7. Acknowledge CFA

8. Return CFA to bank and society with copy to MBC

9. Process grant proposals for:

   a) collateral funds
   b) start-up expenses
   c) operational expenses.

10. Disburse grant funds (see page 48, Volume II, for letter to bank)

D. GUIDELINES FOR SELECTION OF A SOCIETY TO JOIN THE MED CREDIT PROGRAMME

1. Should be registered under the Societies Ordinance.

2. Should have a minimum membership of 10.

3. Majority of members should have undergone training in entrepreneurship development.

4. Members must be in need of credit.

5. Members must agree to join a savings programme arranged by the society.

6. Should adopt a credit policy acceptable to the MED programme.

7. Members should agree to contribute to the Collateral Fund in proportion to their credit needs.

8. Members' enterprises must have the potential to provide permanent employment to at least one additional person after obtaining credit.

E. MAIN POINTS OF THE MEMORANDUM OF AGREEMENT

PURPOSE:- Providing financial assistance

(1) Collateral fund - not to exceed US$2000 per society.

(2) Start-up expenses:

Overheads - 50%
operational - 50% maximum Rs 13,000/

(3) Scope of Activities:

Grant component: 1.5 times equity
Society should sign agreement with a bank

(4) Terms and conditions:

Grants to be used as per Memorandum of Agreement and Collateral Fund Agreement
Right to recall misused funds
Grant funds shall be under control of grantee
Funds cannot be withdrawn for three years

Exceptions: Death of member or credit refusal by bank

(5) Commencement and duration of activities:
Agreement would be effective from the date of signing and would remain in force until

(a) Termination of the No; 2 account or
(b) Liquidation of grantee before March 1995 or
(c) Grantor seeks refunds due to mis-use of funds.

(6) Upon completion of the project the funds of the No.2 A/c will be treated as reserves of the society and if disbanded after the project completion, unencumbered funds will be legally apportioned to members to develop their enterprises.

(7) Grant budget:

a) Collateral fund -up to a maximum of Rs 80,000/(USD 2,000)
b) Start-up costs. -up to 50% of cost with in a maximum of Rs 7,000/.
c) 1st year's operational costs. -up to 50% of cost with in a maximum of Rs 6,000/.

(8) Use of interest upto 25% is allowed.
Disbursements should be in terms of a request for disbursement.

(9) Administration of grant

ISTI will implement the grant as agents of MASL.
MASL's decisions shall be final.

(10) Disbursement procedure.
By submitting a grant proposal in the prescribed form.
Frequency of submiting grants proposals:

1. Start up once - based on requests for disbursement.
2. Operational costs - monthly - do
3. Collateral funds - in 3/4 batches - do

(11) Reporting requirements : obligation to submit information.
Records and audit : records to be available for three years after final disbursement

(12) Access to documents in banks upto three years after termination.

(13) Modifications

By mutual agreement.

(14) Financing Local Taxes - No grant funds to be used.

F. COLLATERAL FUND AGREEMENT / MAIN POINTS

SOCIETY AGREES

1. To deposit members' share capital to No.1 A/c. (1)
2. To notify the bank of any suspension of its activities (6)
3. Not to withdraw funds for three years
4. To submit accounts of the society annually (12)
5. To make available books of the society for inspection (13)
6. To refer any disputes to arbitration (15)
7. Any changes of terms to be in writing (16)
8. Society to have no claim to No.2 A/C if liquidated before project completion (6)
9. Notice procedure (17)
10. Funds in No.2 A/C would form part of societies' reserves on completion of the project. (11)

BANK AGREES

1. To open a No.2 A/c. with collateral grant funds (2)
2. To pay interest. (3)
3. Bank may consider loans on the recommendation of the society on their credit criteria. (4a &b)
4. Bank will not ask for outside guarantors (4b1)
5. Will agree to a deposit/loan ratio of (five times) initially
6. Any variation of terms to be in writing (4b3)
7. To permit withdrawal from No.2 A/c by grantor for mis-use by grantee. (7)
8. To have a paramount lien on monies deposited (8)
9. To cancel facilities for mis use (9)
10. To not permit withdrawal from No.1 A/c for three years except on death of a member or credit refusal(10)
11. Bank's recovery process (13.1 abc)
12. No collateral fund backing when immovable securities are taken (13.2)
13. Access to bank records for audit up to three years after project.

G. EQUITY/GRANT CONTRIBUTIONS TO THE COLLATERAL FUND

		DEPOSIT/LOAN RATIOS					
		1 - 10			1 - 5		
Total Project Cost Rs	Estimated Loan Rs	Collateral Fund Rs	Capital Rs	Grant Rs	Collateral Rs	Capital Rs	Grant Rs
60,000	50,000	5,000	2,000	3,000	10,000	4,000	6,000
45,000	40,000	4,000	1,600	2,400	8,000	3,200	4,800
37,000	30,000	3,000	1,200	1,800	6,000	2,400	3,600
30,000	25,000	2,500	1,000	1,500	5,000	2,000	3,000

SHIPPING OF THIS DOCUMENT

II. FLOW OF GRANT FUNDS

BY THE SOCIETY	BY USAID	BY EIED & MASL	BY ISTI
1	2	3	4
1.1 Identify members	1. Approve Project Implemeentation Letter (PIL) (After 2.1/2.2)	1. Sign agreement with societies (After 1.10)	1. Assist societies through Fiedl Business Consultants re 1 to 1.16
1.2 Convene first meeting	2. Respond to reimbursement claims from bank	2. Review and approve grant proposals	2. Remit funds to accounts of societies in banks
1.3 Elect office bearers		3. Inform ISTI on Step 1	3. Follow-up reimbursement from USAID to ISTI account
1.4 Adopt rules and work plan		4. Monitor progress	4. Monitor progress
1.5 Collect initial capital			
1.6 Deposit in bank (Suspense Account)			
1.7 Obtain certificate from bank			
1.8 Apply for registration			
1.9 Open offite			
1.10 Obtain Registration			
1.11 Collect members' collateral funds and deposit to No. 1 Account			
1.12 Sign agreement with MASL (After 1.10)			
1.13 Sign agreement with bank			
1.14 Apply for funds to ISTI after loan approval			
1.15 Apply for partial reimbursement of start-up expenses			
1.16 Apply for partial reimbursement of operational expenses (monthly)			

FLOW CHART OF STEPS - SAVINGS AND CREDIT SOCIETIES

FORM SOCIETY

- Convene informal meetings of entrepreneurs and present programme. Issue applications. (MBC)
- Identify members. Obtain applications (10/15) from entrepreneurs. (MBC)
- Convene formal meeting and 1) Adopt by-laws 2) Elect committee 3) Adopt work plan 4) Decide on bank (MEMBERS)
- Convene meeting. Adopt - Credit policy - Savings plan - Commence collection of initial capital to member's a/c (COMMITTEE)
- Open office. Get seal. Introduce Book keeping. (COMMITTEE)

REGISTER SOCIETY

- Transfer share capital to a suspens a/c in bank. (COMMITTEE)
- Obtain affidavits of members. (COMMITTEE)
- Prepare application to the Registrar. (COMMITTEE)
- Submit application with enclosures. (COMMITTEE)
- Obtain certificate of registration. (COMMITTEE)

SIGN MOA WITH MASL

- Prepare business plans of members and assess their credit needs. (FIELD STAFF, MBC)
- Open no 1 a/c in bank and transfer share deposits. (COMMITTEE)
- Convene meeting & pass resolution to join programme. (SOCIETY)
- Submit application to ISTI through MBC. (COMMITTEE)
- Obtain signature of Society to MOA. (MBC)
- Submit application to MASL. (ISTI)
- Approve & sign MOA. (MASL)
- Acknowledge and return MOA to Society & MASL. (ISTI)

SIGN CFA WITH BANK

- Convene meeting and pass resolution to sign CFA. (SOCIETY)
- Submit CFA application to ISTI through MBC. (COMMITTEE)
- Send CFA to bank for signature. (ISTI)
- Sign CFA with bank. (SOCIETY)
- Return CFA to ISTI. (BANK)
- Return CFA to bank & Society after acknowledgement. (ISTI)

ARRANGE CREDIT TO MEMBERS

- Assist preparation of loan applications. (FIELD STAFF) MBC
- Submit loan applications to society. (MEMBERS)
- Evaluate applications. (MBC & COMMITTEE)
- Submit loan applications in batches to bank with their recommendation. (COMMITTEE)
- Assist bank in evaluation. (MBC & COMMITTEE)
- Approve loans and issue letter of approval to society. (BANK)

- Deposit 5% of loan in bank to society a/c. (BORROWING MEMBERS)
- Issue certificate regarding deposit. (BANK)
- Submit grant proposal to ISTI through MBC based on specific loans. (COMMITTEE)
- Issue grants to bank a/c on behalf of MASL. (ISTI)
- 1. Deposit grant to society a/c. 2. Obtain loan documents from members. 3. Release loans to members. (BANK)

MONITOR

- MAINTAIN RECORDS
  1. Loans follow-up register.
  2. Society file.
  3. Members client files.
  (MBC)
- SUBMIT TO ISTI
  1. Monthly progress reports for each society.
  2. Input form 4.
  3. Input form 5.
  (MBC)

CHAPTER 5

ACTIVITY III - FACILITATING MEMBERS ACCESS TO FINANCIAL INSTITUTIONS DURING PHASE I OF THE CREDIT PROGRAMME

OBJECTIVE: To provide an understanding of the role of societies in facilitating member to obtain credit from financial institutions during Phase I

OUTLINE:

A. Tasks

B. Loan policy guidelines for a society:

1. Objectives/purposes
2. Eligibility of members to obtain loans from banks with the recommendation of society
3. Amount of financial assistance
4. Security/guarantees
5. Purpose
6. Capital build up of the society
7. Servicing members' loans
8. Assistance to members for financial planning

C. Steps in submitting loan applications to banks

D. Some aspects of credit assessment:

1. Financial requirements of small scale entrepreneurs
2. Methods of financing
3. Commercial lending vs. Development lending
4. Some concepts in development lending
5. Sequence of lending
6. Lending considerations
7. Project approach
8. Borrower's responsibility

ATTACHMENTS See Volume II

C -9.1 Covering memo from a society to a bank recommending a member's loan
C -9.2 Resolution of a society to recommend a loan.
C -9.3 Letter of authority from the applicant.

CHAPTER 5

ACTIVITY III - FACILITATE MEMBERS' ACCESS TO FINANCIAL INSTITUTIONS, DURING PHASE I OF THE PROGRAMME

A. TASKS

Savings and Credit Societies assist members in:

Assessing the viability of members' projects.

Preparing business/production plans for members' enterprises, assessing equity participation capacity and identifying the credit needs of members.

Identifying bank credit programmes that would best fit members' needs.

Preparing loan documents to banks.

Strengthening the creditworthiness of members by reviewing and recommending their credit applications to banks.

Negotiating with banks on behalf of members' credit applications.

Pre and post approval loan investigations by banks.

Repayment of member loans.

Review of credit needs.

B. LOAN POLICY GUIDELINES FOR A SOCIETY - DURING PHASE I

These guidelines are intended to assist societies in their deliberations to develop a set of ground rules that would be necessary in dealing with financial aspects of providing assistance to their members during the first phase of formation of societies. The need to agree upon and abide by a set of guiding principles in credit management is of critical importance in ensuring the long term sustainability of these nascent institutions.

1) Objectives/purposes:

1.1 To establish a credit policy aimed at facilitating member's access to credit from banks so as to enable members to make more productive use of their resources, and assist in enterprise development.

1.2 To foster the growth of entrepreneurship amongst members.

1.3 To bring about economic and social development by increasing the income of members.

1.4 To gain experience in credit management with the object of moving to the second phase of the credit programme thereby enabling the society to directly engage in borrowing from banks and lending to members.

2) Eligibility of members to obtain loans from banks with the recommendation of the society:

2.1 Should be of sound moral character

2.2 Should save systematically by participating in a savings programme.

2.3 Should submit an acceptable investment plan and a project proposal.

2.4 Should have the capacity to repay the loan.

2.5 Should have followed a course of training in entrepreneurship and be skilled in production aspects of the proposed enterprise.

2.6 Should agree to accept counseling from the officials of the society, the EIED field staff and consultants of the MED project.

2.7 Should agree to visits of EIED and MED field staff to inspect the project.

2.8 Should agree to submit project information as required.

2.9 Should agree to maintain books and records of the project.

2.10 Should contribute at least ..... % of the proposed loan as capital contribution to the society and should have at least Rs .....of capital contribution in the society at the time of application.

2.11 The period of membership to qualify for submission of a loan application shall be ....months.

3) Amount of financial assistance

The maximum loan that may be recommended to a bank under this scheme shall not exceed Rs .....

4) Security/Guarantees.

4.1 Every bank loan recommended by the society shall be secured by members' capital contributed and by the proportionate amount of the USAID grant funds deposited in a collateral fund in a bank.

4.2 No member shall stand guarantee for more than .....loans.

4.3 Members may provide the inter-se guarantee to secure member loans if such guarantee is called for by the bank.

4.4 A borrowing member will provide to the bank the security of the project assets as called for by the bank.

5) Purpose:

Loans may be recommended by the society to a bank for the following purposes.

5.1 Start-up or expansion of non-farm micro and small-scale enterprises in Mahaweli Systems.

5.2 Financing of fixed / working capital or allied expenses.

5.3 Short, medium or long term requirements.

6) Capital build up of the society

6.1 Every member shall contribute to the capital of the society in proportion to the value of loans recommended by the society on behalf of a member, based on an agreed ratio.

6.2 In addition, members shall participate voluntarily in savings programmes sponsored by the society.

6.3 Capital adequacy will be kept constantly under review by the society for appropriate action.

7) Servicing member loans

7.1 The society shall assist eligible members to obtain credit facilities from the bank with which arrangements have been made to maintain the collateral fund of the society.

7.2 The level of responsibility in evaluating risks and in making credit decisions to recommend individual loans of members to banks should be the same as if loans are granted by the society to its members out of its own resources.

7.3 Each member's application will be treated on its own merits. The society will recommend loan applications which are considered by the committee to be viable and have the capacity to generate adequate surpluses to repay the loan and leave a profit margin adequate to continue the business. In making recommendations the society will be mindful of its commitments to the bank through its collateral fund.

7.4 The general committee or a specially approved credit committee will be responsible to the General Body of the society for all matters dealing with facilitating access to credit to members.

7.5 The president and the members of the committee or special credit committee will undertake on behalf of the General Body servicing of member credit needs in all its stages i.e. identification of member credit needs, interviewing, inspection of projects, assessing viability and financial needs, recommendation of loan applications to banks, assisting the bank in loan processing, documentation, disbursements, recording, follow up, recovery, review of and action on problem loans and other activities as agreed with the bank.

8) Assistance to members for financial planning:

8.1 The society shall facilitate members through the Field Business Consultant service to prepare plans to set up enterprises.

8.2 The requirements of outside financial assistance will be identified during the planning process.

8.3 The society shall liaise with the bank and the FBC service to assist members to apply for bank loans.

8.4 With the assistance of the FBC service the society will facilitate members to prepare loan documents, project proposals etc., for submission to the bank.

8.5 The society will assist the bank in the processing of member loan applications by facilitating the bank's credit investigations and satisfying collateral requirements.

8.6 The society will assist members in opening bank accounts, clarifying issues with the bank, remitting loan repayments, savings promotion and in obtaining other financial services.

C. STEPS IN SUBMITTING LOAN PROPOSALS OF MEMBERS OF SOCIETIES TO BANKS

Given below sequentially are the steps that will have to be taken by a Savings and Credit Society to assist its members obtain credit from banks.

1. Identification of a business opportunity by a member.

2. Preparation of a Business Plan/Project Report.

3. Examination and review of the proposal by the committee of a society including site visits preferably with a bank official.

4. Obtaining loan documents from the bank by the secretary/president if a proposal or a batch of proposals is considered viable.

5. Completion of loan papers and selection of guarantors in consultation with the respective members and the committee.

6. Submission of loan documents and project proposals to the committee of a society by the secretary/president as and when a batch of three to four applications are ready.

7. Examination of loan documents and Project Proposal/Business Plan by the committee.

8. Consideration of credit decision and if approved in terms of the society's loan policy, pass a resolution at the committee meeting to recommend the loan to the bank.

9. Submission of loan papers to the bank in batches with:
   9.1 covering memorandum for each loan
   9.2 certified resolution of the society to recommend a loan
   9.3 applicant's letter of authority.

10. Arranging a meeting of loan applicants with bank officials and conducting discussions with the bank by committee officials and Business Centre staff on behalf of member(s) and assisting them in obtaining loan.

11. Obtaining the letter of approval of loans from the bank.

12. Depositing members' contribution (8%) to No.1 A/c.

13. Applying for grant funds in batches from MASL through ISTI.

14. Ascertaining the deposit of grant in No.2 A/c.

15. Assisting member in signing loan documents and meeting other loan approval conditions.

16. Assisting in repayment, loan utilization, enterprise development and reserve build-up.

D. SOME ASPECTS OF CREDIT ASSESSMENT

D.1 Financial requirements of small-scale entrepreneurs

D.2 Methods of financing

D.3 Commercial lending vs development lending

D.4 Some concepts in development lending

D.5 Sequence of lending

D.6 Lending considerations

D.7 Project approach

D.8 Borrowers' responsibility

D.1 FINANCIAL REQUIREMENTS OF SMALL-SCALE ENTREPRENEURS

ACTIVITIES : Start-up/maintain/expand/relocate enterprises

PURPOSES :

1) Pre-investment expenditure
   Initial inquiries

2) Acquisition of fixed assets
   land/buildings/machinery
   equipment/vehicles/office equipment
   electricity

3) Working capital(WC)

   3.1 Permanent WC
   Raw materials/work in progress finished goods/wages/ overheads
   credit sales

   3.2 Additional WC

   3.3 Seasonal WC

D.2 METHODS OF FINANCING

Owner's contribution (equity)/partners' subscription shares/debentures/loans/and overdrafts/(of varying period depending on purpose and security) bills discounted subsidies/ deposits/ suppliers' credit/letters of credit/cash accruals.

Business organizational forms of small enterprise

Forms of enterprises (borrowers)

self employed/proprietary/legally constituted groups
partnerships/private companies/co-operatives/
people's companies/registered societies

Who can borrow :

Legal entity with capacity to:
enter into contract
borrow
sue and be sued
succession

Who cannot borrow :

minors
unincorporated bodies
those considered too old to enter into contracts
those adjudged by courts

D.3 COMMERCIAL LENDING Vs DEVELOPMENT LENDING

OBJECTIVES:	Profitability Liquidity Safety	Filling capital gaps Employment Income generation
BORROWER	Tract Record	No past records
IDENTIFICATION	Banker/customer Relationship Means and Standing	Extension work
BORROWERS EQUITY	Larger	Smaller/commitment skills
LOAN PERCENTAGE	50/65 %	75/100 %
INTEREST	Higher	Lower
PROCESS	Commercial Banking criteria (5 'c' s)	Project evaluation Viability Debt service cover Return to labour (self-employment)
SECURITY	Commercial Securities Higher margin of Security	Group pressure inter-se guarantee Project assets
REPAYMENT TERMS	Shorter	Longer
TYPES OF FINANCING	Mostly short-term	Mostly medium/long term
SOURCES	Mostly Commercial banks	Mostly development lending institutions

D.4 SOME CONCEPTS IN DEVELOPMENT LENDING

WHO IS AN ENTREPRENEUR:	1.	"The entrepreneur always searches for change, responds to it ,and exploits it as an opportunity ..."
	2.	"The entrepreneur shifts resources from areas of low productivity and yield to areas of higher productivity and yield ...
	3.	"A person who organizes and manages a commercial undertaking"
EQUITY	:	The owners' contribution to an enterprise an indicator that signals the owners' stake and interest i.e. debt/equity ratio
CREDIT WORTHINESS	:	Credit:belief in another's ability or capacity to pay
FORMS OF CREDIT	:	Bank notes, cheques, bills, pro-notes, bonds, treasury bills, book debts, loans, overdrafts, letters of credit
PROJECT VIABILITY	:	Ability to sustain and develop while servicing debts. Fecets of viability: technical, commercial, financial, economic, managerial
BREAK-EVEN LEVEL	:	Level of activity at which contribution equals fixed cost
DEBT/SERVICE RATIO (DSC)	:	Number of times of repayments to cash accruals
INTERNAL RATE OF RETURN:	.	Discount rate which would equate cash outflows and cash inflows over project life. (based on time value of money-discounted cash flow)
DOMESTIC RESOURCE COST (DRC)	:	Cost per unit of foreign exchange earned or saved
COST CATEGORIES	:	Capital costs, fixed costs, variable costs. start- up costs. Fixed costs: financing, depreciation, maintenance rental/lease, fees, salaries.
CAMEL	:	Management of 1. Capital adequacy 2. Assets and liabilities 3. Risks 4. Earnings 5. Liquidity

D.5 SEQUENCE OF LENDING

IDENTIFICATION

Appraisal:

Interview

Collection of information on the borrower/product/ production or business plan and aspects of viability as production, commercial, financial, economic and management.

Site inspection

Analysis and risk assessment

Working out terms: amount, equity, period, rate, security frequency, conditions or modification of proposal

Negotiation/discussion

Preliminary decision

Preparation of limit:

Credit decision

Approval

Offer of terms and acceptance

Documentation: Taking securities
Registration of documents
Insurance cover and assignment

Release of funds in stages

Follow-up and recovery

Treatment of problem loans

Review funding requirements

D.6 LENDING CONSIDERATIONS

Assessing the bankability of loan proposals.

1. Introduction

1.1 This explanatory note deals with the different aspects considered by lenders in making decisions to lend money.

1.2 Since commercial banks are a major source of lending for small-scale enterprises, an understanding of lending from the bankers' point of view is necessary for the Field Business Consultants, other staff members of the Mahaweli Business Centres and officials of Savings and Credit Societies formed under the MED project .

1.3 Bankers are in the business of providing financial services. They exploit opportunities arising out of the availability of financial resources on one hand and the demand for such resources for investment on the other. This is called financial intermediation.

1.4 Thus the resources at their command arise out of external liabilities mobilized at a cost. These funds are mobilized mostly by way of demand, savings and time deposits. These resources are invested at reasonable levels of risk in a variety of ways to bring in an optimum income.

1.5 Thus safety, liquidity and profitability constitute the major considerations in managing resources at their command. These aspects form the basis of portfolio management in banks.

1.6 Under normal circumstances a substantial part of a bank's investment portfolio comprise loans of different varieties provided under a multiplicity of terms and conditions. These terms would vary in detail depending mainly on the consideration and assessment of a lending opportunity.

1.7 Approach to lending, when considered as a lender's response to an investment opportunity will enable the Field Staff of Mahaweli Business Centres to perform their role effectively as intermediaries between banks and entrepreneurs. It would set the pace for the building up of a healthy relationship between lenders on one hand and clients on the other. Such a relationship would also assist in developing trust and understanding that would make loan counselling a lot more easier to cope with.

1.8 It must not be overlooked however that borrowing, though a very important source of funding, is not the only means of meeting capital gaps. Assistance to entrepreneurs in tapping alternative funding avenues may be an option which the field staff may consider in appropriate circumstances. Such sources would include relatives and friends, other sponsors, those who may join as partners, those who may invest as share-holders, assistance by way of grants and subsidies. Such a spread of equity is viewed with favour by bankers in view of the resultant spread of risks.

1.9 In looking at the bankability of capital gaps of small entrepreneurs, the considerations set out below form the hard core of information needed for credit decision making or appraisal of a credit proposal. If a client has already worked out his business plan this task will be relatively easy.

1.10 The credit decision stage or the appraisal stage is a crucial activity in the sequence of lending. This sequence is summarized here so that the field staff will be able to appreciate the role of credit assessment in lending.

a) Identification of a borrower
b) Credit assessment or appraisal and loan negotiations
c) Making the credit decision or approval of a loan
d) Offer of terms and acceptance of condition of a loan by the borrower
e) Loan documentation
f) Release of funds
g) Follow-up and repayment / recovery.

