

## **Advisory on Registration of CLFs**

### **Introduction**

Deendayal Antyodaya Yojana – National Rural Livelihood Mission (DAY-NRLM), the flagship programme of the Government of India aims to reduce poverty by enabling the rural poor households to access gainful self-employment and skilled wage employment opportunities, resulting in appreciable improvement in their livelihoods on a sustainable basis, through building strong member owned, member managed, member controlled and financially sustainable institutions of the rural poor. Since 2011, the Mission has been putting concerted efforts in mobilising women from the eligible rural poor households into SHGs and their federations, enabling them in accessing credit from formal financial institutions and build their capacities in taking up sustainable livelihoods and their rights and entitlements and services from both public and private sectors for enhancing the quality of life of rural households. It is envisaged that the intensive and continuous capacity building of rural poor women will ensure their social, economic and political empowerment.

Till 31<sup>st</sup> Dec 2023, DAY-NRLM has mobilised more than 9.96 crore rural women into 90.24 lakh SHGs covering 7,115 blocks, 742 districts and 34 states & UTs. These SHGs have been federated into 5.02 lakh Primary/Village level organisations and 32,205 Secondary/Cluster level federations.

The Cluster Level Federations (CLFs) are visualized to be registered and function as formal registered entities. The CLFs have been registered and are continuously being registered across the country. Total 16,684 CLFs have already been registered in the country, till 31<sup>st</sup> Dec 2023. The CLFs have been registered either in Societies Registration Act or the concerned state's State Cooperative Societies Act/ Mutually Aided Cooperative Societies Act/ Self Reliant Cooperative Act across the nation.

### **DAY- NRLM Institutional Framework**

DAY-NRLM promotes three tier Community based organisations viz., Self Help Group (SHG), Village/Primary level Organisation and Cluster/ Secondary level Organisations (CLFs). The primary function of these organisations are **Thrift and Credit** operations.

SHGs are small homogenous, informal and unregistered groups having a membership of 10-20 women from a habitation/ward primarily providing savings and credit services to its members, accessing bank credit.

VOs are village level unregistered organisations having a membership of 10 to 20 SHGs (covering 100 to 200 individual members) in a particular habitation/village primarily focusing on thrift and credit operations, convergence with PRIs and line departments to support its members through SHGs in accessing their rights and entitlements and services.

CLFs are having a membership of 10 to 25 VOs (covering 1500 to 3,000 individual members) in a particular cluster of villages/GPs, primarily focusing on thrift and credit, capacity building of member organisations, technical support to members through VOs and SHGs on financial services viz., insurance, pension, livelihood promotion activities, enterprise development, marketing, skill development, health, food, nutrition and wash, gender, social inclusion and convergence with line departments. As CLFs operations are fairly larger in terms of geographic area, membership and finances, CLFs are registered entities. Apart from SHGs, VOs and CLFs, the mission has been promoting Producer Groups (PGs), Farmer Producer Organizations (FPOs) and Producer Enterprises (PEs).

## **Need of Registration of CLFs**

After a critical examination, based on a diverse socio- economic activities being undertaken by the CLFs under DAY-NRLM, it has been decided that the CLFs should be registered, have their legal status and do the compliances as per the laws and rules of the land. Registration of SHGs and VOs is not a must as these are internal structures of CLF. Whereas registration of CLF is necessary because of the following reasons:

- *As CLFs are handling huge funds, it is essential to build proper systems for financial management and internal controls. Registration gives an opportunity to CLFs to access legal support in case of defaults and misappropriations.*
- *Registration provides CLF independent status, makes the CLF formal legal entity which is essential to interact, do business and deal with external agencies and other stakeholders including banks & markets etc.*
- *The status of CLF as a formal legal entity would invoke confidence of the stakeholders who are engaged with these entities.*
- *Registration of CLFs gives an opportunity to the CLFs to access funds from external organizations and also channelizing funds.*
- *Among other things, registered federations have rights such as: a) Property ownership, b) Legal recourse (Suing and being sued), c) Eligibility to seek tax exemption under the Income Tax Act, 1961 (where applicable).*
- *Registration gives recognition to the CLF at all forums and before all authorities to carryout financial/ non-financial activities for the holistic development of the members of the federation.*
- *It helps to have a transparency and accountability of the financial and non- financial activities of the CLFs.*
- *Once registered, it gains the invaluable advantage of perpetual succession, ensuring its continuous existence and stability over time.*

## **Registration of CLFs in an appropriate Act**

Incorporation of CLFs should be done considering the size, nature and functions of the CLFs. While deciding about the Act, the SRLMs should keep in the mind the following criteria:

- The Act should have the flexibility of accommodating the DAY- NRLM promoted CBO structure (SHG- VO- CLF structure).
- The Act should allow CLFs and its associated VOs & SHGs for lending activities and mobilising savings / share capital.
- CLFs under the Act should be in an advantageous position for carrying out the economic activities. The Act provides a good balance between the legal obligations to be complied with and the regular oversight of the activities of the CLFs.
- The legal obligations associated with the Act should be easier to implement.
- The Act gives enough space for making necessary amendments in the approved bye- laws, while following due process for the same.
- Tax liabilities should be less or moderate and should be manageable.
- The Act should give more and more autonomy and control to CLFs.
- It will be preferable if registration of CLFs in Act can bring some advantages in the form of mobilizing funds, linking with government schemes and programs, etc.