The field staff should be conversant with these aspects.

2. Six basic considerations in credit assessment

Although approaches to lending could vary from institution to institution, there are a few aspects which are basic features in credit assessment.

These are set out below:

a) **Who is the Person who wants to borrow?(P)**

b) **What Amount does the borrower want? (A)**

c) **For what Purpose is the advance required?(P)**

d) **What is the Earning capacity?** (E)

e) **What are the Repayment terms?** (R)

f) **What Security is available ?** (S)

These could be easily remembered with the acronym 'PAPERS'. After all, 'papers' must be in order to take any decision !

In the process of elaborating these aspects, reference would also be made to another approach to credit risk assessment ie assessing the five 'C's in Credit: Character (willingness to pay); Capital (wealth of borrower); Capacity (ability to repay); Collateral (security if necessary) and Conditions (external and economic).

The approach followed herein is to raise a key question, amplify it further, outline different aspects and issues that are relevant, and discuss ways adopted to resolve them. This document is not intended to be a manual on credit analysis. Rather it is a guideline for Field Business Consultants (FBCs) working at the periphery to facilitate access to credit for small-scale enterprises.

2.1. PERSON : Information about the borrower

Who is the person who wants to borrow ?

Answers to following aspects are helpful in forming a judgment about the creditworthiness of the borrower.

2.1.1 A client's personal information such as his name, address (permanent and if temporary why?), location of business, age, gender, educational background, experience, past and current dealings with banking institutions, income, extent of assets owned, and existing liabilities and solvency.

2.1.2 Applicant's personal and entrepreneurial qualities would also be of concern. Such qualities are many and the lenders are aware that the ideal borrower possessing all the ideal qualities is hard to find.

2.1.2.1 Such traits would include honesty, reasonableness, capability, health, temperament, patience, courage, management capacity, and the ability to identify an investment opportunity to risk one's capital on it. These taken together are also referred to as the character of a person or the first C in Credit.

2.1.2.2 This information is also helpful to form a judgment about the willingness of a client to pay back a loan.

2.1.3 Some aspects referred to above which can give rise to misunderstanding between the client and the lender if handled carelessly are given below:

2.1.3.1 Age: Very often problems crop up regarding age. Banks do not normally lend to persons senior in age ie. normally over 55 or 60 years or to minors who have no capacity to borrow. Actual age limit may vary from case to case. What is relevant is that a borrower should be in control of his faculties during the currency of a loan.'Mens sana incorpore sano' (a sound mind in a sound body) is the normal rule. In situations when a proposal is otherwise in order bankers are known to cover risks arising out of higher age by establishing a joint liability with another acceptable person, usually a member of the family .

2.1.3.1.1 Those below 18 years of age are treated as minors and are incapable of entering into contracts to borrow (except with special dispensation from courts). In such cases too joint liability is established sometimes with a person having the capacity to borrow with appropriate indemnities as in the case of student loans.

2.1.3.1.2 Age limitation may also arise as a result of ceilings imposed by a lender for a specific lending package like self-employment loans or start-up enterprise loans.

2.1.3.2 Income: A borrower's present income is of main concern to lenders. In a situation where a borrower has not been known to a lender as a client ascertaining the income could pose a problem. In the case of small loans, local banks are known to obtain a certificate of income from a Revenue Officer. For project oriented loans this requirement may be relaxed in view of the assessment of viability of the project.

2.1.3.3 Address of the borrower: This is another matter that could be of concern if the lender is meeting the borrower for the first time. When in doubt a letter of confirmation of permanency of residence is requested from a village authority.

2.1.3.4 Liabilities: Verification of present liabilities and the manner in which a person has discharged liabilities in the past are of major concern to bankers in ascertaining the past track record. Prompt disclosure of this information, especially defaulted loans speaks volumes for the honesty of an applicant.

When it comes to corporate customer traditional ratio and trend analyses are employed to judge the past performance.

2.1.3.4.1 It is critical that information about existing liabilities and the plan for discharging same are obtained during initial discussions with entrepreneurs.

2.1.3.4.2 The terms of repayment of present liabilities including the interest payments have a direct bearing on the assessment of a person's repayment capacity of the proposed advance.

2.1.3.4.3 Necessary precautions to prevent diversion of funds to meet prior claims could also be taken using this information.

2.1.3.5 Management capacity: A person's capacity to operate and manage a project is also of relevance here. While a full awareness of the technical aspects by the client is crucial in the case of very small projects, the capacity to manage a project assumes greater importance as the project size increases and demands for better maintenance of books, accounts, financial arrangements and marketing become greater.

2.1.3.5.1 Lenders are conscious of the fact that no matter what favourable position other indicators would show, good management is the main ingredient of a successful venture. FBCs too can ill afford to ignore this.

2.2. AMOUNT

What amount does the borrower want ? And in what form is it required ?

Is it long, medium or short term, or by way of a loan or an overdraft? or a combination of these? Will there be a need for additional credit requirements like discounting of bills, opening Letters of Credit for imports of raw materials etc that would increase the total liabilities? Has this person already borrowed for the same purpose ?

2.2.1 Thus the consideration of the amount is a critical aspect for inquiry.

2.2.2 The intensity of analysis could vary according to the size of the advance. There is though a quirk in finance that the larger the advance the easier it is to get!

2.2.3 Main Considerations: The main areas of concern in dealing with the amount will be the following: Is the amount adequate to complete the project? Is it in excess of the actual project requirements? Is it too high in proportion to the client's contribution? Is the client's contribution sufficient to sustain his interest in the project? Has provision been made for contingencies: Is the amount within the approved exposure limits? These considerations are referred to as the second C in credit ie Capital. Lenders would like to ensure that adequate funds are available to complete a project and that cost over-runs are well taken care of.

2.2.4 Methods of determination: In project loans the amount of loan is determined by subtracting the equity and external funding from the total project cost. The main components of project cost are Start-up costs: Capital Costs and Permanent Working Capital. The section dealing with the financial plan of a Project Report will also be indicative.

2.2.5 Another important financial tool to determine the amount is the Cash Flow statement. In a Cash Flow statement prepared without including the proposed loan, the highest debit balance will normally be the amount that will be required as the loan.

2.2.6 In normal commercial lending, banks would prefer to limit their lending exposure to about 50 / 60 percent of the project cost. In development-oriented lending the banks' stake may go even up to 70 / 80 percent depending on the viability of the project. In dealing with very small project-oriented loans development-oriented banks even treat a person's technical skills as his contribution to the project. When a bank's perception of risk involved in a proposal is high a lower proportion of the total outlay is preferred as a loan.

2.2.7 Another factor that would have a bearing on the amount is the type of security offered. Banks are more comfortable with readily encashable securities. Higher risks are sometimes covered by calling for higher value securities.

2.2.8 Another aspect that will have a bearing on the amount is the extent of delegated authority of the manager to approve loans. Loans within a manager's authority are more expeditiously decided upon than those that will have to be sent up to higher authorities.

2.2.9 Type of advance is another aspect that is closely linked to amount. Banks provide credit facilities in several ways. Some of the common forms are loans (short, medium, or long), overdrafts and discounting of bills. Overdrafts are normally payable on demand and subject to review annually. As such normally only the short-termworking capital requirements are provided by this means. This may however not always be the case.

2.2.10 There is also the facility called the Temporary Overdraft or the TOD which is very popular amongst entrepreneurs. This facility is normally intended to meet requirements of a very temporary nature usually for a few days or a few weeks.

2.2.11 Very often for large facilities-banks prefer to provide a package which would include most of these types of facilities.

2.2.12 Finance for fixed capital purposes are normally extended by way of long or medium-term loans. Financing for permanent working capital may also fall into this category.

2.2.13 Sometimes after a review of a loan request a bank may suggest that a project be reformulated to make it a bankable proposition. This could involve reducing the unit size, rated capacity etc.

2.3. PURPOSE

For what purpose is the advance required?

2.3.1 Assistance is very often sought because the client's cash resources are, or estimated, to be insufficient to carry out his plan.

2.3.2 Reasons for borrowing could be many. It could be for personal use, or for setting up or expansion of a venture. Utilization purposes could become more and more blurred as the amount borrowed becomes smaller mainly due to fungibility of money. Misuse of funds can adversely affect the repayment capacity and misdirect scarce resources. Hence the relevance in verification of purpose and end use of funds. The contrary view is also prevalent that so long as the repayment is ensured, detailed verification of utilization of funds is unnecessary.

2.3.3 In dealing with the purpose aspects such as, the business environment, the outlook for the kind of investment proposed and the life cycle of a product are of relevance. This brings us to the fifth C in Credit, ie. Conditions. Analysis of lending portfolios of banks show that during periods of turbulence the lending diminishes while investment components expands. A banker is sometimes compared to a person who lends an umbrella when it shines but recalls it when it rains!

2.3.4 Requirement of funds would include purposes such as for start-up, expansion of fixed assets, relocation of an enterprise, or for working capital of different types, as permanent, seasonal or for expansion purposes and bridging advances to meet urgent commitment pending finalization of an approved term loan.

2.3.5 If the purpose is investment in a project or business, relevant details of project viability such as marketing, technical, financial, management and economic aspects will have to be ascertained. A scrutiny of Business Plans, Project Reports, Cash Flow, Profit and Loss, and Balance Sheet estimates would be relevant.

2.3.6 In dealing with the purpose it should be noted that many banks have developed purpose-oriented loan schemes. Familiarity with such schemes in operation in local banks will be useful as lending terms such as interest, repayment period and security can vary according to purpose.

2.3.7 Normally speculative purposes and consumption purposes do not receive priority.

2.3.8 Field staff should also be conversant with the concept of exposure limits. Often both the general monetary policy guidelines and internal lending policies fix certain limits in terms of the overall percentage of Lending/ Investment ratio; Sectoral lending ratio, Regional ratio; Individual exposure limits etc. These could vary from bank to bank and would depend inter-alia on the quality of portfolio management of each institution.

2.3.9 Risks in non-conformity with the declared purposes are covered by loan conditions, release of loans in stages, direct payments to suppliers of raw materials, equipment etc and follow-up.

2.4. EARNING CAPACITY

What is the earning capacity? From what sources will the loan be repaid?

A realistic assessment of repayment capacity is the most crucial aspect of lending.

2.4.1 It is the normal expectation that when an investment is made with borrowed funds the surpluses generated must be adequate t pay back the loan and interest in addition to the profit to the entrepreneur as his reward for the risk taken.

2.4.2 The ability to repay a loan alone will not be adequate. Rather the investment should be capable of generating adequate surpluses to permit the entrepreneur to continue in business. These considerations are referred to as the assessment of the repayment and debt capacity and reminds us of the third C in credit ie Capacity (Ability to pay back).

2.4.2.1 The quantum of repayment includes both principal and interest.

The actual repayment quantum would vary according to the basis of interest calculations.

2.4.2.2 Two common loan types are Block Loans (BL) and Fixed Instalment Loans (FIL). In the case of BLs the interest component is calculated and recovered separately from the recovery of the instalment of the principal. The amount that should be repaid out of the principal is obtained by dividing the principal by the repayment period. The monthly interest is determined by applying the interest rate to the amount outstanding from the principal. The sum of both constitute the monthly amount payable.

2.4.2.2.1 This method (BL) results in the borrowers having to pay a larger instalment (more interest than principal) during the initial period of a project. This is perhaps the very time when concessions are warranted.

2.4.2.3 The second method is the Fixed Instalment Method. Under this method a fixed amount which would covers both the principal and interest is paid by the borrower. This figure is ascertained by reference to an Instalment Table or by applying the relevant formula. Since this amount includes both interest and principal, interest payments during a grace period (period when an exemption is allowed for payment of the principal) will have to be calculated separately.

2.4.2.3.1 Thus both the determination of the appropriate interest rate and the methods of interest calculation are of relevance in ascertaining the repayment capacity. In dealing with the interest rate, FBCs must be conversant with the different interest rates charged in the various localities by the relevant institutions. While directed credit programmes have special rates others are based on market rates. In determining the interest rates some of the more important general aspects that are taken into account are the interest paid for deposits and borrowings (cost of funds); overhead costs of the institution; provisions for bad debts and the profit margin. The rate decided finally will however be subject to dictates of market forces.

2.4.3 A traditional method of assessment of repayment capacity is the balance sheet analysis including accounting ratios and trend analyses. Good past performance however is no guarantee of good future performance, especially when it comes to lending based on future incomes.

2.4.3.1 While the break-even (B/E) analysis, and Debt Service Cover Ratio are useful tools to assess the overall earning capacity, the Cash Flow statement will, in addition, be helpful in making the actual recovery schedules.

2.4.3.2 Break-even charts duly adjusted to show separately the B/E levels with and without loan repayment, highlighting the higher B/E level required to service debts will be illustrative. While higher B/E levels for debt servicing would indicate a relatively riskier position showing a projects' vulnerability to price, cost and income sensitivities, lower B/E levels would make the case for lending stronger.

2.4.3.3 Cash flow statements plotted on a monthly basis for the first and second year, then annually thereafter for the next five to ten years as the case may be depending on the project size, is another useful measure of repayment capacity. This statement will also indicate the seasonality of income flows, and periods when temporary borrowings will have to be resorted to or additional capital infused, to cope with seasonal demands and other capital needs. Determination of frequency of recovery (monthly, quarterly etc) is another decision which can be based on this statement.

2.4.3.4 Debt Service Cover Ratio is another yardstick frequently used in development lending. This is the ratio between amount due by way of loan plus interest and the cash accruals available to pay back. A ratio of two or more times is considered to be safe for small and medium size loans. Even lower ratios are considered for very large facilities.

2.4.3.5 It would be noted that the basic approach in these yardsticks is one of comparing the amount payable with amount available for payment, ie. the surplus.

2.4.3.6 Lenders are usually not satisfied with a mechanical comparison of superficial data. They would critically assess the amount available for payment. They would examine factors that would lead to non-fulfillment of these estimates and also any prior and more pressing claims that may have to be met before loan repayments, thereby reducing the surplus available. After assessment of these negative factors the surplus available will be discounted by a certain factor. The real comparison will be with the duly adjusted figure.

2.4.4 Another yardstick which can be used in assessing very small ventures such as self-employment projects is the Return to Labour Ratio. This will indicate the daily / hourly return for the use of self labour. This when compared to market rate for labour will be a guide to decide what is more financially rewarding.

It will also show whether the surplus is an adequate incentive for the borrower to meet repayment obligations regularly.

2.4.5 Repayment obligations of an existing debt is another aspect that will not be ignored. If the existing debt is to the same institution sometimes the balance due from the previous loan is deducted from the new loan. If it is shown that the repayment capacity is adequate to continue repaying both loans then the new loan will be treated as an additional loan. In project financings recovery of a previous loan from the proceeds of a project loan could seriously impair the viability of the project.

2.5. REPAYMENT TERMS

What are the repayment terms proposed ?

Repayment terms would include such aspects as period of repayment, frequency of payment, determination of a grace period if any to commence repayment, mode of recovery ie. Block Loan or Fixes Instalment Loans and interest rate.

2.5.1 The assessment of the earning capacity enables a lender to determine both the period for which an advance could be considered and the time to commence repayments.

2.5.2 The second factor that determines the repayment period is the life of the project. The repayment period cannot exceed the life of the project. Machine life before major repairs is of critical importance in the case of equipment. If an enterprise is run in a rented or leased premises the period of such occupation will also be of concern to the lender. Normally the rent or lease agreement will have to be two to three years in excess of the repayment period. Sometimes even double the period is looked for. Such excess marginal periods are sought in order to cover long periods of litigation that may follow in the event of loan default.

2.5.3 When should the loan payments commence is another relevant aspect. This raises the question of a grace period for loans.

Very often it is only after some time has elapsed that a project will start generating adequate surpluses to pay back the principal. Initially even the payment of interest could be difficult. Allowing grace periods upto about three to six months is not unusual for small-development oriented loans. To meet this situation sometimes development banks include initial interest repayments as pre-operative expenses under capital cost of a project.

2.5.4 Two simple techniques which have already been referred to above which could be profitably employed to ascertain the commencement, frequency and duration of repayment are 1) Break-even analysis and 2) Cash flow statement.

2.5.4.1 Two B/E charts, one showing the costs with interest and another with loan instalment as a part of fixed cost will indicate:

1. When interest repayment is possible?
2. When instalment repayment is possible?
3. What is the permissible grace period ?

2.5.4.2 A Cash flow statement with the loan instalment included (from the month when repayments are possible) with the surpluses generated would enable a lender to ascertain the repayment period and the frequency of repayment.

2.5.5.1 It should be noted that bankers are given to use these tools taking into consideration aspects such as:

(a) The broad repayment terms allowed under general loan policy guidelines
(b) The discretionary authority given to individual officers to approve loans
(c) The type of security offered.

It is a common practice in some banks that advances with longer periods of repayment are referred for approval to higher levels.

2.5.5.2 While some define loans with repayments upto 60 months as short term the normal period would range from a few weeks to 36 months. Loans secured by guarantees of persons and mortgage of movable property usually fall into the latter category.

2.5.5.3 Medium-term loans are usually those with repayment periods ranging from 36 months to 84 months. Some treat loans upto 120 months as medium. Most loans falling under this range are covered by mortgage of fixed assets. Such loans are usually referred to higher levels of authority for approval.

2.5.5.4 Those loans with repayment arrangements exceeding the above limits are treated as long-term loans. Such advances usually are secured by immovable and other fixed assets and are approved by officers of higher levels.

2.5.6 While these are normal commercial terms, exceptions are made when it comes to loans given under development loans schemes which are often coupled with interventions through refinance and guarantee arrangements.

2.5.7 Lenders are not satisfied with only the assessment of repayment capacity of a project. They inevitably ask the 'what if question'.

If the project fails what alternative avenues are there to recover the debt? This brings us to the question of security or collateral or the fourth C in Credit.

2.6. SECURITY

What is the security offered to secure the loan ?

2.6.1 Banks, unlike some other lenders, do not lend against security. They lend to a client. Their approach to security is conditioned by several factors. Security is expected to ensure liquidity of funds lent. It acts as a secondary source of repayment. It redresses the disbalance between the client's own stake in the enterprise and that of the banker. It raises to a very high level the priority of repayment of bank loans. Lastly it also assists in raising funds without actually disposing of assets. This does not mean that bankers would always look for security. Provision of unsecured loans to well-known customers with good track records is common in banks. When it comes to project-oriented loans confining security to a charge on project assets is not unusual.

2.6.2 Some of the important attributes that banks look for in deciding the acceptability of security are ready realizability, adequacy in comparison with the amount of the advance, and legal acceptability.

2.6.2.1 Ready realizability would imply the banks' ability to sell in case of need without the active support of the client. Bankers would also avoid taking security of assets with unfamiliar and uncertain market situations. Realizability also warrants that security must be complete and in saleable condition.

2.6.2.2 Another consideration is the adequacy of security. Ideally, security must be adequate to realise the loan and interest in a forced sale of security. Loan and interest accrued can very often be more than the original commitment in a defaulted situation.

Market conditions could be adverse at the time of sale. These considerations prompt lenders to take security to exceed the possible highest borrowing by a suitable margin. They also account for the conservative approach of banks to valuation of properties. What lenders look for is not only the current market value of security but also the future forced sale value. Their valuations are usually kept confidentially. Often the services of professionals are sought by way of a second opinion when assets in question are large. Loans which are covered by about 50/60 % of the value of security as assessed by the bank are considered adequately secured. The difference is referred to as the margin of security. In development-oriented project lending and in import / export business these margins are often much lower.

2.6.2.3 The third important aspect of security is its legal validity. To ensure this, banks insist on acceptable and marketable title to the asset involved. In the case of immovable property this is ensured by the examination of title by their lawyers. Some lenders

accept title insurance instead of title investigation in case of mortgage of immovable property. Documentation of relevant loan papers and securities must be legally valid and enforceable. This entails that before the release of an advance to the borrower, condition such as the following will have to be complied with: stamping of documents according to revenue laws, notarial execution of certain types of mortgage documents, registration of documents in the land registry and other registries and extraction and filing of registered folios.

2.6.3 Securities normally acceptable to banks include the following:

2.6.3.1 Immovable properties like factories, real estate and housing.

2.6.3.2 Movable properties like machinery, vehicles, equipment, stock in trade, fixtures and fittings and work in progress.

2.6.3.3 Shares of quoted companies and Government securities like bonds and treasury bills.

2.6.3.4 Insurance policies and deposit balances. Banks usually lend upto about 90% of the surrender value of an insurance policy. Percentage of lending against the assignment of fixed and savings deposits is about the same.

2.6.3.5 Security of movable properties is often coupled with guarantees of individuals.

2.6.3.6 Guarantees of persons is another form of security. The basis of acceptability of a person as a guarantor is that such a person should have the legal capacity to guarantee and be able to meet the obligations of the borrower if the latter fails to pay. When it comes to small development loans however, guarantee of a member of the family is sometimes considered by some lenders, more to ensure the continuity of the project than to back up the loan. Issues relating to age discussed earlier are relevant in dealing with acceptability of guarantors as well.

GENERAL:

Though these six aspects would cover most of the areas of consideration in credit decision making yet there are several minor aspects which FBC's will get familiarized as they grapple with day to day lending operations of banks.

D.7 PROJECT APPROACH

ASSESSMENT OF: A. Borrower
B. Project
C. Risks and risk cover

A. BORROWER

main aspects:

1. Experience
2. Background
3. Character (willingness to pay)
4. Capacity (ability to pay)
5. Capital (ability to survive)
6. Previous record of meeting obligations
7. Management capacity.

B. PROJECT VIABILITY

Main aspects:

1. COMMERCIAL

   Product/outlook
   Market justification
   Demand
   Supply
   Distribution
   Price (ex factory retail)

2. TECHNICAL

   Product product mix
   Manufacturing process

Plant size
Technical arrangement
Selection of plant and machinery(p&m)
Procurement of plant and machinery
Plant layout
Location
Technical aspects of:

Land, buildings, plant and machinery and other fixed assets
Raw materials
Labour,
Utilities, electricity, water, access
Environment/approvals
Project implementation schedule.

3. FINANCIAL:

a) Cost of the project
b) Production plan
c) Financial projections
   c i. Profitability estimates
   c ii. Cash flow estimates
   c iii. Monthly profit and loss statement
   c iv. Projected balance sheets
d) Analysis and justification

a. Cost of project:

(1) Land and site development
(2) Buildings
(3) Plant and machinery
(4) Vehicles
(5) Other fixed assets
(6) Preliminary and pre-operative expenses
(7) Provision for contingencies
(8) Permanent working capital
   * Raw materials to maintain production as planned (based on norms)
   * Work-in-progress
   * Stock of finished goods
   * Receivables
   * Less trade credit available

(9) Total project cost= (1) to (8)
means of financing
(10) Equity and accruals
(11) Other contributions
(12) Loan capital
(13) Financing plan = (9)=(10)+(11)+(12)
(14) Loan instalment= (12)/repayment period

b. Production plan

Production capacity (quantity)
Capacity utilization (%) monthly/annually
Production quantities (numbers)

c. Financial projections

c i. PROFITABILITY ESTIMATES

(1) Rated capacity
(2) Capacity utilization
(3) Number of working days
(4) Gross sales revenue
(5) Less Business Turnover Tax
(6) Net sales revenue

VARIABLE COST

(7) Raw material cost
(8) Direct labour
(9) Power and fuel
(10) Other variable costs
(11) Total variable cost=(7)+(8)+(9)+(10)
(12) Contribution = (11)-(6)

FIXED COSTS

(13) Factory overheads and expenses
(14) Administrative expenses
(15) Selling and distribution
(16) Interest on short-term advances
(17) Fixed cost = (13)+(14)+(15)+(16)
(18) Net Profit before depreciation and interest on long term loans
= (6) - {(11)+(17)}

(19) Interest on proposed loan
(20) Interest on other long-term loans
(21) Depreciation
(22) Net Profit before tax = (18)-(19)-(20)-(21)
(23) Taxation
(24) Net Profit after tax = (22)-(23)
(25) Loan instalment (principal)

Ratios

(26) Net profit to sales ratio = (22)*(100)/(6)
(27) Return on investment = {(22)+(19)+(20)} * (100)/total project cost
(28) Break Even Point on sales = {(17)+(19)+(20)+(21)+(25)} * (6)/(12)
(29) BEP/quantity = (28)/SELLING PRICE
(30) Debit Service Cover = {(24)+(19)+(20)+(21)/(19)+(20)+(25)}

note:
* = multiply: / = devide

C ii Cash flow estimates (columns by months/years)

Budget/actual

* Inflows

  * Cash accruals
  * Equity
  * Term loans
  * Short term loans
  * Other inflows

  Total inflow

* Outflows

  * Capital expenditure
  * Expansion
  * Increase in W C

* Loan repayments
* Dividends
* Others

Total Outflows

* Opening Balance
* Surplus
* Closing Balance

CASH FLOW FORMAT (With/Without loan)

Name of Enterprise_____ Date:_____

	Start Up	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12	1 yr	2 yr	3 yr	4 yr	5 yr
Production (In units)																		
Sales (in units)																		
Cash Inflows from Sales Others Owners capital Other investments																		
Loans																		
Total Inflow																		
Cash outflows Capital costs Start Up Variable costs Fixed costs without finance cost Loan repayment Loan interest																		
Total cash outflow																		
Opening Cash																		
(Add/deduct) Surplus (deficit)																		
Closing cash/bank balance																		

CASH FLOW :*

	January December					
	Budget	Actual	Budget	Actual	Budget	Actual
OPENING BANK BALANCE						
(A).						
In Credit						
Overdrawn						
RECEIPTS						
Cash from sales						
Cash from debtors						
Other receipts						
Sale of assets						
Capital						
Rebates /Subsidies						
TOTAL RECEIPTS (B)						
PAYMENTS						
Payments to suppliers						
Cash purchases						
Drawings						
Wages/salary						
Other payments						
Tax payments						
Rent/rates						
Transport						
Heating/lighting/phone						
Packaging/stationery						
Professional fees						
Capital expenditure/HP/leasing						
Interest/bank charges						
Payment to outworkers						
TOTAL PAYMENTS (C)						
CLOSING BANK						
BALANCE:(A) + (B) - (C)						
In credit						
Overdrawn						
AGREED OVERDRAFT						

* Alternative format.

c iii. MONTHLY PROFIT AND LOSS

	JAN FORECAST/ACTUAL	FEB/NOV -----	DEC FORECAST/ACTUAL	TOTAL FORECAST/ACTUAL
SALES (1)				
less Cost of Sales				
Purchases				
Labour				
Other direct costs				
TOTAL(2)				
GROSS PROFIT(3) = (1)-(2)				
less Overheads				
Rent and Rates				
Heating / Lighting				
Telephone				
Fees				
Depreciation				
Salaries				
Other Overheads				
Interest				
Others				
Total(4)				
plus other income(5)				
NET PROFIT (6) = (3) + (5) - (4)				

c iv. BALANCE SHEET FORECAST AS AT .....

ASSETS
- FIXED ASSETS
  - Freehold Property
  - Leasehold Property
  - Office Equipment
  - Vehicles
  - Plant/Machinery
  - Others
- TOTAL FIXED ASSETS (1)
- CURRENT ASSETS
  - Cash in hand/bank
  - Stock
  - Debtors
- TOTAL CURRENT ASSETS(2)
- TOTAL ASSETS =(1)+(2)
- LIABILITIES

CAPITAL
- EQUITY
- Profit & Loss
- TOTAL CAPITAL(3)

LONG/MEDIUM TERM LIABILITIES

CURRENT LIABILITIES
- Overdraft/loan
- Other Creditors

TOTAL LIABILITIES (4)

TOTAL CAPITAL AND LIABILITIES=(3)+(4)

4. ECONOMIC ASPECTS

* Local raw material usage
* Employment/labour intensity
* Export or import substitution

5. MANAGEMENT ASPECTS

* Qualities of entrepreneurship
* Organizational aspects
* Quality of senior management

ANALYSIS AND JUSTIFICATION

Summary of analysis results and the reasons for supporting the project.

C. RISKS AND RISK COVER

RISKS:

* Inherent risk; one product
* Dependence on future events
* High debt/equity ratio
* Relaxed security

Types of risks

(1) Pre-operative

* Technical/construction
* Timing/financial
* Design/assumptions

(2) Operational

* Raw material: availability, cost
* Production risks: technical, design, process
* Commercial: demand, price
* Social/political: taxes, duties
* Financial: shortages, misuse, withdrawal

(3) External

* Sectoral
* Environmental
* Policy changes
* Product life cycle

Forms of risk cover

* Study viability (including review of assumptions of estimates and sensitivity studies)
* Modify project
* Determine equity based on risk assessment
* Release funds in stages
* Pay directly for procurements
* Consider secondary source of repayment (Security)
* Insure assets financed
* Specify loan conditions
* Follow up based on implementation schedule Profitability/cash flow estimates
* Provide counselling

D.8 BORROWERS' RESPONSIBILITY

* To convince the bank to invest funds by demonstrating the ability to implement the project and repay
* To conform to terms and conditions agreed upon
* To submit information
* To conform to repayment terms

CHAPTER 6

ACTIVITY IV - FOSTERING THE GROWTH OF THRIFT, SAVINGS AND CAPITAL

OBJECTIVE: To understand the role of the society in facilitating the mobilization of rural savings and the development of a rural financial market

OUTLINE:

A. Tasks

B. Guidelines on preparing savings plans

1. Savings plan for members of a society
2. Framework
3. Savings plan
4. Member's savings plan

CHAPTER 6

ACTIVITY IV: FOSTERING THE GROWTH OF THRIFT AND SAVINGS AMONG MEMBERS

A. TASKS

* Arrange a savings plan for every member.
* Assist in opening bank accounts by members.
* Facilitate making members' deposits in banks.
* Maintain memorandum records of members' deposits in banks for monitoring.

B. GUIDELINES ON PREPARING SAVINGS PLAN

1. SAVINGS PLAN FOR MEMBERS OF CREDIT AND SAVINGS SOCIETIES

The importance of mobilizing savings as a strategy for a sustainable micro enterprise programme needs no emphasis.

Its relevance for the growth and expansion of micro enterprises should be recognized by the officials and members of newly-formed societies from the very inception. Hence its inclusion as one of the preliminary steps in forming Savings and Credit Societies.

2. FRAMEWORK

In introducing and adopting savings programmes for members the following broad framework could be followed:

1) Schemes selected need not be adopted by all members.There could be ad-hoc programmes to suit the needs of individual members.

2) Schemes must be simple and easily understood by members.

3) Being voluntary programmes there should be provision for flexibility in implementation.

4) During the first phase of the MED credit programme a society will not function as a ' cash centre' for custody and storage of savings mobilized. Rather, a society will act as an intermediary.

Accordingly the actual deposit of savings of an individual member should be in a financial institution in an account in the name of the member.

The society could assist in such ways as introducing the account, obtaining and filling forms, facilitate in making deposits, functioning as a focal point for officials of financial institutions to meet members of the society, maintaining nominal memorandum accounts of members' savings plans for follow up,etc.

3. SAVINGS PLANS

Some of the approaches to developing or adopting savings programmes are given below:

a) Adopting schemes presently in operation in financial institutions

Some of the well known local schemes are:

* Savings Deposits; normal savings, contractual savings, eg. Investment Savings Scheme of the People's Bank

* Fixed or time deposits; normal, interest paid up front etc

* Money market deposits for short periods

* Certificates of deposits, i.e. negotiable, unnamed and (numbered) savings.

In selecting a particular institution or plan, aspects such as easy and close access to the institution, quality of service provided, reliability, ease of withdrawal, interest paid and availability of credit facilities linked to savings are important.

b) Facilitating informal group savings schemes:

A well known informal arrangement is the 'Seettu' under which the contributions of a group are pooled and used by members on rotation based on an agreed plan.

c) Linking savings to loans obtained from banks:

This type of savings is widely practiced in certain countries.

Under this arrangement a small percentage of the loan taken from an institution for the enterprise is set apart as savings. When the loan is fully paid that portion remains a net saving.

d) Savings linked to turnover of the enterprise:

Under this arrangement a small percentage of the daily, weekly or monthly turnover of the enterprise is regularly deposited in a savings account to meet the payment of loan instalments on the due date.

e) Goal-oriented savings:

Savings plans could be based on meeting specific targets, such as purchase of equipment in due course or repayment of loan instalments. Equity or margin requirements for acquisition of capital assets is another reason for building up savings as credit institutions normally finance only up to about 60 to 75 % of the value of capital equipment. The balance should be met by the entrepreneur.

f) Investments

It must not be overlooked that savings through deposit expansion though effective is not the only way to save. Ploughing back the surpluses to the business and investments in liquid assets are other familiar approaches.

Field staff could discuss these options with the society and guide them in recommending savings plans for their members.

4. MEMBERS' SAVINGS PLAN

Once individually decided, such individual plans could be aggregated into a single programme and adopted by the society as the members' savings plan.

The society should assist the members in the implementation of the plan, maintain informal memoranda notes of progress, review the position and take appropriate action.

CHAPTER 7

ACTIVITY V - ASSIST IN PROVIDING MARKETING AND TECHNICAL SUPPORT TO MEMBERS

OBJECTIVE: TO UNDERSTAND THE ROLE OF SOCIETIES AS A FOCAL POINT IN FACILITATING THE PROVISION OF BACK UP SUPPORT TO MEMBERS

OUTLINE:

1. TASKS

CHAPTER 7

ACTIVITY V - ASSIST IN PROVIDING MARKETING AND TECHNICAL SUPPORT TO MEMBERS

TASKS

* Assist field business consultants in identifying technical support required by members and arrange ad-hoc training programmes with help of MED field staff

* Act as a focal point in providing technical information to members.

* Assist MED field staff to assess marketing requirements of members.

* Facilitate marketing of members products.

* Foster linkages between member producers and large buyers both local and overseas.

CHAPTER 8

ACTIVITY VI - ASSIST IN DEVELOPING SOUND BUSINESS PRACTICES AMONG MEMBERS

OBJECTIVE: To understand the role of the society to facilitate the development of sound business practices.

OUTLINE:

1. Tasks

2. Preparation of a business plan

   Outline

   Preliminary decision
   What is a business plan?
   Why spend time to prepare a business plan?
   Who should do the business plan?
   Period of the plan
   What should be in a business plan?
   Summary of the plan
   Past performance
   Description of the enterprise
   Marketing and sales plan
   Production plan
   Financial plan
   Management of the business
   Supporting annexes
   Phases of plan preparation
   What lenders look for in a business plan.

CHAPTER 8

ACTIVITY VI - ASSIST IN DEVELOPING SOUND BUSINESS PRACTICES AMONGST MEMBERS

TASKS

* Facilitate maintenance of book-keeping and other records by members.
* Encourage sound money-management practices.
* Promote cost-effective and market-oriented approaches to enterprise development.
* Assist in identifying viable business opportunities and in start-up operations.
* Assist in preparation of business plans.

PREPARATION OF A BUSINESS PLAN

1. PRELIMINARY DECISION TO START A BUSINESS

Decide to start a business.
Explore opportunities.
Conceive a business idea.
Select what business to start.
Refine the idea.
Prepare a Business Plan.

2. WHAT IS A BUSINESS PLAN?

A blueprint for starting or expanding a business.
A management document for operating the business.
A ticket of admission to launch an enterprise.
A means to attract investors or borrow money.
A systematic presentation of a business proposal.
A means to demonstrate the market for your product/service.

3. WHY SPEND TIME TO PREPARE A BUSINESS PLAN?

If one fails to plan one plans to fail.
It is a plan of action.
To understand why one is in business.
Committing on paper makes a proposal more realistic.
Lets one make mistakes on paper.
If one does not know what to do ,it is harder to do it!
To convince oneself and others in order to succeed.
To show how much money is needed and why.
Reduces risks of failure.
Gives confidence of success of the business
Test one's commitment and vision
Plan one's work and work one's plan.

4. WHO SHOULD DO THE BUSINESS PLAN?

The entrepreneur should do the business plan with guidance from the society and professional advice from the staff of the Mahaweli Business Centre where necessary.

5. FOR WHAT PERIOD?

To cover about three or four years.
Start-up and first year operations to be given in detail.

5. FOR WHAT PERIOD?

To cover about three or four years.
Start-up and first year operations to be given in detail.

6. WHAT SHOULD BE IN THE BUSINESS PLAN?

6.1 A summary of the Business Plan:

Nature of the business
Market position
Business potential/outlook
Profitability forecast.
Capital requirements
Prospects for the investor/ lender.

6.2 Past performance:

Commencement
Performance
Relevance to future plans.

6.3 Description of business:

Position to date if existing
Product or service provided
Why this business?
What business are you really in?

6.4 Marketing and sales plan:

What would I sell ?
To whom would I sell? Market size? Segment?
Where would I sell?
When would I sell?
How would I sell?
For how much would I sell? Why this price?
Who else sells this item? Their market position.
Why should people buy from me?
What will be the others response to my challenge?

6.5 Production plan

Production process flow diagram and description.
Production plan/ quantity wise.
Raw material needs, procurement terms.
Plant and equipment requirements and Capital cost.
Personnel requirements,training etc.
Implementation schedule
Quality control.

6.6 Financial plan

Project cost: Start-up ; Fixed and Working capital.
Financing sources.
Financial viability:
Break-even; Profitability; Cash Flow; Debt Service Capacity.
Return to Labour (self-employment)
(Forecasts should provide columns to include actuals later).
Business controls

6.7 Management

Form of business organization.
Ownership.
Entrepreneur's business record.
Details of supporting management staff.
Strengths and weaknesses and corrective measures.
Policies and procedures.

7. PHASES OF PLAN PREPARATION

Select a business to start/expand.
Collect data on market, costs, prices etc.
Work out business strategy on :
Start-up, production, procurement, location, pricing, personnel etc .
Prepare forecasts on Sales; Profitability; Cash flow; break-even; Finance etc.
Write the report.
Check your presentation, content, accuracy and supporting data.

8. WHAT LENDERS LOOK FOR IN A BUSINESS PLAN ?

Capacity to implement the plan?
Whether basic assumptions on market, costs and returns are realistic.
What financial risk is the entrepreneur taking?
Is the presentation clear and adequate to form a judgement on aspects such as: the Person; Amount of credit; Purpose; Earnings; Repayment capacity and Security.

CHAPTER 9

ACTIVITY VII - STRENGTHENING THE INSTITUTIONAL CAPACITY OF SOCIETIES TO UNDERTAKE HIGHER RESPONSIBILITIES OF DEPOSIT ACCEPTANCE, BORROWING AND RELENDING TO MEMBERS

OBJECTIVE: To be familiar with the steps that should be taken to develop the institutional capacity of societies, which would enable societies to move on to Phase II..

OUTLINE:

A. Tasks

B. Maintenance of books and records and audit requirements

C. 1) Accounting records

2) Explanatory note on completion of book-keeping forms

ATTACHMENTS: See Volume II

9-B.1 Files and records that should be maintained

9-C.1 General ledger accounts

9-C.2 Monthly general ledger abstract

9-C.3 Savings and Credit Forms from 1 to 20

CHAPTER 9

ACTIVITY VII - STRENGTHENING THE INSTITUTIONAL CAPACITY OF SOCIETIES TO UNDERTAKE HIGHER RESPONSIBILITIES OF DEPOSIT ACCEPTANCE, BORROWING AND RE LENDING TO MEMBERS

A. TASKS:

1) Introduction of filing and book-keeping to societies.

2) Assisting members to acquire skills in various aspects of enterprise management and development.

3) Adopting improved credit assessment methods.

4) Gaining experience in the credit decision process.

5) Acquiring knowledge and experience in project inspections and valuation of project assets, loan documentation, record keeping, interest calculations and recovery of loans.

6) Planning and implementing savings mobilization schemes.

7) Acquiring skills in credit risk assessment and fund management.

B. MAINTENANCE OF BOOKS AND RECORDS IN SAVINGS AND CREDIT SOCIETIES

1. Maintenance of appropriate books and records is an important prerequisite in improving the institutional capacity of SC'Ss.

2. It is necessary that at the formative stage of a society a decision be taken by the General Body, by way of a resolution, setting out the ways of maintaining the books and records of a society.

3. Section eight (8) of the Societies Ordinance sets out the duties and obligations of a society. This section inter alia prescribes the audit and record-keeping requirements. The General Body of a society will have to take these requirements into account in deciding on books and record-keeping aspects. These requirements are set out below:

   3.1 Should have the annual accounts audited as at December 31 annually by a public Auditor approved under the Ordinance, and send a copy to the Registrar before June 1.

   3.2 Display a copy of the last balance sheet in the office.

   3.3 Maintain a register of members.

4. It is the responsibility of Field Business Consultants to ensure that proper records are maintained by societies.

C.1 ACCOUNTING RECORDS

The accounting records should be maintained in such a way that it would

1. Enable the society to meet the obligations under the Ordinance.

2. Indicate an up to date and accurate position of the society.

3. Enable the society to meet the requirements of the MOA signed with the MASL and the CFA signed with the Bank.

Since during the first phase of the programme, cash transactions are expected to be kept at a minimum, a simple system of record keeping would be adequate at the outset. It should be possible however to construct the Final Accounts annually with the help of accounts maintained.

Pending the introduction of a charter of accounts the interim records which may be maintained would include the following.

The proposed formats are as follows:

a) Receipt (S&C: 1)
b) Payment Voucher (S&C: 2)
c) Share Register (S&C: 3)
d) Record of Cash in Hand (S&C: 4)
e) Record of Cash at Banker's No.1 A/c (S&C: 5/A)
   - do - No.2 A/c. (S&C: 5/B)
   - do - General A/c. (S&C: 5/C)
f) General Ledger (S&C: 6)
g) Stock Cards (S&C: 7)
h) Fixed Assets Register (S&C: 8)
i) Subsidiary Record of Member's Bank Loan (S&C: 9)
j) Control A/c. Loans Sponsored (S&C: 10)
k) Subsidiary Record of members'Collateral Fund Deposits (S&C: 11)
l) Control A/c. members' Collateral Fund Deposits (S&C: 12)
m) Control A/c. Grants Received (S&C: 13)
n) Subsidiary A/c. Collateral Fund Grants (S&C: 14)
o) Subsidiary A/c. Start-up Expenses Reimbursed (S&C: 15)
p) Subsidiary A/c. Operational Expenses Reimbursed (S&C: 16)
q) Memorandum Record of members' Savings (S&C: 17)
r) Record of cheques, M/Os, P/Os received (S&C: 18)
s) Loans Payable Register (S&C: 19)
t) Debit/Credit slip (S&C: 20)
u) Others forms as required.

C.2 EXPLANATORY NOTE ON COMPLETION OF BOOK-KEEPING FORMS

S&C: 1 - Receipt:

A receipt as per format must be issued on acceptance of any amount whether in cash or by way of any other instrument. The duplicate must be maintained as an office record. This record must be serially numbered.

S&C: 2 - Payment Voucher:

This form must be completed and thereafter approved by a duly authorised officer before any payment is made. This form too must be serially numbered.

The acknowledgement at the bottom part of the voucher must be completed by the recipient. These must be filed separately if not maintained in book form.

S&C: 3 - Share Register:

Entries may commence after registration of the society. A receipt must be issued pending the issue of a share certificate.

A few lines could be allotted for each member to enable recording of several purchases.

S&C: 4 - Record of Cash in Hand:

This record must be completed on days when there are cash transactions.

Actual cash in hand must tally with the amount indicated in the 'balance in hand' column.

S&C: 5/A - Record of Cash at Bankers' No.1 A/c.

All entries pertaining to the No.1 A/c. i.e. only those relating to collateral fund deposits of members, must be entered in this record on the day of a transaction.

S&C: 5/B:

All transactions relating to grants from MASL / USAID only must be recorded in this statement.

S&C: 5/C:

All general banking transactions must be routed through this account and recorded in this statement.

S&C: 6 - General Ledger:

There should be a separate sheet for each account. These, together with cash and bank A/cs, should provide a complete set of entries. The list of accounts is given in Annex 4. Entries must be recorded on days when there are respective transactions.

S&C: 7 - Stock Card:

A separate card must be used as per format for each type of stationery. Record must be made on the date of the transaction.

S&C: 8 - Fixed Assets Register:

Each Fixed Asset should be recorded separately one after the other, in this register on the date of acquisition. Total of the balances of individual assets should agree with the final balance in the General Ledger Account.

S&C: 9 - Subsidiary Record of Member's Bank Loan:

This record must be completed on the date of release of a loan to a member by the bank. Information necessary to fill the form must be obtained from the bank and the member. This form must be updated as and when loan instalments are paid. It would assist loan follow up.

S&C:10 - Control Account Loans Sponsored:

This record is a summary of all loans sponsored by the society for their members and must be updated at least at the end of each month.

S&C: 11 - Subsidiary Record of Members' Collateral Fund Deposits:

This record is maintained on an individual basis to indicate the position of each member's deposit to the collateral fund. It must be updated with every transaction. Total of all balances outstanding in individual ledger sheets must agree with the total of the Control A/c (S&C: 12).

S&C: 12 - Control A/c. Members' Collateral Fund Deposits:

This record must be completed as and when a batch of members deposit their 8% deposit to obtain loans. This record must be updated as and when there are transactions.

S&C: 13 - Control A/c. Grants Received:

This is a summary of position of Grants. This record must be completed as and when transactions take place. The total of the three subsidiary records (S&C 14, 15, 16) must tally with this record. This would also indicate the position of undrawn amounts approved as Grants.

S&C: 14 - Subsidiary A/c. Collateral Fund Grants (CFG) 1:

This is the record of collateral funds received as Grants and deposited in the bank. This record must be updated as and when transactions take place. It also indicates the undrawn amounts.

S&C: 15 - Subsidiary A/c. Start-up Expenses Reimbursed:

This is a record of start-up expenses and partial reimbursements received. This must be updated as and when transactions take place.

S&C: 16 - Subsidiary A/c. Operational Expenses Reimbursed:

This is the record of operational expenses and partial reimbursements received. It must be updated as and when transactions take place.

S&C:17 - Memorandum Record of Members Savings:

This record will indicate the formal and informal savings mobilized by each member as per savings policy of the society.

This is not an accounting record. Information to fill this record will have to be obtained from various sources. This must be update at least quarterly.

S&C: 18 - Record of MOs/POs and Other Non Cash Receipts:

This must be a supplementary record to the receipt book. It must be updated as and when transactions take place.

S&C; 19 - Register of Loans Payable:

This record should indicate the loans and other advances obtained by the society from its members or outsiders. A separate sheet must be used for each creditor. Entries must be made on the date of the transaction.Total of all individual sheets should tally with the respective General Ledger balance.

S&C: 20 - Credit/Debit Slip:

Every entry must have a debit and a credit. This slip could be used for both purposes. These, supplemented by receipts, payment Vouchers and bank transactions will be sources of entries in books and records.

For further clarifications please refer to the case study which has been printed separately.

CHAPTER 10

ACCESS TO CREDIT FOR SSEs OPERATING OUTSIDE SOCIETY STRUCTURE

OBJECTIVE: To understand the limitations of the role of societies and the need to take alternative steps

OUTLINE:

Access to credit for SSEs operating outside the society structure

CHAPTER 10

ACCESS TO CREDIT FOR SSEs OPERATING OUTSIDE SOCIETY STRUCTURE

As most of the existing SSEs are not expected to operate within the structure of societies, such enterprises will require direct assistance from the business advisory centres. This will include those SSEs at grassroots level seeking self-employment opportunities, those with traditional skills, i.e., artisans at the bottom end and larger small enterprises at the upper end.

Technical training programmes may be implemented for the first category to upgrade operational and production skills. These SSEs should be encouraged to form groups with the common goal of promoting their interests, to access financial services, and to assist in finding markets for their goods and services. The field business consultancy service should then help arrange group borrowing programmes with financial institutions for these SSEs.

Field business centres could also facilitate linkages between these entities and low cost, non-bank, village level credit services, especially to meet their short-term working capital requirements.

Those at the upper end seeking larger loans could be directed to banks on an individual basis after preliminary assistance in the preparation of loan documents has been given at the business advisory centres.

As a means of promoting linkages between medium and large buyers and small-scale producers, the MED project could promote other financial instruments such a inland bills. Such arrangements would simplify access to working capital requirements of SSES

CHAPTER 11

ROLE OF PARTICIPATING BANKS UNDER THE MED CREDIT PROGRAMME

OBJECTIVE: To enable a meaningful dialogue with the banks in assisting societies and entrepreneurs.

OUTLINE:

* Extend assistance to Savings and Credit Societies
* Provide assistance to society members recommended by societies
* Liaise with Mahaweli Business Centres
* Extend direct assistance to small entrepreneurs who are not members of societies.

CHAPTER 11

ROLE OF PARTICIPATING BANKS IN FOSTERING THE GROWTH OF SAVINGS AND CREDIT SOCIETIES (SCSs) AS A MEANS OF IMPROVING ACCESS TO CREDIT AND REDUCING TRANSACTION COSTS OF SMALL AND MICRO SCALE ENTERPRISES

1) Extend assistance to SCSs:

   a) By maintaining the collateral fund A/cs of SCSs.

   b) Strengthening the management capacity of SCSs by transferring skills for assessing viability of projects, credit needs of members, preparation of financial plans and savings promotion.

   c) Meeting other financial and banking needs for SCSs

2) Provide direct assistance to members of SCSs:

   a) Extending general banking facilities.

   b) Providing credit facilities in liaison with the SCSs.

3) Liaise with field business centres:

   a) Establish working relationships with Field Business Consultants (FBCs) and EIED staff.

   b) Encourage bank clients to avail of FBC services.

   c) Promoting exchange of information of mutual benefit.

4) Extend assistance to small-scale entrepreneurs who are not members of SCSs by:

   a) Recognizing the role of FBCs in facilitating access to credit for such SSEs.

   b) Facilitating access to credit and other banking services.

CHAPTER 12

MANAGEMENT INFORMATION

OBJECTIVE: To provide an over-view of information requirements

OUTLINE:

A. 1991 Target

B. Summary of preliminary steps

C. Loans follow-up register

1. S CS members
2. Other clients.

ATTACHMENTS: See Volume II

12.A	Monthly report format/progress indicator
12.B	Quarterly follow-up report of SCS ativities form
12.C.1	Input form No 4
12.C.2	Loans follow-up register of SCS members
12.C.3	Loans follow-up register of other small entrepreneurs
12.D	Input form No. 5 (Up-date form for societies.)

SMALL SCALE ENTERPRISE ACTIVITY #2

Commence First Phase of SSE Credit Programme

A. 1991 TARGET Eight Savings and Credit Societies (SCSs) formed

Comments: To improve SSE access to credit the project paper proposed forming SCSs consisting of about 10 SSEs to borrow from banks and to lend to members. The 1990 MED credit study assessed the viability of this proposal. It recommended a phased implementation consisting, first, of direct individual member borrowing from banks backed by partial security of member equity and USAID grant funds and, secondly, of group borrowing and lending to members.

Tasks

1. Prepare SCS by-laws and operating manuals
2. Enlist credit institutions
3. Train FBCs and EIED field staff
4. Hold seminars for credit institution staff
5. Finalize arrangements for SCSs' registration
6. Set up and assist eight SCSs to obtain credit
7. Supervise and monitor implementation

Schedule

	J	F	M	A	M	J	J	A	S	O	N	D
1												
2												
3												
4												
5												
6												
7												

B. FORMATION OF SAVINGS AND CREDIT SOCIETIES; SUMMARY OF PRELIMINARY STEPS

1. Identify members (No. of members.....)
2. Convene first formal meeting
3. Adopt By-Laws to form society
4. Elect committee/s
5. Adopt Work Plan
6. Collect initial capital from members
7. Deposit initial capital in individual member Savings Accounts in bank (.....Bank)
   Commenced .....
   Completed .....
8. Adopt credit policy for society
9. Adopt Savings plan for members
10. Commence assessment of members' credit needs.
11. Train members in business planning.
12. Prepare members' business plans/project reports.
13. Deposit capital funds In bank' suspense a/c
14. Open office
15. Apply for registration
16. Obtain registration.
17. Introduce book-keeping
18. Sign agreement with MASL to join programme / apply
    sign
19. Sign Collateral Fund Agreement with bank / apply
    Sign
20. Open No.1 A/c in bank.
21. Submit loan applications of members in batches (batch no:)
22. Obtain letter of approval of loans from bank.
23. Deposit balance of members' contribution in bank.
    No: Value:
    No: Value:
    No: Value:
24. Apply for Grant Disbursements to ISTI.
25. Deposit Grants in No.2 A/c. in Bank
26. Obtain loans from Bank for members. (No: Value:)
27. Monitor projects and repayment of loans.

C. LOANS FOLLOW -UP REGISTER

This record could be maintained so as to record the assistance provided by all the staff members of the Mahaweli Business Centre. Thus there would be only one record for each centre. This information could be maintained in two formats:

1) Format for members of Savings and Credit Societies.

2) Format for providing one to one direct credit counselling assistance to small entrepreneurs.

MED/EIED PUBLICATIONS AVAILABLE

Local Market for Pickled Products (December 1990)

Non Farm Small Scale Enterprise Credit on Selected Mahaweli Systems, Geoffrey Peters and M.W. Panditha (December 1990)

Crop Profiles - Spices, Herbs and Aromatics, L. Denzil Phillips (July 1991)

Study of the Tourism Development in the Uda Walawe (July 1991)

Potential for Silver Skin Onions in the Mahaweli, Walter Nueberg (August 1991)

Nursery Development of Papaya and Mango, Papaya Growers' Guide and Technical Notes for Business Plan for Mixed Fruit Cultivation Investment, Ben Hatfield (November 1991)

Dehydrated Fruit Processing Opportunities and Trends in Sri Lanka, Wanchai Somchit, (November 1991)

An Evaluation of the Entrepreneur Development Programmes, Dr. Susan Exo and Hina Shah, (December 1991)

Aromatics PIP Interim Report on Trials Establishment, Dr Thomas Davies (December 1991)

Agro-Business Financing Review, Dennis De Santis (December 1991)

Integrated Fruit Drying, juicing, Pulping project - Prep Feasibility Study, Michael Smedley, Ben Hatfield and Wanchai Somchit (December 1991)

Cold Chain Requirements for Uda Walawe, Fredrick E. Henry (March 1992)

Field Manual for Processing Tomatoes, Peter Florance (March 1992)

Processing Tomato Trials in Mahaweli System H, Peter Florance (March 1992)

Processing Tomato Trials in Mahaweli System C, Peter Florance (March 1992)

Dried Fruit Processing in the Mahaweli, Dr. Kamal Hyder (September 1992)

Feasibility Study on Commercial Potential of Snake Venoms in Mahaweli Systems, Anslem de Silva, (January 1993)

Census of Mahaweli Enterprises and Employment (January 1993)

Most publications are priced at Rs.100/-. The publications are available at the MED Office at 8th Floor, Unity Plaza, Colombo 4. (inquiries, Ph. 508682-4)

An EIED publication entitled - "Information Available for the Mahaweli Investor", is also available at the MED Office.

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MAHAWELI BUSINESS CENTRES

Mahaweli Business Centre
Puttalam Road
Nochchiyagama
Tel: 025-7821
Fax: 025-7821

Mahaweli Business Centre
Andiyagala Road
Madatugama
Tel: 025-4244

Mahaweli Business Centre
MASL Block Office
Galnewa

Mahaweli Business Centre
Resident Project Manager's Office
Bakamuna
Tel: 066-6601
Fax: 066-6601

Mahaweli Business Centre
Resident Project Manager's Office
Welikanda
Tel: 027-2423
Fax: 027-2065

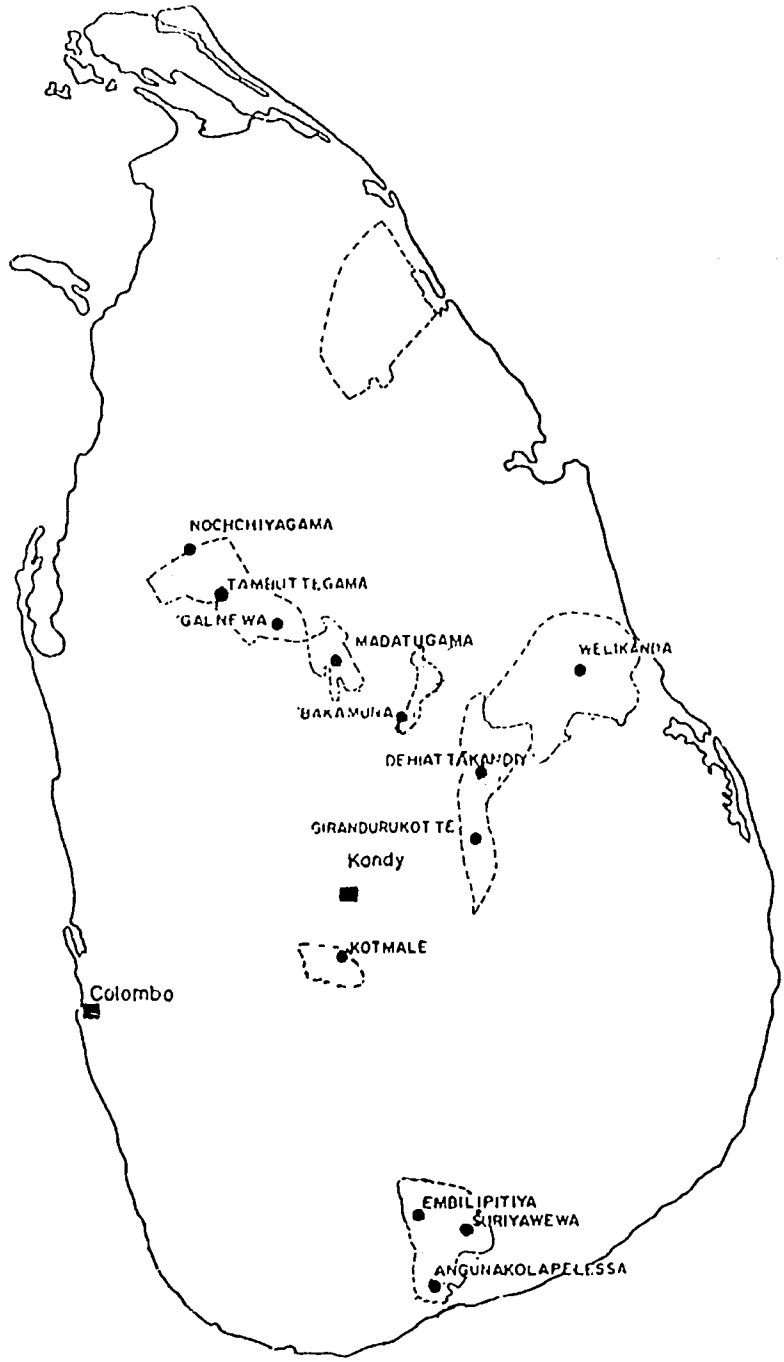
Mahaweli Business Centre
Resident Project Manager's Office
Dehiattakandiya
Tel: 027-2332
Fax: 027-2353

Mahaweli Business Centre
Resident Project Manager's Office
Kotmale, Riverside
Mawatura
Tel: 0542-205
Fax: 0542-205

Mahaweli Business Centre
Resident Project Manager's Office
Embilipitiya
Tel: 047-30208
Fax: 047-30013

Mahaweli Business Centre
3, Middeniya Road
Angunakolapelessa

Mahaweli Business Centre
Saman Building
Ambalantota Road
Suriyawewa



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MAHAWELI ENTERPRISE DEVELOPMENT

MED/EIED PROJECT

(USAID/Sri Lanka Project No. 383 - 0090)
(Contract No. C-00-0031-00)

OPERATIONAL GUIDE ON FORMATION AND MANAGEMENT OF SAVINGS AND CREDIT SOCIETIES

VOLUME II - ATTACHMENTS

by
M.W. Panditha

June, 1993

Report 8/1993

INTERNATIONAL SCIENCE AND TECHNOLOGY INSTITUTE INC.

WITH :

ERNST & YOUNG CONSULTANTS (Sri Lanka)
DEVELOPMENT ALTERNATIVES, INC.
HIGH VALUE HORTICULTURE, PLC.
SPARKS COMMODITIES, INC.
AGROSKILLS, LTD

CONSULTANTS TO THE MAHAWELI AUTHORITY OF SRI LANKA

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The Mahaweli Enterprise Development Project

The development of the natural and human resources of the Mahaweli river basin has been a high priority of the Government of Sri Lanka and international agencies since the late 1970's. Largely completed are the construction of dams, irrigation and power systems, roads and other physical infrastructure, the settlement of the land and the formation of the agricultural production base. The challenge for the 1990's is to build a diverse, dynamic economy generating higher incomes for Mahaweli families. In meeting this challenge, the private sector has a leading role to play.

The Mahaweli Enterprise Development Project (MED) is a special initative of the Mahaweli Authority of Sri Lanka, with the support of the United States Agency for International Development. MED promotes private investment and job creation in agribusiness, manufacturing, tourism, minerals and services by directly assisting entrepreneurs and companies with technical expertise, marketing support, training, business advisory services and credit. MED also provides policy analysis support to improve official frameworks for sustainable enterprise development in the Mahaweli areas.

The Employment, Investment and Enterprise Development Division of the Mahaweli Authority is responsible for MED implementation. Technical consultancy is provided by a consortium led by the International Science and Technology Institute, Inc., a private consulting firm with head offices in Washington, D.C. Also in the consortium are Agroskills, Development Alternatives, Ernst and Young, High Value Horticulture and Sparks Commodities. Marketing services are provided by SRD Research and Development Group, Inc.

OPERATIONAL GUIDE ON FORMATION AND MANAGEMENT OF SAVINGS AND CREDIT SOCIETIES

VOLUME II
(ATTACHMENTS)

by

M.W. Panditha
Credit Advisor

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PREFACE

This training package was prepared by Mr M.W. Panditha, Credit Advisor, MED Project, for the MED/EIED field staff and the officials of newly formed Savings and Credit Societies.

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EXECUTIVE SUMMARY

The Mahaweli Enterprise Development (MED) project is a USAID-funded development programme which was launched in 1989 to develop small, medium and large-scale enterprises in Mahaweli Systems.

One of the key elements of the Small Scale Enterprise (SSE) development programme is facilitating access to credit from formal credit institutions to small entrepreneurs.

The programme will assist formation of groups of small entrepreneurs into formal savings and credit societies. Initially, that is during phase I, these societies will inter-alia assist individual members to obtain credit from banks, help access technical and marketing information, provide training in enterprise management and foster saving mobilization. Once the societies gain adequate experience they will graduate to phase II of the programme and commence credit and savings operations directly by borrowing from banks and on lending to their members.

The credit programme is to be supported by the establishment of Collateral Funds in banks participating in the scheme. These accounts are to be funded through a USAID grant and contributions of members of societies. A field business advisory service has been set up to assist enterprise development and formation of societies and other associations.

The formation and management of Savings and Credit Societies will require a high degree of support from Field Business Consultants and EIED field staff attached to Field Business Centres. The officials of these nascent societies too will need guidance during initial stages of society formation. This guide is intended to fulfill this need and serve as a training package.

This document has been prepared in two volumes. Volume I contains 12 chapters. Each chapter could be taken up as a separate training module. For easy reference and presentation each chapter begins with the objectives and contents of that chapter. Volume II contains attachments relating to chapters 3, 4, 5, 9 and 12 of Volume I.

Chapter 1 is intended to provide an understanding of the MED project in general and the MED credit programme in particular.

Chapters 2 and 3 set out the overall plan of forming societies, the seven major activities of a society during phase I of the programme, and steps that should be taken under activity one (i.e., a step by step account of the procedures involved in forming a society).

Chapter 4 explains the procedures involved in obtaining grants under the USAID Grant Fund and the relevant legal documentation.

Chapter 5 deals with different aspects of facilitating access to credit institutions. It provides an overview of development lending concepts. appraisal techniques, sequence of lending activities, lending considerations and the project approach to credit.

Chapter 6 deals with techniques of savings mobilization and development of rural financial markets through the intervention of societies.

Chapters 7 and 8 deal with non-credit services of societies including guidelines for the preparation of business plans.

Chapter 9 deals with measures to develop the institutional capacity of societies. It also provides guidelines and formats for the introduction of book-keeping records and accounts in societies. The description of the main activities of societies ends with this chapter.

Chapter 10 deals with the credit approach to entrepreneurs operating outside societies.

Chapter 11 covers the role of banks.

Chapter 12 deals with the information requirements of the programme.

CHAPTER 3

3-A Application to become a member of a society 1

3-B Model by-law/rules of society 2

3-C Letter to the bank to open an Interm Account 8

3-D Affidavit by the members 9

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3-F Letter to the Registrar of Companies 12

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ATTACHMENT 3-A

APPLICATION TO BECOME A MEMBER OF THE _____ SOCIETY LTD.

I _____ hereby apply for enrolment as a member/* of the society to be formed to assist non-farm small-scale entrepreneurs/of the above society.

I submit the following information about myself in support of this application.

1. Full name: _____

2. Home address: _____

3. Age: _____

4. Business address: _____

5. My profession is: _____

6. My business/* industry is located at: _____

7. I am employed as */unemployed: _____

8. My annual */monthly income is: Rs. _____

9. I am the owner of the following assets.

   Movable: _____

   Immovable: _____

10. I maintain a savings/ current account or: * _____

    Bank: _____

    Branch: _____

11. I need the following types of assistance /* for my enterprise/ to set up a: _____ _____

I hereby agree to abide by the rules of the society and state that the above information is correct.

_____ Date

_____ Signature of the applicant

(* delete the inapplicable section)

ATTACHMENT 3-B

MODEL BY-LAW/RULES OF _____ SOCIETY LTD

1. The name of the Society is "_____ Society Ltd.

2. The registered office of the Society will be situated at _____

3. The objects for which the Society is established are:

   a. To promote thrift among its members
   b. To assist its members in times of distress
   c. To develop industry among its members
   d. To develop entrepreneurship among its members
   e. To do all such things as are incidental or conducive to the above objects or any of them.

4. The liability of the members is limited.

5. The initial capital of the Society is Rs. _____ (should be a minimum of Rs. 10,000).

6a. Funds available with the Society shall be used for the achievement of the objects of the Society as aforesaid in the manner from time to time to be decided by the Society in a General Meeting.

6b. Funds shall be raised through enrollment and membership fees, capital subscriptions, loans, donations, grants from financial, lending or other organizations and subject to the terms and conditions set out in the grant of such funds by the said financial, lending or other organization.

7a. Membership in the Society shall be open to a minimum of seven and a maximum of 25 persons of not less than eighteen years of age subject to the Rules hereinafter provided. At present there are ..... members.

7b. The membership shall be subject to the application for membership being approved by the general committee of the Society and upon payment of a minimum capital subscription of Rs. 1,000 and an annual subscription of Rs. 100. The annual subscription is payable on or before the 31st day of January of each and every year.

7c. An interim membership may be applied for upon payment of a sum of Rs. 100 which shall, subject to necessary changes, be in accordance with the conditions in 7a and 7b above. An individual whose interim membership has been accepted shall pay a minimum sum of Rs.100 each month and complete payment of a total sum of Rs. 1200 as capital subscription within a period of twelve (12) months from enrollment as an interim member. Such sum shall be exclusive of any annual subscriptions due, and payable. Upon payment of the total sum of Rs. 1200 as aforesaid and any annual subscriptions due the said individual shall be deemed a full member and till such time shall have no voting rights in the Society, though he shall be permitted to be heard and to attend meetings and receive any benefits the Society may consider appropriate and shall have access to information regarding the Society.

8. All sums of monies received as subscription of capital, annual subscription fees, loans, grants, donations and any other sums of monies received by the Society shall be deposited in a bank in an account or accounts opened in the name of the Society.

9. Members may contribute sums over and above the minimum capital subscriptions. The Society may pay a return on such subscriptions on terms to be decided by the Society at a general meeting if such payments are in conformity with the operational plans of the Society.

10a. No member who has ceased to be a member for any reason whatsoever shall be entitled to a refund of the said capital subscriptions within a period of three years reckoned from the date of deposit of the said sum with the Society.

10b Any member who has not ceased to be a member shall be subject to the same limitations as aforesaid relating to withdrawal of capital subscriptions unless and otherwise decided by the Society in general meeting.

10c The Society shall have a lien on the said capital subscription and interest, if any, earned as against all monies due and owing from a member to the Society.

11a Any member may resign from the Society after having given three months' notice in writing to the General Committee, unless the General Committee accepts a shorter period of notice being not less than one month.

11b Any member may be expelled for good cau on a decision of th General Committee of the Society, among which shall be non-payment of the annual subscription, the failure to honour obligations towards or debt due to the Society, causing losses to the Society, or embarrassing or unbecoming conduct in relation to activities of the Society.

11c The General Committee of the Society may impose a maximum fine of Rs.25 (Twenty Five Rupees) on any of its members for violation of any of the rules of the Society or any agreement entered into. Such a fine shall be imposed after notice in writing setting out the circumstances which require such a measure to be taken and calling for an explanation. Such notice should be sent to the address of the member as found in the Register of members or delivered by hand to such member. Where no explanation is provided or where a member does not afford an explanation which is considered satisfactory by the General Committee a fine of Rs.25 shall be levied.

12. All members of the Society in their capacity as members of the General Committee or as members shall at all times serve the Society in good faith and honestly.

13. Within six months of the registration of the Society the first general meeting of the Society shall be held. Thereafter a duly-convened Annual General Meeting shall be held once every calendar year. Every Annual General Meeting shall be convened by the Secretary upon at least 14 days' notice to all members in writing.

14. At Annual General Meetings the following matters shall be attended to among others:

a. The election of the members of the General Committee
b. The reading of the audit report
c. The approval of the annual returns and balance sheet
d. Subject to other provisions of these Rules, the basis of disbursement of funds and other facilities to the members.

15. General Meetings of the Society shall be convened for consideration of any matter of importance if and when required.

Any four members may convene a General Meeting of the Society upon at least seven days' notice to all other members of the Society.

A General Meeting may be convened by the Secretary upon 14 days notice to the membership.

16. The quorum necessary to transact business at any Annual General Meeting or General Meeting shall be six.

17a At any meeting of the Society a member shall have only one vote. Voting shall be by a show of hands unless the majority of those present decide to vote by secret ballot.

17b In the event of there being an equality of votes the Chairman of the meeting shall have a casting vote.

17c Subject to section 7.2 of the Societies Ordinance all matters including cancellation, rescinding, and amendments to rules shall be decided by a simple majority of those members present and voting.

18a The general membership shall set out the basis on which assistance would be given to members which shall also include the ceiling on amounts and the repayment method.

18b No members shall be eligible for any benefit unless he has paid all sums due from him to the Society by way of capital, membership subscription, loan instalments, fines or other payments due to the Society.

18c The General Committee shall formulate the rules and criteria for granting benefits to its members as well as for forfeitures and penalties. These shall be approved by the general membership at a meeting.

18d Subject to the rules formulated, the General Committee shall have the powers to extend benefits from time to time to its membership. In any case the general membership shall be informed not later than 90 days of any facility or benefit granted to any member and the terms and conditions governing such a grant.

19. The General Committee of the Society shall consist of the following officials:

a. President
b. Secretary
c. Treasurer
d. Assistant Treasurer

20a The General Committee shall be elected by a majority of the members present and voting at the Annual General Meeting.

20b The President of the General Committee shall act as the Chairman of all meetings. In the absence of the President the committee shall elect a chairman from its officials.

20c The General Committee shall be appointed from the membership of the Society.

20d The General Committee shall hold office for a maximum period of one year only. Elections to the General Committee shall be carried out at every Annual General Meeting.

20e Nothing in the aforesaid rules shall prevent the re-election of the General Committee or any of its members or the election from time to time of members of the General Committee when vacancies arise for any reason whatsoever.

20f Any member of the General Committee may resign or be removed by the members at a duly constituted General Meeting for good cause such as incapacity, misconduct, abuse of powers, mismanagement or neglect of the affairs of the Society. .

20g Prior to assuming office every member of the General Committee shall sign a bond with a surety to duly and properly perform his duties. Such a bond shall be in the form set out in the Societies Ordinance.

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20h Every officer, his executor or administrator shall when called upon in writing to account for monies or property entrusted to him, shall do so within a period of 14 days of receipt of the notice to do so. Such notice shall be by at least five (5) members of the Society. In the event of his failing to do so he shall be compelled by a resolution of the membership or the General Committee to hand over all property of the Society and will be liable to be sued upon the bond or security given under clause (vii) above.

20i Nothing in the foregoing shall preclude the General Committee from appointing any sub-committee consisting of two or more persons to assist the general body and the General Committee to carry out the objectives of the Society in any areas including credit facilities, control and monitoring of projects of individual members etc.

20j The members of the General Committee shall have one vote at its meetings. In case of equality of votes the Chairman shall have a casting vote. The quorum for the general committee meeting shall be three.

21 The duties of the General Committee shall include inter alia:

a. Proper compliance with the Societies Law, the Rules and other working rules of the Society as herein contained together with any other directions received from the Registrar of Companies.

b. Maintain and keep a true and accurate account of assets and liabilities and submit annual returns in terms of section 8.1d of the Societies Ordinance.

c. Have and maintain proper custody of assets.

d. Keep an updated register of members.

e. Ensure that the books of the society are audited as at end of December annually by an auditor approved under the Societies Ordinance and present at every Annual General Meeting of the Society the audited profit and loss account and balance sheet and the auditor's report and that these annual returns and the number of members are sent to the Registrar before the first day of June of the following year.

f. Assist the inspection of books by any person authorized by any member or the Societies Ordinance.

g. Where the Society gives loans to its members, or recommends to lending institutions that credit facilities are given to its members, ensure that appropriate lending policies are adopted by the Society and that such loans are applied to the purpose for which the loans are granted and to control and monitor the repayment of the sums lent.

h. Comply with all lawful directions and, rulings issued by the Registrar of Companies.

i. At all times, maintain true and proper accounts of all matters relating to the Society.

j. Whilst the General Committee shall be responsible for the regular maintenance of true, proper and accurate accounts it shall be the responsibility of the Treasurer and the Assistant Treasurer to maintain proper custody and control over finances, assets and relevant accounting records and documents of the Society.

k. Recruit staff it considers necessary for the activities of the Society with the prior approval of the general membership.

22 The General Committee shall permit all members and every person having an interest in the funds of the Society to inspect its books. For this purpose notice of seven days shall be given to the President of the Society.

23a The investment of the funds of the Society shall be in accordance with the objects of the Society as specified under section (three) of these rules and subject to the approval of the membership at a General Meeting and also to the directions of any lending/financial or other institution whose terms and conditions have been accepted by the majority of members present and voting at such General Meeting.

23b The Society may facilitate members' access to financial institutions by sponsoring and or recommending credit and other financial services to its members.

23c The mandate granted to a bank or lending institution for the purpose of maintaining an account shall require a minimum of two signatories. One shall be that of the President and the other shall be that of any one member of the General Committee or of any particular member of the General Committee.

23d The General Committee shall obtain the approval of the membership prior to operating a bank account.

24a The Society shall at all times maintain a seal which shall be kept in safe custody by the General Committee. All contracts on behalf of the Society shall be executed by placing the seal together with the signature of the President and any one member of the General Committee.

No contract shall bind the Committee unless executed in the manner aforesaid.

24b Legal action may be instituted by the Society by placing the seal as aforesaid in clause 24(a) or by any seven members jointly.

25 The General Committee shall have the authority to borrow funds or to accept deposits from members for the purposes of the Society upon its resolution up to a maximum amount to be decided by the General membership in advance.

26a The Society shall have the power to mortgage, assign, lease, sell or charge its assets or carry out any of the said transactions with any individual or corporate body, having first obtained prior approval from the general membership.

26b The Society shall have the capacity to act as guarantor on behalf of all or any of its members provided details of the transaction for which the guarantee is given have received the prior approval of the General membership.

27 Any dispute between the Society and its members or among its members shall be referred in writing to the General Committee which shall decide same within a period of (14) days from receipt of such reference. The decision of the General Committee shall be communicated to all members of the Society.
Any person dissatisfied with the determination of the general Committee shall refer the matter to the Registrar of Companies within a period of 14 days from the day of the decision of the General Committee was communited to him. There shall be no appeal or application to the District Court from same and the decision thus given shall be enforceable as a decree of the District Court.

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28. Any other disputes/differences arising either from the Rules of the Society or in their interpretation or in relation to the conduct of the affairs of the Society shall be resolved in the manner set out above in Rule 27.

29. The Rules herein before provided shall be in addition to those stipulated under the Societies Ordinance and not in derogation of same.

ATTACHMENT 3-C

Manager, Date:
.....
.....

Dear Sir,

REQUEST TO ACCEPT A DEPOSIT AND ISSUE A RECEIPT FOR THE PURPOSE OF REGISTERING A SOCIETY

We the undersigned, who are desirous of forming into a society that would be registered under the Societies Ordinance wish to deposit Rs. ..... to the credit of a suspense account in your bank pending the registration of the society. After registration, we shall make a request to you to transfer this money to the credit of a savings account to be opened in due course in your bank.

You are hereby authorised to debit our individual accounts maintained in your bank with amounts mentioned below against our signatures and credit these amounts to a suspense account. Please issue us a receipt to this effect after crediting this amount to the suspense account.

Thanking you,

Yours faithfully,

Name	Account No.	Amount to be denited	Signature
.....	.....	.....	.....
.....	.....	.....	.....
.....	.....	.....	.....
.....	.....	.....	.....
.....	.....	.....	.....
.....	.....	.....	.....
.....	.....	.....	.....

ATTACHMENT 3-D

AFFIDAVIT

I ..... of .... being a ..... do sincerely and solemnly declare and state as follows/do take oath and state as follows:

1. I am the deponent above named.

2. I am a member of ..... Society.

3. I hold office as ..... in the said society.

4. I have been resident at the above said address from .....

5. I am a ..... by Profession. I conduct business as .....located at ..... The said Company/firm ..... deals in .....

6. I am employed as ....in.....

   I additionally hold office in the following Organisations/Societies

   OFFICE/POSITION ORGANISATION

   a.
   b.
   c.
   d.

7. My Annual /Monthly Income is Rs.....

8. I state that I have never been convicted of any offence or been guilty of moral turpitude in a court of Law.

9. I am the owner of the following assets:

   MOVABLE DESCRIPTIONS ESTIMATED VALUE
   a.
   b.
   c.

   IMMOVABLES - NAME & DESCRIPTION EXTENT AND VALUE
   a.
   b.

   OR I do not own any movable or immovable Property

10. My borrowings are as follows:

    Name of Creditor Amount

11. I have guaranteed the following loans:

    Name of Borrower Name of Creditor

12. I state that the foregoing are true and accurate.

The aforesaid having been read and understood was signed in my presence on a one Rupee stamp on this.... day of..... 19.....

.....
Deponent's Signature

OR

The foregoing having been read to and explained to the deponent who appeared to understand same signed in my presence on this ..... day of .....19.....

.....
Signature of Comm. of Oaths, Seal and signature

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ATTACHMENT 3-E

THE SOCIETIES ORDINANCE (CAP. 105)
APPLICATION TO REGISTER A SOCIETY

The Registrar of Companies,

Application to register "_____"
under the Societies Ordinance (Cap. 105) is hereby made by the eight persons whose names are subscribed at the foot hereof.

Two copies of the rules of the Society are annexed to the Application as required by Section 5(2).

The matters required by Section 7(1) to be set forth in the Rules are provided for in the manner by the subjoined schedule.

Matters Required to be set forth in the Rules	Rule Number
(a) The name of the Society	
(b) The place of the office of the Society	
(c) The whole of the subjects for which the Society is established	
(d) The purpose for which the funds of the Society shall be applicable	
(e) The Terms of admission of members	
(f) The conditions under which any member may become entitled to any benefit assured thereby	
(g) The fines and forfeitures to be imposed on any member	
(h) The mode of holding meetings and right of voting	
(i) The manner of making, altering or rescinding rules	
(j) The appointment and removal of a committee of management (by whatever name called) of a Treasurer and others and of Trustees	
(k) In the case of a Society with branches, the composition of a control body, and the conditions under which a branch may secede from the Society.	
(l) The investment of funds	
(m) The keeping of accounts	
(n) The auditing of accounts once a year at least	
(o) Annual Returns to the Registrar of Receipts, funds, effects and expenditure	
(p) The number of members of the Society	
(q) The inspection of books of the Society by every person having an interest in the funds of the Society	
(r) The manner in which disputes between the Society and any of its members or any person claiming through a member shall be settled.	

Date at this _____ day of _____ 19 __

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Legibly written signatures of the applicants

1. Signature _____ (President) Full Name: _____

2. Signature _____ (Secretary) Full Name: _____

3. Signature _____ (Treasurer) Full Name: _____

4. Signature _____ Full Name: _____

5. Signature _____ Full Name: _____

6. Signature _____ Full Name: _____

7. Signature _____ Full Name: _____

8. Signature _____ Full Name: _____

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ATTACHMENT 3-F

LETTER TO THE REGISTRAR

Name of Society: .....
Address: .....

Date: .....

The Registrar of Companies,
Office of the Registrar of Companies
267, Union Place
Colombo 2

Dear Sir,

NAME OF SOCIETY:.....

We submit herewith the application to register the above-named Society under the Societies Ordinance.

Attached hereto are also the following documents:

1. Two copies of the application for registration
2. Two copies of the Rules of the Society
3. Bank statement from ..... Bank, ...
4. Eight Affidavits
5. Uncancelled stamps to the value of Rs. 25

Thanking you,

Yours faithfully,

PRESIDENT

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ATTACHMENT 3-G

GUIDELINES FOR PARTIAL REIMBURSEMENT OF START-UP EXPENSES AND OPERATIONAL COSTS OF SOCIETIES

1. Competition in Procurement

   The purchase of commodities funded by the grant shall be accommodated using sound business practices so as to ensure that the price obtained is reasonable.

2. Local Procurement

   All commodities and services financed by the grant usually have their source or nationality in Sri Lanka. Sources mean "the country from which the commodity is shipped to Sri Lanka or Sri Lanka itself if the commodity is located therein at the time of purchase." Any commodity that contains the component from a non-Free World country is ineligible for financing by the Grant.

3. Initial start-up costs which are eligible for partial reimbursement of up to 50% of costs incurred are given below:

Item	Estimated Cost (Rs.)
Table	2500
Chairs	1600
Name Board	400
Seals	280
Staple, pins and clips	100
Filing cabinets	4400
Adding machines	2700
Cash box	650
Contingencies	1320

4. Initial operational costs which could be incurred during the first year of operation by the Society against which partial reimbursement of 50% of cost would be permitted are given below:

	Estimated Cost (Rs.)
Monthly rent	100
Monthly electricity	100
Monthly stationery	200
Monthly administration	400

   This assistance may be extended beyond the first year for a specified period at the sole discretion of the Grantor.

5. The total costs which may be reimbursed. The reimbursement of start-up and first year operational costs will not exceed Rs. 13,000 or 50% whichever is the lesser.

ATTACHMENT 3-H

FORM OF BOND

Know all men by these presents that we ..... of ..... one of the officers of the .....Society Limited, established at, and ..... of ..... (as surety on behalf of the said .....) are jointly and severally held and firmly bound to the said society, for which payment well and truly to be made, we jointly and severally bind ourselves and each of us by himself, our and each of our heirs, executers, and administrators firmly by these presents.

Signed and dated this ..... day of ....., 19...

Whereas the above-bounden .....has been duly appointed to the office of ..... of the .....Society, established as aforesaid, and he together with the above bounden ..... as his surety have entered into the above written bond, subject to the condition hereinafter contained.

Now therefore the condition of the above written bond is such that if the said ..... do render a just and true account of all moneys received and paid by him on account of the said society, as such as rules thereof appoint, and do pay all the moneys remaining in his hands and assign and transfer or deliver all property (including books and papers) belonging to the said society, in his hands or custody to such person or persons as the said society shall appoint according to the rules of the said society, together with proper and legal receipts or vouchers for such payments, then the above written bond shall be void, otherwise shall remain in force.

Signed and delivered in the presence of (two witnesses)

CHAPTER 4

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ATTACHMENT 4 - A.1

Date:

Manager,
.....Bank.
.....

Dear Sir

REQUEST TO OPEN A SAVINGS ACCOUNT (No.1 A/c.)

We, ...Society Ltd, are a society registered under the Societies Ordinance bearing registration number ..... . Our society was set up under the small-scale enterprise development programme of the MED project. One of our main strategies is to facilitate access to credit to our members from formal credit institutions.

Our society will be assisting members in obtaining credit from a bank to set up or maintain small-scale enterprises.

As a means of facilitating provision of credit facilities to our members a Collateral Fund is to be established in a bank. This fund will be financed from contributions from our members and grants provided by USAID under the MED project. These funds are expected to be maintained in two separate interest bearing accounts maintained in the name of our society in a bank. While contributions of our members are to be deposited in an account designated No. 1 account Grant funds are expected to be deposited in a No. 2 account

The management and operations of these accounts are to be based on a Collateral Fund Agreement which our society will have to enter into with a bank. We have decided that banking and credit arrangements under this programme be maintained with your bank.

Accordingly we request that a Savings Account be opened in the name of our Society. This account will be designated in our records as the No. 1 account. The Share capital contributions of our members will be deposited in this account.

In this connection we forward herewith the following:

1. A mandate to open the No.1 A/c.

2. Certified copy of resolution of the General Body of the society to open the account.

You are hereby authorised to transfer to this account monies lying in your suspense account deposited by our members when the society was formed pending its registration.

..... Society Ltd.

.....	.....	Seal of the
President	Secretary	Society

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ATTACHMENT 4-A.2

APPLICATION TO ENTER INTO AN AGREEMENT WITH THE MAHAWELI AUTHORITY OF SRI LANKA (MASL) TO IMPLEMENT THE MAHAWELI ENTERPRISE DEVELOPMENT (MED) CREDIT PROGRAMME

Date:.....

The Chairman
MED Grants Committee
Through Chief of Party
MED Project

We, the .....Society Ltd, a society registered under the Societies Ordinance with a membership of ..... bearing the registered number ..... hereby apply to enter into an agreement with the Mahaweli Authority of Sri Lanka with the objective of implementing the Mahaweli Enterprise Development credit programme.

In support of our application we submit herewith the following:

1. A certified copy of our by-laws.

2. A certified copy of our credit policy.

3. A list of members and their present status. (page 46)

4. A certified copy of a resolution to join the MED credit programme and to enter into an agreement named the Memorandum of Agreement with MASL. (page 20)

5. A certified statement from the .....Bank confirming the opening of the No 1 account and the deposit of members' contributions in this account.

.....Society Ltd.

SEAL OF THE SOCIETY

....
President Secretary

ATTACHMENT 4-A.3

Chairman
MED Grants Committee
MASL

Dear Sir,

We give below an extract of the resolution approved by the society at the General Meeting held on ..... to join the Credit Programme of the Mahaweli Enterprise Development Project.

"It is hereby resolved :

(1) To join the Mahaweli Enterprise Development Credit Programme with the object of assisting our members to obtain facilities provided under this scheme.

(2) To abide by the terms and conditions set out in the Memorandum of Agreement.

(3) To deposit to the credit of No: 1 A/c prior to applying for Grant Funds the matching funds due from respective members to the Collateral Fund A/c.

(4) To authorise .... the President and ..... the Secretary to enter into the Memorandum of Agreement with the Mahaweli Authority of Sri Lanka and to place the seal of the society."

.....	.....	Seal of the
President	Secretary	Society

.. Society Limited

ATTACHMENT 4-A.4

MEMORANDUM OF AGREEMENT

for the

Mahaweli Enterprise Development Project Credit Programme

Between

MAHAWELI AUTHORITY OF SRI LANKA

And

SOCIETY LIMITED

On this day of 199 , we, as indicated below:

1. Name:
   Title:
   Address:

   Name:
   Title:
   Address:

as representatives of the Mahaweli Authority of Sri Lanka, henceforth referred to as "the Grantor" (which term includes its successors and agent);

2. Name:
   Title:
   Address:

   Name:
   Title:
   Address:

as representatives of ..... henceforth referred to as "the Society" or "the Grantee" (which terms include its successors and assignees);

agree to implement the activities described herein.

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Article XII	Financing of local taxes
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WHEREAS the Grantee is a body incorporate with a legal existence distinct from its members and registered as a Society under the Societies Ordinance.

AND WHEREAS the Grantor has agreed to grant from the Mahaweli Enterprise Development (MED) Project to the Society by deposit into the account maintained at .... Bank..... by the Society and referred as No. 2 Account hereinafter provided, funds in proportion to the subscribed capital of its members on a 1.5 : 1 (1.5 by the Grantor) ratio, to serve as partial security, so as to enable the Society to facilitate obtaining credit and other banking facilities.

AND WHEREAS the Grantor has also agreed to grant to the Grantee 50% of start-up and operational cost as hereinafter provided.

AND WHEREAS the Society hereby agrees that its functions include assisting members by recommending to the bank loans to its members, promoting savings and capital expansion, providing technical and marketing assistance and establishing a sound financial and management foundation for subsequent group lending.

AND WHEREAS the Society has agreed to utilize and obtain the benefits of matching funds thus provided by the Grantor towards achieving the objectives of the Society as contained in the Working Rules of the Society annexed herein as Schedule I in the manner and in terms of the terms and conditions set out hereinafter.

ARTICLE III

Terms and Conditions of the Grant

The Grant is made to the Grantee on the condition that the funds will be used in accordance with this Memorandum of Agreement, the Collateral Fund Agreement which is incorporated by reference herein, and all other terms and conditions provided in this Agreement. The Grantor reserves the right to require a refund by the Grantee of any amount that the Grantor determines has been expended for purposes which are not in accordance with the terms and conditions of this Agreement.

In the event of any inconsistency between the provisions of the Working Rules (Schedule I) or the Collateral Fund Agreement (Schedule II) and any provision of this Agreement, the provision of this Agreement shall prevail.

The Grantee acknowledges that the Grant is being financed by the United States Agency for International Development (USAID) under the Mahaweli Enterprise Development Project with the Government of Sri Lanka and that the Grant hereunder is subject to all the terms and conditions applicable to such Project.

Whenever this Agreement provides that the parties shall act, agree, approve, grant, request or co-operate, they shall do so in a reasonable manner in the interest of the successful achievement of the objectives of the Grant.

The Grant funds in the No. 2 Account with the ..... Bank shall remain under the overall control of the Grantee.

The title to equipment and materials purchased with grant funds shall be held by the Grantee. In the event of a winding up of the Grantee, liquidation and distribution shall be in accordance with relevant Sri Lankan laws.

The Grantee shall not be eligible to request Grant funds from the Grantor as against persons who have not obtained full membership of the Grantee in terms of the Working Rules of the Society.

The Grantee irrevocably undertakes that it shall not on behalf of any member withdraw the capital subscription of such member deposited in the No. 1 Account nor the related matching funds in the No.2 Account with the ..... Bank ..... and the interest earned thereon if at least three (3) years have not elapsed since the deposit of same as against the said member and subject however to any lien or charge the institution may have as regards such monies and the interest earned thereon.

Withdrawal of the capital subscription of a member shall however be permitted where after the aforesaid three (3) years the member ceases to be a member of the Society or if such member having ceased to be a member prior to the lapse of the above said three (3) years seeks withdrawal after the lapse of the three years reckoned as aforesaid.

Notwithstanding the above, withdrawal of such capital subscriptions shall be permitted:

a) Where the membership of an individual terminates upon his death, permanent incapacity or physical infirmity, subject to the rights of the Bank under the Collateral Fund Agreement;

b) Where a member's request for credit facilities towards his approved project has been refused by the institution.

Provided that such withdrawals are not prevented by the law governing the Grantee for maintenance of minimum subscribed capital.

The Grantee further undertakes to notify the Grantor of suspension of operations of the Grantee under the Societies Ordinance forthwith and in such an event the Grantee shall not avail itself of new and further credit and banking facilities.

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ARTICLE IV

Commencement and Duration of Activities

This Agreement shall become effective on the date on which it is signed by the parties to the Agreement and shall remain in force and effect until:

a) The No. 2 Account to which the grant funds are deposited is terminated in accordance with the terms of the Collateral Fund Agreement and the proceeds disposed of in accordance with the terms thereof.

b) The Grantee being liquidated before completion of the MED Project on 31 March 1995, grant funds deposited in the No. 2 Account shall vest in the Grantor to be re-channeled as grants to other societies.

c) The Grantor seeks refund of Grant funds on the ground that the Grant funds have been expended for purposes which are not in accordance with the terms and conditions of this Agreement or such funds have not been used to collateralize loans in a timely and proper manner. Such requests for refund should be upon written notice being given by the Grantor to the Bank and to the Grantee in terms of provisions to be made in the Collateral Fund Agreement between the Bank and the Society to the following effect:

> "When the Society misrepresents facts to the Grantor in obtaining matching funds or has failed or neglected to expeditiously and in good faith fulfil the obligations of the Society under this Agreement or has acted in any manner prejudicial to the fulfillment of the objectives of the Society as set forth in the Working Rules or for any other good cause."

The Society hereby undertakes to make such provisions in the Collateral Fund Agreement to be entered into with the Bank.

At the termination of this Agreement the parties hereto shall be mutually released from any obligations hereunder that are not stipulated to continue beyond the term of this Agreement. However, upon completion of the Project, funds in the No. 2 Account will remain with the Bank in the name of the Society and continue to serve as collateral as part of the reserves of the Society. If, after the completion of the Project, the Society disbands or no longer requires the collateral funds, the funds may be distributed by the Society, in accordance with Sri Lankan law to develop enterprises of members consistent with the Project's objectives.

The above provisions shall be subject to and without prejudice to the rights of the ..... Bank to funds in No. 2 Account as contained in the Collateral Fund Agreement.

ARTICLE V

Grant Budget

The total amount of funds disbursed hereunder shall not exceed Rupees ..... made up as follows.

1. Rs. ..... as collateral funds.
2. Rs 13,000 as support for start-up and operational costs.

Any interest earned on the Grant funds which have been deposited in the No. 1 and No. 2 accounts shall be retained in such accounts and used for the same purposes for which the principal in such account may be used. However, out of the above said interest an amount not exceeding 25% of the interest earned during a particular year may be used to meet annual administration cost of the Grantee incurred one year after deposits have been made to No. 1 and No. 2 accounts. The use of such funds shall be for purposes approved in advance by the Grantor. The Society shall maintain records of such expenditure which shall be made available for inspection and audit. For this purpose a separate savings account may be opened in the name of the Society to deposit 25% of the interest due from the second year of operation of No. 1 and No. 2 accounts.

Disbursement of Grant funds shall be in accordance with the terms of this Agreement including the Grant Proposal (Schedule II).

Any modification or changes in the items of expenditure for which funds are requested will require the approval of the Grantor.

ARTICLE VI

Administration of the Grant

All decisions by the Grantor concerning this Agreement and any disputes hereunder shall be final.

It is expressly agreed that the International Science and Technology Institute Inc. shall function as the agent for the Grantor for implementing or enforcing the terms of these presents. ISTI will be responsible inter alia for disbursing Grant funds, for claiming reimbursements from the USAID for funds disbursed to the Grantee and for recovering funds from the Grantee in accordance with the terms of this Agreement.

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ARTICLE VII

Grant Disbursement Procedures

The Collateral Fund component of the Grant will be disbursed directly to the Bank, which is a party to the Collateral Fund Agreement, upon receipt by ISTI, in form and substance satisfactory to ISTI, of:

a. A Collateral Fund Agreement duly executed by the Grantee and the ..... Bank and certified by a duly authorized representative of the Grantee to be a true and correct copy thereof; and

b. A Request for Disbursement which shall state and provide evidence of the amount of capital subscriptions deposited by the Grantee's members for which matching funds are being requested; the name of the Bank and number and name of account into which the disbursement shall be made.

The start-up and operating expenses component of the Grant will be disbursed directly to the Bank or to the Society or to a supplier, upon receipt by ISTI, in form and substance satisfactory to ISTI, of duly authenticated receipts together with a Request for Disbursement. Disbursement of Grant funds for start-up costs shall be in the form of reimbursement of up to 50% of expenditures incurred in obtaining items agreed upon in advance (including, table, chairs, name board, seal, staples, pins and clips, filing cabinet, adding machine, cash box). Disbursement of Grant funds for operational costs shall be in the form of a reimbursement of up to 50% of monthly expenditure of items estimated by the Grantee and approved in advance by ISTI (including cost of monthly rent, lighting, stationery, administration).

The Grantee will follow good commercial practices in making expenditures for which reimbursement will be made with Grant funds. Such practices will include securing a minimum of three price quotes for purchases of goods and services. Origin and source of goods and services purchased with Grant funds should be Sri Lanka, United States or other free world countries. No expenditure costing more than the Rupee equivalent of US $5,000 will be made without prior ISTI approval. ISTI, in approving such expenditures, will ensure compliance with AID requirements as to source and origin. Goods and services purchased with Grant funds for a value equivalent to more than US $5,000 must be of Sri Lankan or US origin and source. The Grantor shall ensure that the Grant is disbursed in a timely manner upon submission of the documentation required above.

ARTICLE VIII

Reporting requirements

The Grantee will provide to the Grantor such information concerning the Grant as the Grantor may reasonably request. The Grantee shall at the request of the Grantor make available for inspection to authorised officers of the Grantor all books, registers, and documents maintained by the Society concerning this Agreement and consequent transactions for inspection.

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ARTICLE IX

Records and Audits

The Grantee shall maintain books, records, documents and other evidence (the foregoing shall constitute "records" for the purpose of this Article) and shall apply consistent accounting procedures and practices sufficient to reflect properly all transactions involving the Grant, including all transactions involving the collateral account into which the Grant is deposited.

The Grantee shall maintain such records during the term of this Agreement and for a period of three (3) years after the final disbursement under this Agreement. However, records which relate to disputes, litigation or settlement of claims arising out of the performance of this Agreement shall be retained until such disputes, litigation or claims have been settled.

All records shall be subject to inspection and audit by MASL and the US Comptroller General and/or USAID and their authorized agents at all reasonable times. The Grantee shall afford proper facilities for such inspection and audit.

The Grantee shall include in the Collateral Fund Agreement a provision that the Bank agrees that MASL, the US Comptroller General, and/or USAID or their authorised agents, shall, until the expiration of three (3) years after the termination of this Agreement, have access to any books, documents, papers and records of the Bank which are directly pertinent to the No. 1 and No. 2 Accounts for the purpose of making audit examinations, excerpts and transcriptions.

The Grantee shall submit to the Grantor a duly authenticated copy of the Audited Profit & Loss Account, Balance Sheet and Auditor's Report within 90 days after the end of every financial year of the society until 3 years have elapsed after deposit of funds in No. 1 and No. 2 Accounts and at any time it is required by the Grantor within the said 3 years.

ARTICLE X

Modifications and Amendments

This Agreement shall not be modified except by the prior mutual agreement of the parties hereto and any such change shall be effected by a formal written amendment to this Agreement signed by the parties hereto.

ARTICLE XI

Legal Effect of USAID Approvals and Decisions

The parties hereto understand that USAID may reserve certain rights such as, but not limited to, the right to approve the terms of any contract of sub-agreement, contractor or sub-recipient, and any or all plans, reports, specifications, subcontracts, bid documents, drawings, or other documents related to such contract or sub-agreement and the project of which it is part. The parties hereto further understand and agree that USAID, in reserving any or all of the foregoing approval rights, has acted solely as a financier entirely to assure the proper use of United States Government funds, and that any decision by USAID to exercise or refrain from exercising these approval rights shall be made as a financier in the course of financing this project and shall not be construed as making USAID a party to the contract or sub-agreement. The parties hereto understand and agree that USAID may, from time to time, exercise the foregoing approval rights, or discuss matters separately, jointly or with any of them. Any approval or failure to disapprove by USAID shall not bar the Grantor or USAID from asserting any right, or relieve the Grantee of any liability which the latter might otherwise have to the Grantor or USAID

ARTICLE XII

Financing of Local Taxes

The Grant may not be used to pay identifiable taxes, fees, levies, duties or impositions of the Government of Sri Lanka. To the extent that any such taxes or other impositions are identifiable and charged, they shall be paid by the Grantee from its own funds.

ARTICLE XIII

Notices and Addresses

Any or all notices are deemed to have been validly given if reduced to writing, signed by the party giving such notice enclosed in a sealed envelope and mailed by registered post addressed to the party to whom such notice is intended at the addresses given above or any other address from time to time intimated by the party concerned.

Any change in the addresses of parties as herein contained shall be notified promptly to the other parties to this Agreement by registered post.

THE MAHAWELI AUTHORITY OF
SRI LANKA (Grantor)

....
Society Ltd.(Grantee)

By: ----------
Name:
Title:

By: ----------
Name:
Title:

By:_____
Name:
Title:

By: _____
Name:
Title:

WITNESS:

_____

Name:

WITNESS:

_____

Name:

.....

Acknowledged

.....
Chief of Party, MED Project
For International Science and Technology Institute (IST)

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Manager ,

.....Bank,

.....

Dear Sir,

REQUEST TO OPEN A SECOND SAVINGS A/C TO DEPOSIT GRANT FUNDS PROVIDED UNDER THE MED CREDIT PROGRAMME (No.2 A/c.)

In terms of the collateral fund agreement entered into with your bank we hereby request you to open a second savings account in the name of our society to enable the MASL to remit the Collateral Fund component of the Grants provided to our society.

The MED office, Colombo requires the account number to which these Grant funds could be sent. Therefore please inform us the account number allotted to this account.

We, enclose herewith the following:

1. A certified copy of a resolution of the Committee to open the second account.

2. An account-opening form duly completed.

Thanking you,

Yours faithfully,

..... President

..... Secretary

Seal

..... Society Ltd.

ATTACHMENT 4-A.6

Manager
..... Bank
.....

Date: .....

Dear Sir,

REQUEST TO ENTER INTO A COLLATERAL FUND AGREEMENT WITH THE .....
.....
SOCIETY LIMITED

We, ... Society Limited, are a society registered under the Societies Ordinance bearing registration number ..... Our society was set up under the small-scale enterprise development programme of the MED project. One of our main strategies is to facilitate access to credit to our members from formal credit institutions.

Our society will be assisting members in obtaining credit from a bank to set up or maintain small-scale enterprises.

As a means of facilitating provision of credit facilities to our members a Collateral Fund is to be established in a bank. This fund will be financed from contributions from our members and Grants provided by USAID under the MED project. These funds are expected to be maintained in two separate interest bearing accounts maintained in the name of our society in a bank. While contributions of our members are to be deposited in an account designated No.1 A/c. Grant funds are expected to be deposited in a No.2 A/c.

The management and operations of these accounts are to be based on a Collateral Fund Agreement which our society will have to enter into with a bank. We have decided that banking and credit arrangements under this programme be maintained with your bank.

In this connection we forward herewith the following:

1. Two copies of the Collateral Fund Agreement

2. Certified copy of the resolution of the General Body of the society to enter into the above agreement.

Please inform us of the date and time to call over at the bank to sign this agreement.

.....
President

.....
Secretary

..... Society Limited

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COLLATERAL FUND AGREEMENT

THIS AGREEMENT made and entered at..... on this ..... day of..... BY AND BETWEEN

..... SOCIETY LIMITED registered under the Societies Ordinance as a body corporate and having its registered office at..... .....(hereinafter referred to as the SOCIETY, which term and expression as herein used shall, where the context so requires or admits, mean and include the said .....Society Limited, its successors and assignees) of THE FIRST PART

AND

..... BANK LIMITED having its registered office at ....(hereinafter referred to as the BANK which term and expression as herein used shall, where the context so requires or admits, mean and include the said .... Bank Limited, its successors and assignees) of the SECOND PART

WITNESSETH

WHEREAS the Mahaweli Authority of Sri Lanka (hereinafter referred to as the Grantor and which term and expressions shall include its successors and agent) is desirous of granting financial assistance from the Mahaweli Enterprise Development (MED) Project to small-scale entrepreneurs in the Mahaweli Areas.

AND WHEREAS the Grantor with the abovesaid objective in view has assisted in the establishment of societies in the Mahaweli Areas to enable small-scale entrepreneurs to more effectively carry out non-crop small-scale enterprise.

AND WHEREAS the Society hereby agrees that its functions include assisting members by recommending to the Bank loans to its members, promoting savings and capital expansion, providing technical and marketing assistance and establishing a sound financial and management foundation for subsequent group lending.

AND WHEREAS the Society is desirous of depositing with the ..... Bank, by way of collateral as partial security, the subscribed capital of the members of the Society referred to as No. 1 Account and the matching funds to be provided by the Grantor to the Society, referred to as No. 2 Account, respectively so as to enable and facilitate the members of the Society to obtain loans and other credit facilities from such Bank.

AND WHEREAS the Bank has agreed to accept the deposit of such monies subject to and in terms of the conditions and stipulations herein set out.

IT IS HEREBY AGREED BY AND BETWEEN THE PARTIES AS FOLLOWS:

1. The Society shall forthwith deposit with the Bank the capital subscriptions of its members in an interest earning savings deposit account designated "No. 1 Account" and the Society shall deposit such additional capital subscriptions from time to time hereafter as and when a new member is admitted to the Society.

2. After opening the No. 1 Account by the Society, the Bank shall cause to be opened an interest earning savings deposit account with the Bank designated "No. 2 Account" in the name of the Society into which the Grantor may deposit with the Bank, funds on behalf of the Society to match the subscribed capital of members of the Society deposited in No. 1 Account, in a ratio of 1.5 Rupees for every Rupee deposited by the Society.

3. The Bank shall pay interest at .... % per annum or at such other rate of interest as agreed between the parties on deposits in the "No. 1 Account" and the "No. 2 Account".

4. a) The Bank may upon the request of the Society and in accordance with the terms, conditions and stipulations as is required by the Bank provide to the individual members of the Society upon the recommendation of the Society, loans and other financial facilities as may be reasonably required to further the objectives of the Society of setting up or expand small-scale enterprises envisaged in the Mahaweli Enterprise Development Project.

   b) The Bank agrees to consider loans and other credit facilities to members of the Society in accordance with the Bank's standard credit criteria adopted for providing assistance for the development of small-scale enterprises, subject to the following conditions:

      b.1. That it will not, if securing its loans and other credit facilities to members of the Society by obtaining the guarantee of persons, accept as guarantors persons other than a member or members of the Society.

      b.2. That the maximum loan or other credit facility provided to and outstanding from a member shall not exceed Rs.....or .....times the sum of individual capital contribution of the member to the No. 1 Account, and the corresponding deposits in the No. 2 Account, whichever is less. For this purpose the Society shall furnish to the Bank a statement of individual capital subscriptions of members deposited by the Society to the No. 1 Account duly certified.

      b.3. the Bank and the Society with the concurrence of the Grantor or its agent may vary the above said conditions in appropriate circumstances and the concurrence of the Grantor. Such variation and the concurrence of the Grantor shall be in writing.

5. If for any reasons whatsoever the operations of the Society are suspended under the Societies Ordinance the Society shall notify the Bank of same forthwith and the Bank (i) shall immediately stop the Society or its members from availing themselves of any new and further loans and financial facilities until such time the suspension is lifted and (ii) may assert its right to recall the loans outstanding from members upon such suspension.

6. In the event the Society is liquidated or being liquidated at any time prior to the expected completion of the MED project on March 31st 1995, the Society shall immediately cease to have any claim to the funds held in the No. 2 Account and the Bank shall return the said funds to the Grantor, subject however to clause 8.

7. The Bank shall permit the Grantor to withdraw funds held in No. 2 Account in the name of the Society subject however to clause 8, if the Grantor shall give the Bank notice in writing that the Society misrepresented facts to the Grantor in obtaining matching funds or has failed or neglected to expeditiously and in good faith fulfill the obligations of the Society or has acted in any manner prejudicial to the fulfillment of the objectives of the Society or for any other good cause.

It is expressly agreed that the Bank in acting under this clause is not obliged to give notice to the Society or obtain the prior written consent of the Society and the Society hereby authorizes the Bank to debit the No. 2 Account and make remittances in terms of the aforesaid provision subject to clause 8.

8. The Bank shall have a paramount lien and a right of set off on all monies deposited in No. 1 and in No. 2 Accounts together with interest, which are collateralizing loans or other credit facilities granted by the Bank as aforesaid, except for interest which the Society is permitted to withdraw from the No. 2 Account as specified in Clause 15.

9. The Bank may cancel, freeze or recall any credit facilities given to the members of the Society if it is of the opinion that the members have not utilized the facilities granted to them for the intended purposes.

10.1 The Society irrevocably undertakes that it shall not on behalf of any member withdraw the monies deposited on behalf of a member in the No. 1 and No. 2 Accounts and the interest earned thereon subject however to clauses 8 and 15, if at least three years have not lapsed since the deposit of same as against the said member.

10.2 The Bank irrevocably undertakes that it shall not permit the withdrawal by the Society on behalf of any member of the monies deposited on behalf of a member in No. 1 and No. 2 Accounts if at least (3) years have not lapsed since the deposit of same against the said member and subject however to clauses 8 and 15 abovesaid. However withdrawal of capital subscription shall be permitted after three years from the date of deposit subject to clause 8 abovesaid.

However, withdrawal of capital subscriptions of No. 1 Account shall be permitted where after the aforesaid period of three (3) years an individual having ceased to be a member for any reason whatsoever prior to the lapse of the abovesaid three (3) years seeks withdrawal after the lapse of the three (3) years subject to clause 8 abovesaid.

Withdrawal of monies form No. 1 Account shall however be permitted on the resolution of the Society:

a. Where the membership of an individual terminates upon his death permanent incapacity or permanent physical infirmity.

b. Where a member's request for credit facilities towards his project has been refused by the Bank, provided that such withdrawals are not prevented by the law governing Societies regarding maintenance of minimum subscribed capital.

Prior to completion of the MED Project, if withdrawals are made from No. 1 Account the related monies deposited in No. 2 Account shall revert to the Grantor to be re-channelled as grants to other societies.

11. At the termination of this Agreement the parties hereto shall be mutually released from any obligations hereunder that are not stipulated to continue beyond the term of this Agreement. However, upon completion of the MED Project, funds in No. 2 Account will remain with the Bank in the name of the Society and continue to serve as collateral as part of its reserves. If, after the completion of the Project, the Society disbands or no longer requires the collateral funds, the funds may be distributed in accordance with Sri Lankan law to be used to develop enterprises of members consistent with the Project objectives.

12. The Society shall submit to the Bank a duly authenticated copy of the audited profit and loss account, balance sheet and the Auditor's report within ... days of the end of every financial year.

13. The Society shall at the request of the Bank make available to duly authorized officials, agents of the Bank all books, registers and other documents maintained by the Society in connection with this Agreement and transactions related hereto for their inspection. The Society shall permit the Bank through its authorised officials to enter its premises at all reasonable times for inspection of such books, registers and other documents.

14.1 In recovering monies lawfully due and owing to the Bank from individual members on account of credit facilities granted on the request and recommendations of the Society, the Bank shall subject to the governing mortgages and other applicable provisions:

a. In the first instance, after classification of such credits as past due, have recourse to an amount equivalent to the capital subscription of the individual member deposited in No. 1 A/c based on a certificate from the Society regarding the amount deposited in the Bank by the Society out of that member's capital subscription to the Society.

b. Where notwithstanding the above, full satisfaction of the amount due and owing from the member under such credit facility is not received by the Bank, the Bank shall have recourse to any securities taken by the Bank from the defaulting member.

c. Where notwithstanding action taken under 'a' and 'b' above, the Bank has failed to obtain complete satisfaction of all sums due and owing to it from the member it shall then be entitled to have recourse to the amounts in the No. 2 Account, which shall include accumulated interest, other than the amounts withdrawable in accordance with Clause 15.

14.2 Where a member provides immovable property as security for a sum given as a loan or other credit facility by the Bank, he shall not be called upon to provide any further security for the said facility whether by way of collateralizing of subscriptions or otherwise.

14.3 The above provisions shall be without prejudice to the Bank's rights to resort to other legal remedies for recovery of the sums due and owing from the member in the first instance.

14.4 The sums due and owing to the Bank from an individual member shall, in addition to the sums lent and interest due there on, include the incidental expenses related to providing loan or other facilities such as stamping, documentation and Bank charges levied in the usual course of business by the Bank.

15. The Society may withdraw one year after deposit of funds in No. 1 and No. 2 Accounts a sum not exceeding 25% (twenty-five percent) of the interest earned on monies held in the No. 1 Account and the No. 2 Account for use as essential administration costs of the Society. The use of such funds shall be for purposes approved in advance by the Grantor. The Society shall maintain records of such expenditure which shall be made available for inspection and audit. For this purpose a separate savings account may be opened in the name of the Society to deposit 25% of the interest due from the second year of operation of No. 1 and No. 2 Accounts.

16. Any and all differences and disputes of whatsoever nature arising between any two or more parties hereto during the continuance of this Agreement or at any time thereafter as to the construction, interpretation or application of this Agreement or any clause or thing contained in the Agreement or as to any other matter relating to this Agreement shall be referred to arbitration of a person to be jointly appointed by the parties herein, or if such arbitrator shall be unable or unwilling to act, to another arbitrator to be agreed upon by the parties hereto within thirty (30) days of the dispute.

If no arbitrator is appointed or if the parties cannot agree as to the arbitrator within thirty (30) days of the dispute the parties shall refer the matter to the court having jurisdiction for the appointment of an arbitrator.

The decision/award upon a reference to arbitration shall be a condition precedent to any right of action against any and all disputes and differences arising between the parties to this Agreement as aforesaid.

17. Any alteration or variation in the terms of this Agreement shall not be valid unless in writing and signed by the parties to this Agreement and acknowledged by the Grantor or its agent.

18. Any or all notices are deemed to have been validly given if reduced to writing, signed by the party giving such notice enclosed in a sealed envelope and mailed by registered post addressed to the party to whom such notice is intended at the addresses given above or any other address from time to time intimated by the party concerned.

19. Any change in the addresses of the parties as herein contained shall be notified promptly to the other parties to this Agreement by registered post.

20. It is expressly agreed that the International Science and Technology Institute Inc. shall function as the Agent for Grantor for implementing or enforcing the terms of these presents.

21. It is agreed by the parties that the Bank shall, for a period of three years after the termination of this Agreement, maintain all records, documents, registers and receipts directly related to the conduct of the No. 1 and No. 2 Accounts and further agree that USAID or its authorised officials shall have access to same, both during the conduct of the two accounts mentioned above and for a period of three years after termination of same.

In the case of a Bank owned and controlled by the Government of Sri Lanka the cognizant Government of Sri Lanka audit agency could perform any required audits on the condition that a separate report is issued that addresses the AID-financed activity and that a copy of the audit report is provided to USAID.

In the case of a privately-owned Bank in Sri Lanka, the Bank's own auditors may perform any required audits provided the audit firm is acceptable to USAID and on the condition that a separate report is issued that addresses the AID-financed activity and that a copy of the audit report is provided to USAID.

22. This Agreement shall stand terminated on March 31, 1995, unless terminated earlier consequent to the operation of clauses 5,6,7,8,9 and 11 of these presents whereby continuation of this Agreement is not possible.

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IN WITNESS WHEREOF THE PARTIES HERETO SET THEIR HANDS AT ..... on this ..... day of ..... One Thousand Nine Hundred and Ninety..... to these presents and two others of the same tenor and date.

.....	.....	.....	.....
Authorised Officer	Authorised Officer	President	Secretary
..... Bank	..... Bank	..... Society Ltd	
Designation	Designation	Seal of the Society	
.....	.....		

WITNESS:

_____

Name:

WITNESS:

_____

Name:

Acknowledged

.....
International Science & Technology Institute Inc
as agent for the Grantor

Manager ,
.....Bank
.....

REQUEST TO OPEN A GENERAL ACCOUNT

In addition to the two accounts opened in your bank to deposit collateral funds of our society, it has become necessary to open another account for general operational purposes of our society.
In this connection we enclose herewith the following:

1. A certified copy of the resolution to open the account.

2. An account-opening form duly completed.

Please inform us the number of this account at your earliest convenience.

Thanking you,

Yours faithfully,

....
President Secretary

..... Society Limited

ATTACHMENT 4-A.9

GRANT PROPOSAL

.....
.....
Mahaweli Authority of Sri Lanka

Date: .....

Application for assistance under the MED Project

We the .... Society Ltd, a society registered under the Societies Ordinance with the membership of ..... members, bearing registered number ..... to facilitate access to credit for its members, and having deposited a sum of Rs. ..... being capital subscriptions from .... members in No. 1 Account bearing Account No. ..... in ..... Bank, hereby apply for assistance in the form of grants as per details given below:

1. Rs ..... (In words.....) to be deposited in No. 2 Account which is an interest-bearing savings Account No. ..... maintained in the name of ..... at Bank ..... branch. The funds in No. 2 Account will be used to collateralise loans and other credit facilities which may be provided by the Bank directly to the members of our Society on our recommendation for the development of their small-scale enterprises as detailed in the following Table 1.

TABLE I

NAME OF THE MEMBER & MEMBERSHIP No.	EXPANSION OR NEW PROJECT	TOTAL PROJECT COST RS	PURPOSE OF THE PROJECT	AMOUNT OF LOAN EXPECTED*	AMOUNT OF DEPOSIT MADE TO No. 1 ACCOUNT #

vide bank's certificate of balance in a/c dated.....enclosed.
* vide bank's letter dated .....enclosed, indicating the approval of these loans

2. Rs ..... (in words .....) by way of reimbursement of 50% of actual cost incurred by us as start-up expenses as detailed in Table II below:

TABLE II

DESCRIPTION OF ITEMS PURCHASED	VALUE OF ITEMS PURCHASED*	AMOUNT REQUESTED FROM GRANT FUNDS (50%)

3. Rs ..... (in words .....) being 50% of the estimated cost of operations of the Society for a period of one year commencing from the month of establishing the office of the Society, as set out below in Table III.**

TABLE III

Item No.	Description of item	Monthly estimated amount Rs.	Annual estimated amount Rs.	Amount estimated to be claimed monthly Rs.
1.	Rent			
2.	Electricity			
3.	Stationery			
4.	Other Admin. Expenses			
	TOTAL:			

* Enclose bills/receipts
** Obtain approval in principle first, based on estimates

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TABLE IV

	Annual estimates approved by ISTI	Actual expenses incurred for the month*	Amount requested by way of 50% reimbursement
Rent			
Electricity			
Stationery			
Other admin. costs			
TOTAL			

* Enclose bills/receipts

Signed on behalf of .....
Society Ltd.

Designation..... Designation.....

ATTACHMENT 4-B.1

International Science and Technology Institute, Inc.

MAHAWELI ENTERPRISE DEVELOPMENT

MED Office, EIED/MASL, 8th Floor, Unity Plaza, Colombo 4 Fax: 508685

To : MED Grants Committee

From : ..... AM/DM, EIED,.....
..... FBC, ...
Through COP/ MED

Date : .....

Subject : Application from .....Society Limited to enter into a Memorandum of Agreement with MASL to implement the MED Credit Programme

Ref. : .....

An application from .....to join the MED Credit Programme is forwarded herewith for the consideration of the MED Grants Committee.

In support of their application the Society has submitted the undermentioned documents:

1. A certified copy of the approved by-laws

2. A certified copy of the Credit policy

3. A certified copy of a resolution to join the MED credit programme and to sign the Memorandum of Agreement

5. A certified statement from ..... Bank ..... Branch confirming a balance of Rs. ..... in the member's Share Capital account

6. An undertaking to deposit the balance share capital contribution in their account.

This society was formed under the sponsorship of the MED Project and was registered on .....under the Societies Ordinance. It is a legal entity independent of its members.

The society has a membership of ..... The share capital of the Society contributed so far is Rs. ..... These funds are deposited with ..... Bank ..... Branch.

Details about the individual members are given in Annex .....

The loan requirements of ..... members have been estimated at Rs. ..... Based on this estimate the share contribution of members is Rs. ..... being 8% of loans and the grant component Rs. .... being 12%.

Members have already contributed Rs. ..... to the share capital and have undertaken to deposit the balance due.

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We recommend to the MED Grants Committee

1. To approve the application of the .....Society Ltd to join the MED Credit Programme and for the MASL to enter into a Memorandum of Agreement with the Society.

2. To approve Grant Assistance (1) up to Rs. ..... (subject to a ceiling of US $2,000 equivalent) to establish a Collateral Fund in ..... Bank and (2) up to Rs. ..... by way of reimbursement of start-up and operational expenses of the Society subject to terms and conditions of the Memorandum of Agreement.

ATTACHMENT 4-B.2.

Chairman
MED Grants Committee
MASL
Thr ISTI

We give below the list of the members and their present status:

Name	New or existing	Type of project	Estimated project value	Share value held	Amount of loan expected	Monthly net income	Balance share contribution payable
1.							
2.							
3.							
4.							
5.							
6.							
7.							
8.							
9.							
10.							
11.							
12.							
13.							
14.							
15.							
Total							

..... President

..... Secretary

Seal of Society Limited

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International Science and Technology Institute, Inc.

MAHAWELI ENTERPRISE DEVELOPMENT

MED Office, EIED/MASL, 8th Floor Unity Plaza, Colombo 4 Fax: 508 685

To : Chief of Party, MED Project

Thro' : Credit Advisor, MED Project

From : DM/AM/EIED Mahaweli Business Centre, ...
Field Business Consultant Mahaweli Business Centre, ...

Date : .....

Subject : Submission of a Grants (Disbursement) Proposal (No.....)
of .....Society Limited, ...

We submit herewith the above Grants proposal for drawdown of Grant funds in terms of the Memorandum of Agreement (MOA) entered into by the above named society with the MASL dated: .....

2. The Grant budget approved in terms of the above agreement is as follows:

Collateral Funds (CF)	Rs. :	
Start-up (SU)	Rs. : 7,000 |	
Operational Costs (OC)	Rs. : 6,000 |	Rs. 13,000/-

3. Already following sums have been released to this Society:

CF	Rs. :
SU	Rs. :
OC	Rs. :

4. The balances available are as follows:

CF	Rs. :
SU	Rs. :
OC	Rs. :

5. Amounts applied for in this proposal are as follows:

CF	Rs. :
SU	Rs. :
OC	Rs. :

6. Balances available for drawdown after deducting the amounts applied for:

CF	Rs. :
SU	Rs. :
OC	Rs. :

7. We confirm that the ..... Bank has conveyed their approval of loans tabulated under Table 1 of the enclosed application for funds. A copy of the letter from the bank is enclosed.

8. We hereby recommend this proposal and confirm that (1) this application is in conformity with the terms of the MED credit programme and (2) books and records of the society are regular and up to date.

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International Science and Technology Institute, Inc.

MAHAWELI ENTERPRISE DEVELOPMENT

MED Office, EIED/MASL, 8th Floor, Unity Plaza, Colombo 4 Fax 508 085

To : Director General/MASL and Chairman
MED Grants Committee

cc : Secretary General, MASL
Director, EIED

From : The Chief of Party/MED Project

Date : .....

Subject : Application from .....Society Limited. to enter into a Memorandum of Agreement with MASL to implement the Credit Programme of the MED Project.

Ref : .....

An application from .....Society Ltd to join the Credit Programme of the MED Project is forwarded herewith for the review and approval of the MED Grants Committee (the Committee), in terms of paragraph three of section 1. of the Project Implementation Letter (PIL) No. ... . which authorizes the approval of Grants by the Committee to (i) small business savings and credit associations and (ii) other Mahaweli business associations, upon submission of proposals by ISTI.

The PIL provides for the MED Grants Committee to be composed of the MASL Director General (Chairman), the MASL Secretary General and the EIED Director.

In support of their application the Society has submitted the undermentioned documents which are deposited in our records:

1. A certified copy of approved by-laws.

2. A certified copy of the Credit Policy.

3. A list of members and their present status.

4. A certified copy of a resolution to join the MED credit programme and to sign the Memorandum of Agreement.

5. A certified statement from ..... confirming a balance of Rs. .....(Rs. .....) in the member's Share Capital account.

6. An undertaking from the Society to deposit the balance which should be contributed by the Society to the Collateral Fund Account.

This Society was registered on ..... under the Societies Ordinance. The Society has a membership of ..... small scale entrepreneurs. The share capital of the Society contributed so far is Rs.....

Details about the individual members, their projects and loans required are attached. The loan requirements of ..... members have been estimated at Rs. ..... Based on this estimate, the share contribution of members is Rs. ..... being 8% of estimated loans and the Grant component is Rs. ..... being 12%, making in all 20% of estimated loans.

Banks participating in this programme have agreed to loan to members upto five times the deposits in the Collateral Funds represented by (i) the share contributions of members and (ii) the MED Grant component.

This application has been recommended by the Assistant Manager EIED and the Field Business Consultant of the ..... Mahaweli Business Centre.

We recommend to the MED Grants Committee:

> To approve grant assistance (i) up to Rs. ..... (subject to a ceiling of US $2000) to establish a Collateral Fund in ..... Bank and (ii) up to Rs. ..... by way of reimbursement of 50% of the start-up and operational expenses of the Society subject to terms and conditions of the Memorandum of Agreement.

Your approval will be indicated by signing the attached Memorandum of Agreement which is in the form established in PIL No:..... referred to above.

Enc. D.G. - MOA for signing
- Loan requirement of members

SG and Director EIED - Loan requirement of members

ATTACHMENT 4-C.2

INTERNATIONAL SCIENCE AND TECHNOLOGY INSTITUTE

MAHAWELI ENTERPRISE DEVELOPMENT

To : Chief of Party MED Project

From : Credit Advisor

Date :

Subject : Release of Grant Funds to ..... Society Ltd (Registered No.)
(1) to establish a / as a deposit to / Collateral Fund in ..... Bank ..... Branch.
(2) by way of reimbursement of Start-up expenses/operational expenses for the period ..... Application No.

---

1. An Application for Grant Funds from the above named Society for Rs. ..... (Rs..... .....is forwarded herewith together with a memorandum of recommendation from the DM/EIED and FBC.....

2. This application is for matching Grants to a Collateral Account maintained by the Society/ partial reimbursement of Start-up expenses/operational expenses for the period..... This application is in conformity with the terms approved under the Project Implementation Letter (PIL) No. 26 dated September 11, 1991.

3. This remittance will enable the release of ..... loans for Rs: ..... to ..... members of the Society by the ..... Bank.

4. Action may be taken to remit a sum of Rs.. ..... (Rs..... .....) to the credit of Savings/ Current account No. ..... (No. 2 A/c) maintained by the Society at the ..... Bank ..... Branch, in terms of paragraph three of Section 1.1 of the above mentioned PIL. The cheque may be drawn in favor of "....." Savings/Current account No. ..... and sent to ..... Bank .....

5. Copies of the covering letter to the bank may be sent to

   1) The ..... Society.
   2) Mahaweli Business Centre .....
   3) Credit Advisor MED office, Kandy.

ATTACHMENT 4-C.3

Date: .. .. 19..

Manager ,
..... Bank,
.....

Dear Sir,

Deposit of Rs. ..... by way of Grant Funds in the name of.....
..... under the MED Credit Programme*

In accordance with the Collateral Fund Agreement signed between your bank and above mentioned society, we enclose herewith a cheque bearing No. ..... for Rs. ..... (Rs.....)drawn in favour of the above mentioned society, to be deposit to the credit of their Savings/Current account No. maintained by this Society in your bank.

Please acknowledge receipt.

Thanking you,

Yours faithfully,

Chief of Party
MED Project.

cc: President, ... Society Ltd.
Mahaweli Business Centre .....
Credit Advisor MED Office, Kandy.
Accountant MED .

* To be suitably amended in case of reimbursement of operational and start-up expenses.

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CHAPTER 5

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5-C.9.1 Resolution of a society to recommend a member's loan 53

5-C.9.2 Letter of Authority from the Applicant 54

ATTACHMENT 5-C.9

COVERING MEMORANDUM FROM A SOCIETY TO A BANK RECOMMENDING A MEMBER'S LOAN

Date: .....

Manager
..... Bank
.....

Credit Facilities under the MED Credit Programme

1. Amount and applicant

Loan application for Rs. ..... of Mr/Miss ..... .

2. Customer

We forward herewith an application for a loan/..... of Rs. ..... (Rs. .....) from the above named members of our society.

The applicant is a customer of your bank maintaining savings/current account number .....

3. Purpose

This facility is requested for the purpose of setting up/expanding .....

4. Details of Purpose

These funds would be used for

(a) financing the working capital*
(b) fixed assets/* ..... covering the following items

.....	Rs. .....
.....	Rs. .....
.....	Rs. .....
.....	Rs. .....
.....	Rs. .....
Total	Rs. .....

5. Repayment terms

This facility is requested for a period of ..... months, repayable in monthly/..... instalments of Rs. ..... (principal) and interest. A grace period of ..... months is also requested to commence repayment of principal.*

6. Security

The security offered is as follows:

6.1 Personal guarantee of (1) ..... and (2) .....

6.2 Mortgage of ..... with an estimated value of Rs. .....

6.3 Assignment of funds held in Collateral Fund accounts (numbers ..... and .....), maintained by us in your bank.

*Delete if inapplicable

7. Equity

Out of the total expected investment of Rs. ..... a sum of Rs. ..... will be met by the applicant.

8. Recommendation

We have examined this request with the assistance of the staff of the ..... MED Field Business centre and having satisfied ourselves that the applicant has the ability to pay back the loan, recommend a loan/..... of Rs. ..... under the MED credit programme repayable in .. .. monthly/instalments.

9. Viability

In support of this recommendation we give below the following aspects about the viability of this project:

9.1 Estimated sales/monthly Rs. ...../annually Rs. .....

9.2 Gross revenue less variable cost .....

9.3 Net Profit : .....

9.4 Debt/service cover : ..... times

9.5 Break-even level : .....

9.6 Break-even period : .....

9.7 Monthly fixed cost including loan instalment: .....

10. Current Obligations

The applicant informs that he has borrowed a sum of Rs. ..... from ..... repayment are reported to be .....

11. Enclosures

The following documents are enclosed herewith:

11.1 Loan application

11.2 Guarantee statements of 1)
2)
being members of our society

11.3 Affidavits of 1)
(Guarantors and 2)
applicant)

11.4 A business plan/project report.

11.5 A monthly/cash flow.

11.6 An extract of the resolution of the Committee meeting held on ..... recommending the application.

12. Reference

This application is based on the Collateral Fund Agreement entered into with your Bank .....*

This application is submitted pending the registration of our society*

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13. Deposits

Our deposits in members share capital A/c in the bank (A/c No.....) include a sum of Rs. ..... deposited on account of this application. The balance required to meet up to 8% of the Loan will be deposited when the loan is approved by you.

Our deposits in the Collateral Fund A/c (A/c No. .....) includes a sum of Rs. ..... deposited on account of this application.*

..... Society Limited

..... President

..... Secretary

Date:

* delete those inapplicable

---

14. Observations of the Field Staff of the Business Centre (covering aspects including marketing, production cost, profitability, repayment capacity and management)

.....
.....
.....
.....
.....
.....

Name : .....

Signature : .....

Designation : .....

Date: .....

ATTACHMENT 5-C.9.1

Date: .....

Manager
..... Bank
.....

Dear Sir,

Resolution of the Society to recommend a loan of Rs. .... to.....
.....

We give below an extract of the resolution of our Society passed at a meeting of the Committee of the Society on .....

"Having examined the loan application for Rs. .... of.....
.... in accordance with the loan policy of our society, we hereby resolve to recommend to the ..... Bank that a loan of Rs.: ..... is granted to .....".

.....
President

.....
Secretary

..... Society Limited

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Date: .....

Manager
..... Bank
.....

Dear Sir,

Application for credit facilities under the MED Project

I/We being a member/members of the ..... Society Limited, hereby authorise the undermentioned to negotiate on my/our behalf, banking and credit facilities proposed under the MED project and to have access to information about my/our accounts with your bank.

1. .....

2. .....

3. .....

4. .....

Thanking you,

Yours faithfully,

..... A/c No. .....
..... A/c No. .....
..... A/c No. .....
..... A/c No. .....
..... A/c No. .....

CHAPTER 9

9-B.1 Files and Records that should be maintained 55

9-B.2 General Ledger Accounts 57

9-C.2 Monthly general ledger abstract 58

9-C.B Savings and Credit Society Forms (S&C 1 to 20) 59

FILES AND RECORDS THAT SHOULD BE MAINTAINED

1. Registration File:

   a) A copy of the set of documents sent for registration of the society
   b) Certificate of registration and by-laws certified by the Registrar
   c) A copy of the Society Ordinance
   d) Correspondence.

2. The Minutes Books:

   a) General meeting minutes
   b) Committee meeting minutes.

3. Loans File:

   a) Loan policy document approved by the society
   b) Collateral Fund Agreement
   c) Loan correspondence with the bank.

4. Planning File:

   a) Work plan approved by the society
   b) Memorandum of Agreement with MASL
   c) Related correspondence.

5. Training File:

   a) Copy of work plan
   b) Training correspondence.

6. Grants File:

   a) Copy of MOA
   b) Copy of CFA
   c) Copies of Grant applications and correspondence.

7. Individual loan files of members:

   a) Affidavit
   b) Copy of Business Plan
   c) Project Report
   d) Loan application.
   e) Guarantor's Statement
   f) Covering memo to bank
   g) Letter of authority to the officials
   h) Work sheets
   i) Follow-up reports
   j) Other correspondence.

8. Member's Savings File.

   a) Copy of Society's Savings Policy.
   b) Savings plans of each member.
   c) Correspondence.

9. General office management file.

10. Returns to the Business Centre.

11. Bank reconciliation statements.

Other files as necessary.

Note: The Committee should decide by a resolution the Committee member/s who shall be responsible for the custody and maintenance of files.

GENERAL LEDGER ACCOUNTS

1. Income accounts

Commission A/c.
Interest received A/c. No 1 A/c.
Interest received A/c. No 2 A/c.
- do - general A/c.
Interest received/loans A/c.
Members' subscriptions A/c.
Grants received operational expenses partially reimburses

2. Expenditure accounts

Charges A/c. depreciation/furniture
- do - insurance
- do - lighting
- do - postage
- do - rates
- do - rent
- do - travelling
- do - stationery
Interest paid A/c.
Salaries A/c.
Miscellaneous operational expenses A/c.

3) Impersonal A/c.

Grants received/start-up expenses reimbursed A/c.

4) Assets and liabilities

Cash in hand A/c.
Cash at bankers No.1 A/c.
- do - No.2 A/c.
- do - general A/c.
Non-cash receipts held A/c.
Grants received/collateral fund A/c.
Fixed assets A/c.
Loans payable A/c.
Shares A/c.
Stationery A/c.

MONTHLY ABSTRACT OF GENERAL LEDGER BALANCES AS AT

GENERAL LEDGER ACCOUNTS	DEBIT BALANCE		CREDIT BALANCE	
	RS	CTS	RS	CTS
1) INCOME ACCOUNTS				
COMMISSION A C				
INTEREST RECEIVED A/C. NO.1 BANK A/C.				
INTEREST RECEIVED A/C NO.2 BANK A C.				
INTEREST RECEIVED GENERAL BANK A/C				
INTEREST RECEIVED / LOAN A C				
MEMBERS' SUBSCRIPTIONS A C				
GRANTS RECEIVED OPERATIONAL EXPENSES PARTIALLY REIMBURSED A C				
SUB TOTAL				
2) EXPENDITURE ACCOUNTS				
CHARGES A/C. DEPRECIATION / FURNITURE				
DO INSURANCE				
DO LIGHTING				
DO POSTAGE				
DO RATES				
DO RENT				
DO TRAVELLING				
DO STATIONERY				
INTEREST PAID A C				
SALARIES A C				
MISCELLANEOUS OPERATIONAL EXPENSES A C				
SUB TOTAL				
3) IMPERSONAL A Cs				
GRANTS RECEIVED START UP EXPENSES REIMBURSED A C				
SUB TOTAL				
4) ASSETS AND LIABILITIES				
CASH IN HAND A C				
CASH AT BANKERS NO 1 A C				
DO NO 2 A C				
DO GENERAL A C.				
NON CASH RECEIPTS HELD A C				
GRANTS RECEIVED/COLLATERAL FUND A C				
FIXED ASSETS A C.				
LOANS PAYABLE A C				
SHARES A/C				
STATIONERY A C				
SUB TOTAL				
TOTAL				

S&C: 1

RECEIPT

Serial No:_____

Date: _____ Receipt No: _____

Received from : _____

On Account of: _____

_____

The sum of Rupees: _____

_____(Rs_____Cts_____)

Cheque
Bank

Original - Issue
Duplicate- Record

_____

Signature of Treasurer

Seal:

PAYMENT VOUCHER

Name of Society: _____

Voucher No: _____

Date : _____

Cheque No : _____ Amount: _____

Amount paid in cash: _____

Payee : _____

Particulars :

_____

_____

Approved by:

_____

==========

Acknowledgement

Received a sum of Rs. _____

_____

Received Cheque no _____ for Rs. _____

Signature: _____

Date : _____

Name of Society: _____

SHARE REGISTER

Sheet No:

Name & Address of Member	Date of share purchase	Membership No.	Value of shares purchased (Rs)	Value of total shares held (Rs)	Other particulars	O	A
1.							
2.							
3.							
4.							

RECORD OF CASH IN HAND

Sheet No:

Date	Ref. No	Description	Receipts				Payments				Balance in Hand		O	A
			Cash		With-drawals from Bank		Cash		Deposits in Bank					
		Balance b/d												

S&C: 5/A

RECORD OF CASH AT BANKERS NO.1 A/c.

Sheet No:_____

Date	Description	No. of A/c.	Starting Balance	Deposits	Withdrawals	Balance	O	A

S&C: 5/B

RECORD OF CASH AT BANKERS NO.2 A/c.

Sheet No:_____

Date	Description	No. of A/c.	Starting Balance	Deposits	Withdrawals	Balance	O	A

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RECORD OF CASH AT BANKERS GENERAL A/C.

Sheet No:_____

Date	Description	No. of A/c.	Starting Balance	Deposits	Withdrawals	Balance	O	A

GENERAL LEDGER

Name of A/c.:

Sheet No:

Date	Description	Ref.No	Debit	Credit	Balance	Remarks	O	A

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S&C: 7

STOCK CARD

Name of Society: _____

Item Ref: _____

Sheet No: _____

Date	Reference No.	Unit Price	In	Out	Balance	Remarks	O	A

FIXED ASSETS REGISTER

Name of Society: _____

Sheet No: _____

Date	Ref. No.	Description of Item	No.	Cost	Depreciation	Balance	Remarks	Location	O	A
1.										
2.										
3.										
4.										

SUBSIDIARY RECORD OF MEMBER'S BANK LOAN

Name of Member : _____

Amount Applied : _____

Amount Approved : _____

Date of Approval: _____

Amount Released : 1) _____

2) _____

3) _____

Repayment Period: _____

Member's CFA Deposits 1) _____ Deposit

2) _____ Required

3) _____ at 8%: _____

Total _____

Rate of Interest : _____

Type of Loan BL/FIL: _____

Purpose : _____

Covering Memo

Date submitted : _____

Amount Recommended Rs: _____

Monthly sales Rs. _____

Contribution Rs. _____

Profit Rs _____

D S/C (Times) _____

BEP (U) _____

BEP (Period) _____

Fixed Cost with loan Rs. _____

Installments

Principal Rs: _____

Interest Rs: _____

Due Date : _____

Grace Period: _____

Date of commencement of repayment: _____

(1) Principal: _____

(2) Interest : _____

Name of Bank _____

Sheet No: ____

(One sheet per member)

Date	Loan from Bank (Rs)	Re-payment to Bank			Balance due to Bank		O	A	Remarks
		Principal	Interest	Other	Principal	Interest			

S&C: 10

CONTROL A/C./ LOANS SPONSORED

Name of Bank: _____ Sheet No: _____

Date of Entry	Name of Member	Loan Recommended		Loan Approved		Loan Released		Amount Repaid				Balance Due		Remarks	O	A
		Amount	Date	Amount	Date	Amount	Date	Principal	Interest	Other Charges	Date	Principal	Interest			

SUBSIDIARY RECORD OF MEMBER'S COLLATERAL FUND DEPOSITS (MCFD)

No: of Savings Account (No 1 a/c): _____

Name of Bank : _____

Name of Member : _____

Sheet No: _____
(One sheet per member)

Date of Loan approved	Amount of loan approved	Amount of MCFD (8%)	Deposit Record		Total Deposited in No 1 A/c.	Authorised withdrawals per CFA		Balance Out-standing	Remarks	O	A
			Date	Amount		Date	Amount				

CONTROL A/C. MEMBERS' COLLATERAL FUND DEPOSITS (NO 1 A/C.)

1. No of the Savings a/c (No 1 a/c) :_____

2. Name of Bank : _____

3. Number of members : _____ _____

Sheet No: _____

No of Loans approved	Batch No	Year of Loans approved in Batch	Amount of MCFD (0%)	Deposits in No 1 a/c		Authorised withdrawals as per CFA		Interest	Deposit Balance		I	A	Remarks
				Date	Amount	Amount	Date		Amount	Date			

CONTROL A/C. / GRANTS RECEIVED

Date of MOA with MASL: _____

Savings A/c (No. 2) No: _____

Grant Budget Approved:

Date Opened: _____

Collateral Fund (CF): _____

Interest/Rate: _____

Start-up Cost (CF) : _____

Operational Cost (OC): _____

Collateral Fund A/c. with Bank signed on : _____

Name of Bank : _____

Sheet No: _____

Date	Not approval to approved			Date received in CF		Members contribution (CF)		Value (CF) Deposit (OA)	Value of start-up cost reimbursed	Value of operational cost reimbursed	Unbalance CF	Unbalance Start-up cost	Unbalance Operational cost	O	A
	CF	SU	OP	No	Value	No	Value								

REGISTER OF GRANTS RECEIVED

SUBSIDIARY A/C. OF COLLATERAL FUND GRANTS (CFG) (1)

Date of MOA with MASL: _____ Savings Account (No 2) No: _____

Grant Budget Approved

Date opened : _____

Collateral Fund : _____

Interest Rate : _____

Start-up Cost : _____

Operational Costs: _____

Collateral Fund Agreement (CFA) with Bank signed on: _____ Sheet No: _____

Date of Grant Application	Application No.	Amount of CFG sought (Rs)	Relevant Loans		Member's contribution deposited in Bank (Rs)	CFG Received & Deposited		Interest Received (Rs)	Balance outstanding in Deposit (Rs) in No 2 A/c.	Authorised withdrawals per CFA	Unknown balance (Rs) vide Budget	O	A	Remarks
			Name of Member	Amount		Amount	Date of Deposit							

REGISTER OF GRANTS RECEIVED

SUBSIDIARY A/C. OF START-UP EXPENSES REIMBURSED (SE) (2)

Approved Start-up Budget in MOA (Rs) : _____

Items:
1. Tables
2. Chairs
3. Name Board
4. Seals
5. Staples etc
6. Filing Cabinets
7. Adding Machines
8. Cash Box
9. Contingencies

Sheet No:

Date of application	Ref. No	Cost of Items (Write the number of items above the cost within brackets)											Amount applied (50%)	Amount Received	Date Received	O	A	Date Deposited in Bank
		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	No. of Items						

SUBSIDIARY A/C. OPERATIONAL EXPENSES (OE) REIMBURSED (3)

Approved Operational Expenses

Budget in MOA (Rs) : _____ Sheet No: _____

Date of Application	Application No	DETAILS OF EXPENDITURE					Total	Amount applied (50%)	Annual budget approved	Amount already reimbursed	Amount Remitted	Date deposited in Bank	Unclaimed balance per Budget	Remarks	O	A
		Rele-vant Month	Rent	Lighting	Stationery	Adminis-tration										

S&C: 17

MEMORANDUM RECORD OF MEMBERS' SAVINGS

Name of Member : _____

Savings programmes engaged in : Type Date started

1. _____ _____
2. _____ _____
3. _____ _____
4. _____ _____

Sheet No: _____

Name of Institution/Scheme	Type of Savings	End of 1st Quarter Balance Outstanding	End of 2nd Quarter Balance Outstanding	End of 3rd Quarter Balance Outstanding	End of 4th Quarter Balance Outstanding
1					
2.					
3.					
4.					

RECORD OF CHEQUES/MONEY ORDERS/POSTAL ORDERS AND OTHER NON-CASH RECEIPTS

Sheet No: _____

Date	Receipt No.	Received from on Account of	Cheque		Money Order/ Postal Order		Other		Deposit as in Bank balance		Remarks	O	A
			No.	Amount	No	Amount	No.	Amount	Date	Amount			

LOANS PAYABLE REGISTER

Name of Lender: _____ Membership no: _____

Address : _____ Rate of Interest: _____

Repayment Terms : _____

Date of commencement of Repayment: _____

Type of Facility: _____

Date	Particulars	Amount Obtained		Repayments				Balance		Remarks	O	A
				Principal		Interest						

DEBIT/CREDIT DATE: _____

NAME OF ACCOUNT: _____

PARTICULARS		AMOUNT	
ON A/C. OF	CORRESPONDING ITEM	RS	CTS

AMOUNT IN WORDS: _____

_____

AUTHORISED SIGNATURE

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CHAPTER 12

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ATTACHMENT 12.A

NAME OF THE SOCIETY

FORMATION OF SAVINGS AND CREDIT SOCIETIES; PRELIMINARY STEPS MONTHLY PROGRESS INDICATOR

REPORTING DATE: **CENTRE:** **SYSTEM:**

ACTIVITY	DATE
1. Identify members (No. of members.....)	
2. Convene First Formal Meeting	
3. Adopt By-Laws to Form Society	
4. Elect Committee/s	
5. Adopt Work Plan	
6. Collect Initial Capital From Members	
7. Deposit Initial Capital in Individual Member Savings Accounts In Bank (.....Bank) Commenced..... Completed.....	
8. Adopt Credit Policy for Society	
9. Adopt Savings plan for members	
10. Commence assessment of members' credit needs	
11. Train members in Business Planning	
12. Prepare members' Business Plans/Project Reports	
13. Deposit Capital Funds In Bank's suspense A/c.	
14. Open Office	
15. Apply for Registration	
16. Obtain registration	
17. Introduce Book-keeping	
18. Sign Agreement With MASL To Join Programme / Apply Sign	
19. Sign Collateral Fund Agreement With Bank / Apply Sign	
20. Open No.1 A/c in Bank / No.2 A/c. / General A/c.	
21. Submit loan applications of members in batches (batch no. ....)	
22. Obtai letter of approval of loans from bank	
23. Deposit balance of members' contribution in bank No..... Value..... No..... Value..... No..... Value.....	
24. Apply for Grant Disbursement to ISTI	
25. Deposit Grants in No.2 Account in Bank	
26. Obtain loans from Bank for members (No:.....Value .....)	
27. Monitor projects and repayment of loans	

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ATTACHMENT 12.B

QUARTERLY FOLLOW-UP OF ACTIVITIES OF SAVINGS AND CREDIT SOCIETIES

NAME OF SOCIETY:

REGISTERED NO. : DATE OF REGISTRATION:

ACTIVITIES/TASKS 1ST PHASE		ACTION DURING QUARTER ENDING
1. FORMATION OF THE SOCIETY		
SOCIETY FORMED (TASKS 1,2,3,4 DONE)	DATES:	
WORK PLAN APPROVED (5)	DATE:	
REGISTRATION ACTION (6,7,13,14, ALL DAVIES)	DATES:	
APPLIED FOR REGISTRATION	DATE	
REGISTRATION OBTAINED	DATE:	
2. OBTAINING USAID GRANTS		
APPLIED TO JOIN PROGRAMME	DATE	
MOA AND GRANT APPROVED BY MASI	DATE	
MOA SIGNED BY SOCIETY	DATE:	
COLLATERAL FUND OBTAINED	DATE	
START UP GRANTS OBTAINED	DATES	
OPERATIONAL GRANTS OBTAINED	DATES	
3. FACILITATING MEMBERS ACCESS TO FINANCIAL SERVICES		
CREDIT POLICY ADOPTED	DATE	
MEMBERS' CREDIT NEEDS ASSESSED	DATE:	
APPLIED TO BANK TO SIGN CFA	DATE	
SIGNED CFA WITH BANK	DATE	
MEMBERS' LOANS CONSIDERED	DATE NUMBER	
MEMBERS' LOAN PAPERS SENT TO BANK	DATE NUMBER	
BANK INVESTIGATIONS ASSISTED	DATE NUMBER	
DISCUSSIONS WITH BANKS HELD	DATE NUMBER	
BANKS LOAN APPROVAL LETTER OBTAINED	DATE NUMBER	
MEMBERS' COLLATERAL FUNDS DEPOSITED	DATE AMOUNT NO	
DEPOSITED GRANT FUNDS	DATE AMOUNT NO	
OBTAINED MEMBERS' LOANS	DATE NUMBER AMOUNT	
ASSISTED LOAN FOLLOW UP	DATE NUMBER AMOUNT	
ASSISTED RECOVERY	DATE NUMBER AMOUNT	
4. FOSTERING THE GROWTH OF THRIFT AND SAVINGS		
ADOPTED SAVINGS PLAN FOR MEMBERS	DATE:	
INITIATED SAVINGS SCHEMES	NO. OF MEMBERS:	

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ACTIVITIES/TASKS 1ST PHASE	ACTION DURING QUARTER ENDING ____
FOLLOWED-UP MEMBERS' SAVINGS SCHEMES DATE /NO OF MEM :	
5. PROVIDING TECHNICAL AND MARKETING SUPPORT:	
IDENTIFIED TECHNICAL SUPPORT REQUIRED BY MEMBERS	
ARRANGED TRAINING IN BUSINESS:CREDIT:TECHNICAL:MARKETING:ORGANIZATIONAL	
PROVIDED INFORMATION TO MEMBERS-TECHNICAL: CREDIT: MARKETING: OTHERS	
ASSESSED MARKETING REQUIREMENTS OF MEMBERS	
FACILITATED MARKETING OF MEMBERS' PRODUCE	
ESTABLISHED LINKAGES WITH BUYERS	
6. DEVELOPING BUSINESS PRACTICES:	
ASSISTED MEMBERS IN BOOK-KEEPING	
ASSISTED IN IDENTIFYING BUSINESS OPPORTUNITIES	
ASSISTED MEMBERS IN BUSINESS PLANNING	
PREPARED MEMBER'S BUSINESS PLANS/PROJECT REPORTS	
ASSISTED CLOSE RAPPORT WITH BANKS AND MAKING REGULAR DEPOSITS	
TRAINED IN COST CONTROLS IN PURCHASES, SALES, STOCKS, DEPOSITS	
7. STRENGTHENING INSTITUTIONAL CAPACITY:	
CONFORMING TO SOCIETIES ORDINANCE AND BY-LAWS IN ADMINISTRATION	
ASSISTED OFFICE MAINTENANCE AND RECORD KEEPING	
ASCERTAINED AUDIT REQUIREMENTS (APPOINTMENT AND CONDUCT OF AUDIT)	
SUBMITTED FINANCIAL RECORDS TO R/C / Bank	
HELD MEETINGS: COMMITTEE AND GENERAL	
UPDATED MEMBERS' REGISTER AND SHARES REGISTER	
PROCESSED MEMBERS' LOANS	
CONDUCTED VALUATION / INSPECTIONS	
MAINTAINED LOAN RECORDS	
APPLIED CREDIT ASSESSMENT METHODS	
SUBMITTED CREDIT RECOMMENDATIONS TO BANK	

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ACTIVITIES/TASKS - 1ST PHASE	ACTION DURING QUARTER ENDING
MADE CREDIT DECISIONS	
PREPARED REVIEW REPORTS	
MOBILIZED MEMBERS' SAVINGS	
MAINTAINED SOCIETY'S RECORDS	
MONITORED MEMBERS' LOANS	
REVIEWED CAPITAL OF THE SOCIETY	
MONITORED COLLATERAL FUNDS	

INPUT FORM # 4
ASSOCIATION AND GROUP CLIENT CARD

1. CLIENT ID # ___/ ____/ ___ ___ ___
System Block Serial No.

2. TODAY'S DATE ___/___/___

3. BASIC CLIENT INFORMATION

is information is to be completed at the time of the initial contact with the association or group. As some societies are already formed or already clients of the field business centre, this information should be entered for these existing groups so that they can be entered into the database.

3.1 NAME OF ASSOCIATION OR GROUP: _____

3.2 ADDRESS OF ASSOCIATION OR GROUP: _____

3.3 TYPE OF ASSOCIATION OR GROUP:

SAVINGS & CREDIT SOCIETY ___ (x)
CHAMBER OF COMMERCE ___ (x)
FORMAL PROFESSIONAL ASSOCIATION ___ (x)
INFORMAL PROFESSIONAL GROUPING ___ (x)
OTHER TYPE OF ASSOCIATION OR GROUP (specify) _____

3.4 OTHER DETAILS:

Date Formed (date by-laws approved) ___/___/___

Is the Association Registered? _____ (Y/N)

Registered with _____

Date of Registration ___/___/___

Registration Number _____

Number of Members ____

4. FOR SAVINGS AND CREDIT SOCIETIES

Memorandum of Agreement Signed on ___/___/___

Collateral Fund Agreement signed on ___/___/___

Total of members' contributions to savings schemes Rs. _____

Total of members' contributions to Society's share capital Rs. _____

Number of loans to members from Bank ___

Total value of loans to members from Bank Rs. _____

Number of members whose loan repayments are presently in arrears (from sponsored loans) ____

Value of loans presently in arrears (from sponsored loans) Rs. _____

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4.1 BANKING ARRANGEMENTS FOR SAVINGS & CREDIT SOCIETIES

TYPE OF ACCOUNTS

Savings:

AID Grant Balance in Account Rs. _____ Opened on _ _ /_ _ /_ _ A/c. No. _____

Member's Share Deposit

Balance in Account Rs. _____ Opened on _ _ /_ _ /_ _ A/c. No. _____

Any Other: Type _____

Name of the Bank _____ _____ Branch _____

Value of Start-up cost reimbursement grant Rs. _____

Value of operational cost reimbursement grant Rs. _____

5. FOR OTHER ASSOCIATIONS AND GROUPS WHICH HAVE MED GRANTS:

Memorandum of Agreement Signed on _ _ _ / _ _ _ /_ _ _

Has a trust deed been signed? _____(Y/N) If yes date signed _ _ / _ _ / _ _

Type of Account in Bank _____

Grant Assistance Provided

Type		Amount
Start-up Cost	_____	Rs. _____
Conventions	_____	Rs. _____
Training	_____	Rs. _____
Information Services	_____	Rs. _____
Surveys	_____	Rs. _____
Operational Expenses	_____	Rs. _____
Other	_____	Rs. _____

INPUT FORM # 5
UPDATE FORM FOR ASSOCIATIONS AND GROUPS

1. CLIENT ID # ___/ _____/ ___ ___ __
System Block Serial No.

2. DATE OF UPDATE ___/___/___

3. OTHER DETAILS:

Date Formed (date by-laws approved) ___/___/___

Is the Association Registered? _____ (Y/N)

Registered with _____

Date of Registration ___/___/___

Registration Number _____

Number of Members _____

4. UPDATE FOR SAVINGS AND CREDIT SOCIETIES

Memorandum of Agreement Signed on ___/___/___

Total of members' contributions to savings schemes Rs. _____

Total of members' contributions to Society's share capital Rs._____

Number of loans to members from Bank _____

Total value of loans to members from Bank Rs. _____

Number of members whose loan repayments are presently in arrears (from sponsored loans) _____

Value of loans presently in arrears (from sponsored loans) Rs. _____

Collateral Fund Agreement signed on ___/___/___

5. UPDATE OF GRANT APPLICATIONS AND DISBURSEMENTS TO SAVINGS & CREDIT SOCIETIES

Grant	Application submitted		Grant Approved		Disbursements	
	Date	Amount (Rs)	Date	Amount (Rs)	Date	Amount (Rs)
Collateral Fund						
Start-up Cost						
Operational Cost						

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6. UPDATE OF GRANT APPLICATIONS AND DISBURSEMENTS FOR OTHER ASSOCIATIONS WHICH HAVE MED GRANTS

Memorandum of Agreement Signed on ___ / ___ / ___

Has a trust deed been signed _____(Y/N) If yes date signed __ / __ / __

Type of Account in Bank _____

Grant Assistance Provided

Type		Amount
Start-up Cost	____	Rs. _____
Conventions	____	Rs. _____
Training	____	Rs. _____
Information Services	____	Rs. _____
Surveys	____	Rs. _____
Operational Expenses	____	Rs. _____

Other (specify) _____ Rs. _____

7. UPDATE FOR TRAINING PROGRAMMES FOR SCSs, ASSOCIATIONS & GROUPS

Dates of Training Course: ___/___/___ to ___/___/___

Number of Trainees: _____

Type of Training:

Organizational	____	Credit	___
Entrepreneurial	____	Technical	___
Management & Accounting	____	Auditing	___

Other (specify) _____

8. COMMENTS

Comment on the most important facts about this association.

Strengths/Opportunities:

Weaknesses/Constraints:

Recommended Actions/Follow-up

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ATTACHMENT 12.C.2

LOANS FOLLOW-UP REGISTER - MEMBERS OF SAVINGS AND CREDIT SOCIETIES

Name of Society: _____

Registered No : _____

Address : _____

Memorandum of agreement with MASL : _____

Collateral Fund Agreement with Bank: _____

Grant Budget Approved by MOA

1. Collateral Fund : _____
2. Start Up : _____
3. Operational : _____

Name of Member	Client No	Amount of Loan (Rs)	Purpose*	Date submitted to Society	Name of Bank	Date submitted to Bank	Documents submitted to Bank	Discussions held with Bank	Date approved/ declined	Member's deposit to C.F.	Grant Deposit to C.F.	Date loan released	Loan terms repayment (monthly instalments)	Follow-up of loan up to repayment
1.														
2.														
3.														
4.														
5.														
6.														
7.														

* Under purpose please also include, 1) Product 2) For working capital or fixed capital or both, 3) new project or expansion

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ATTACHMENT 12.C.3

LOANS FOLLOW-UP REGISTER - ONE TO ONE ASSISTANCE

Name of Client	Client No	Reporting Officer	Amount of Loan (Rs)	Purpose and name of special scheme if any	Name of Bank	Date submitted to Bank	Documents submitted to Bank	Discussions held with Bank	Date approved decined	Date loan released	Loan terms repayment (monthly installments	Follow-up of loan up to repayment
1.												
2.												
3												
4												
5												
6.												
7												

LIST OF ABBREVIATIONS

BEP	..	..	Break Even Point
BL	..	..	Block Loans
CFA	..	..	Collateral Fund Agreement
DSC	..	..	Debt Service Cover
EIED	..	..	"Employment, Investment and Enterprise Development Division"
FBA	..	..	Field Business Advisor
FBCs	..	..	Field Business Consultants
FIL	..	..	Fixed Instalment Loan
GSL	..	..	Government of Sri Lanka
ISTI	..	..	"International Science and Technology Institute"
MASL	..	..	"Mahaweli Authority of Sri Lanka"
MBC	..	..	Mahaweli Business Centre
MED	..	..	"Mahaweli Enterprise Development"
MLEs	..	..	Medium and Large Enterprises
MOA	..	..	Memorandum of Agreement
NP	..	..	Net Profit
PIL	..	..	Project Implementation Letter
SCA	..	..	Savings and Credit Association
SCSs	..	..	Savings and Credit Societies
SSEs	..	..	Small Scale Enterprises
USAID	..	..	"United States Agency for International Development"
WC	..	..	Working Capital

MED/EIED PUBLICATIONS AVAILABLE

Local Market for Pickled Products (December 1990)

Non Farm Small Scale Enterprise Credit on Selected Mahaweli Systems, Geoffrey Peters and M.W. Panditha (December 1990)

Crop Profiles - Spices, Herbs and Aromatics, L. Denzil Phillips (July 1991)

Study of the Tourism Development in the Uda Walawe (July 1991)

Potential for Silver Skin Onions in the Mahaweli, Walter Nueberg (August 1991)

Nursery Development of Papaya and Mango, Papaya Growers' Guide and Technical Notes for Business Plan for Mixed Fruit Cultivation Investment, Ben Hatfield (November 1991)

Dehydrated Fruit Processing Opportunities and Trends in Sri Lanka, Wanchai Somchit, (November 1991)

An Evaluation of the Entrepreneur Development Programmes, Dr. Susan Exo and Hina Shah, (December 1991)

Aromatics PIP Interim Report on Trials Establishment, Dr Thomas Davies (December 1991)

Agro-Business Financing Review, Dennis De Santis (December 1991)

Integrated Fruit Drying, juicing, Pulping project - Prep Feasibility Study, Michael Smedley, Ben Hatfield and Wanchai Somchit (December 1991)

Cold Chain Requirements for Uda Walawe, Fredrick E. Henry (March 1992)

Field Manual for Processing Tomatoes, Peter Florance (March 1992)

Processing Tomato Trials in Mahaweli System H, Peter Florance (March 1992)

Processing Tomato Trials in Mahaweli System C, Peter Florance (March 1992)

Dried Fruit Processing in the Mahaweli, Dr. Kamal Hyder (September 1992)

Feasibility Study on Commercial Potential of Snake Venoms in Mahaweli Systems, Anslem de Silva, (January 1993)

Census of Mahaweli Enterprises and Employment (January 1993)

Most publications are priced at Rs.100/-. The publications are available at the MED Office at 8th Floor, Unity Plaza, Colombo 4. (inquiries, Ph. 508682-4)

An EIED publication entitled - "Information Available for the Mahaweli Investor", is also available at the MED Office.

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MAHAWELI BUSINESS CENTRES

Mahaweli Business Centre
Puttalam Road
Nochchiyagama
Tel: 025-7821
Fax: 025-7821

Mahaweli Business Centre
Andiyagala Road
Madatugama
Tel: 025-4244

Mahaweli Business Centre
MASL Block Office
Galnewa

Mahaweli Business Centre
Resident Project Manager's Office
Bakamuna
Tel: 066-6601
Fax: 066-6601

Mahaweli Business Centre
Resident Project Manager's Office
Welikanda
Tel: 027-2423
Fax: 027-2065

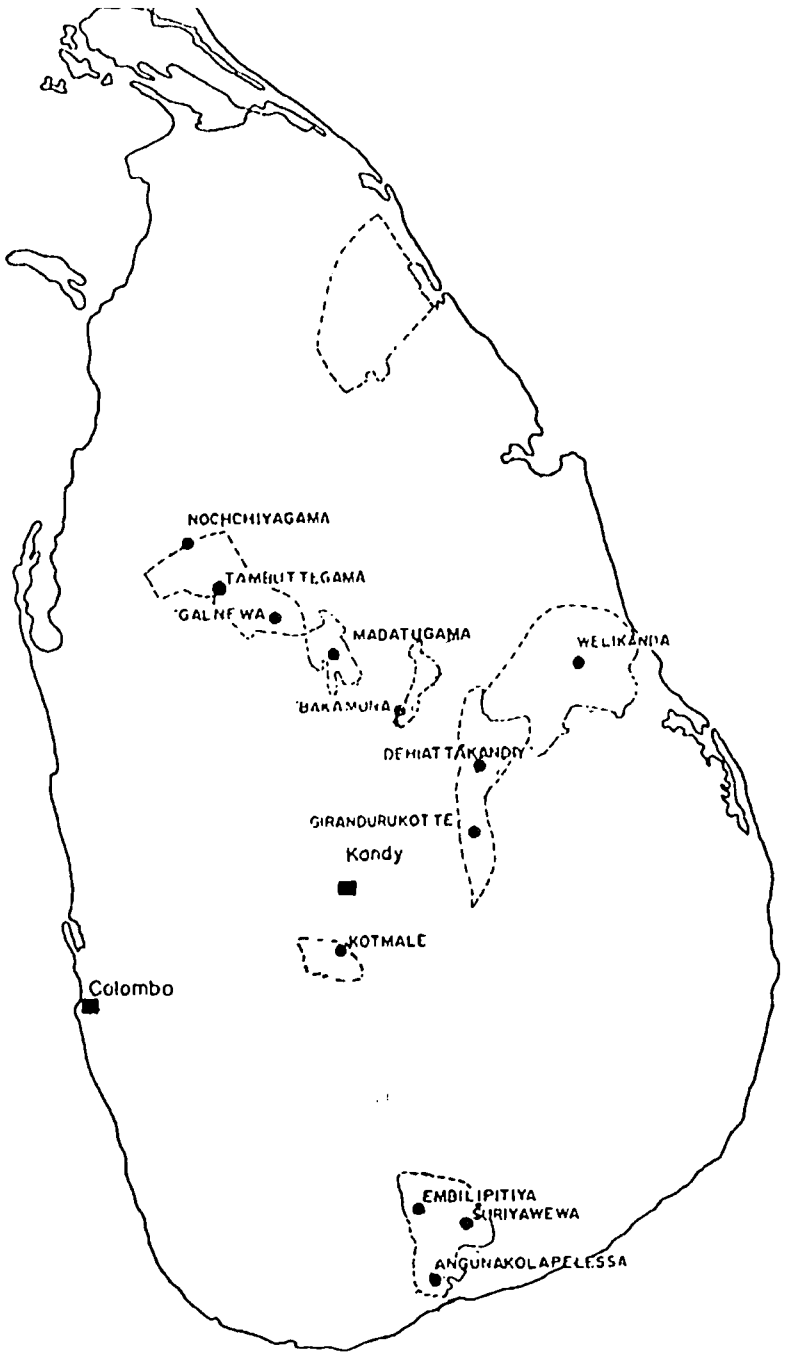
Mahaweli Business Centre
Resident Project Manager's Office
Dehiattakandiya
Tel: 027-2332
Fax: 027-2353

Mahaweli Business Centre
Resident Project Manager's Office
Kotmale, Riverside
Mawatura
Tel: 0542-205
Fax: 0542-205

Mahaweli Business Centre
Resident Project Manager's Office
Embilipitiya
Tel: 047-30208
Fax: 047-30013

Mahaweli Business Centre
3, Middeniya Road
Angunakolapelessa

Mahaweli Business Centre
Saman Building
Ambalantota Road
Suriyawewa



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