### **Steps in registration of the CLFs**

As registration of CLFs is a part of Organizational Development (OD) work, the IBCB vertical of the SRLMs should engage in this. The various nodes of the IBCB like SPM/ SMM, DPM/ DMM and BPM/BMM should play their roles and responsibilities assigned to them in this process.

Following are suggested steps to be followed for the registration of CLFs:

#### **1. Finalizing the Act:**

- The SPM IBCB, in consultation with the NMMU, NRPs and other relevant experts, should finalize the Act in which the CLFs of the state will be registered.
- The SPM IBCB should also consult the CBOs while deciding the Act. The consultation should be done at State level in which the representatives of the CBOs should participate.

#### **2. Engaging with the Registrar:**

- The SPM IBCB needs to meet the registrar (of the concerned Act in which the SRLM has decided to register the CLFs of the state) to inform about the decision and to finalize the future course of action around it.
- The SPM IBCB should engage with the registrar, at state level, to understand more about the registration process.
- S/he should share the draft model bye- laws with the registrar, discuss the bye- laws with the registrar, make the registrar understand about the DAY- NLRM and the SHG tier structures and the need of drafting the bye- laws as they are. S/he should take inputs/ feedback from the registrar. S/he should engage with the registrar to negotiate with her/ him for providing more and more autonomy and control to the CLFs. S/he should take the approval from the registrar for the bye- laws drafted.
- The SPM IBCB should also engage with the registrar, at state level, for speeding up the progress of registration of CLFs, if there is a delay in registration of CLFs in the state.

#### **3. Drafting the model bye- laws for the registration of the CLFs:**

- The SPM IBCB, in consultation with the NRP & other relevant expert/s and with the NMMU, should draft the model bye- laws for the registration of CLFs in the state.
- The SPM IBCB should share the draft bye- laws with the CEO/ SMD, COO/ JMD and SPMs of other verticals within the SRLM for their inputs and feedback.
- The SPM IBCB should also share the draft bye- laws with the CBOs, should take their inputs/ feedback. The consultation should be done at state level in which the representatives of the CBOs should participate.
- The SPM IBCB should share the draft bye- laws with the registrar, should take her/ his inputs/ feedback.
- After working on the inputs/ feedback received from all the concerned stakeholders mentioned above, the SPM IBCB should submit the final draft model bye- laws for the approval from the registrar, at state, of the concerned department.

### **Important consideration while drafting the CLF bye- laws:**

Some important considerations need to be taken while drafting bye- laws of the CLF for the registration:

- **Membership:** It is to be facilitated to promote VOs or, at least, the SHGs, to be the member of the CLF.
  - The rights for admission, disqualification and expulsion of members, board members and office bearers to be given to the General body
- **Share capital:** The share capital should be raised only from the members and not from the non- members. The funds can be raised from external source in the form of grants, loans, etc but not as share capital.
- **Board of Directors/ Governing Board:**
  - The size, term and the composition of the board be decided by the CLF.
  - Staggered terms of the board members should be promoted to protect the institutional memory and reduce the dependency on the staff or externals
  - BoDs/ Governing board members to be identified from among the EC members of the non- registered CLF
- **Governance:**
  - The right to elect/ select BoDs should be given to General Body.
  - The CLF should have the rights on internal control and personnel policies, staffing, posting and compensation.
  - The CLF should select/ appoint the auditor
- **Amendments in the bye- laws:**
  - There should be a clause in the bye- laws regarding amendments of the bye- laws by the CLF.
- **Dissolution/ Liquidation:** In case of dissolution of the CLF, the assets and surplus have to be transferred to another CLF promoted under DAY- NRLM.

The above-mentioned considerations will provide the CLF more and more autonomy and control. It will help the CLFs to function in a better way. Hence, the SRLMs should engage with the registrar to negotiate with her/ him for more and more autonomy and control for the CLFs of the state.

The SRLMs should also facilitate necessary amendments in the existing bye- laws of the already registered CLFs, depending upon the success of the negotiations with the registrar in which the CLFs.

#### 4. Orientation of Mission staff & SRPs on the model bye- laws and registration of CLFs:

After getting approval from the registrar, the approved model bye- laws should be shared with DMMUs and BMMUs for taking up in the CLFs.

Before sharing the model bye- laws, the SPM IBCB with the help of NRPs/ RPs empanelled should organize an orientation for the SRLM officials at SMMU level. It is recommended that there should be an orientation of all SRLM officials on the Registration of CLFs. It is required keeping in mind that almost all the programs under DAY- NRLM are being run through the CLFs. All the SRLM officials need to do understand the legal aspects which have a relation with the programs and projects being implemented through CLFs under DAY- NRLM or any other government/ non-government program/ schemes/ projects. The orientation will help the SRLM officials in preparing plans properly around implementing any program/ scheme/ project through the CLFs, keeping in mind the legal aspects.

##### *Module: Orientation of SRLM officials on Registration of CLFs*

The SPM IBCB should ensure similar orientations should be organized at DMMUs level covering all the mission staff in the district.

The SRPs should also be orientated and capacitated around the Registration of CLFs. The orientation of SRPs can be organized at state level and/ or at regional level depending upon the context of the state. The SPM IBCB with the help of NRP/ empanelled RP by the SRLM can do this.

##### *Module: Orientation of SRPs on Registration of CLFs*

#### 5. Registration of CLFs:

- **Selection criteria for the CLF to be registered:**

It is necessary to register the CLF immediately after formation. More the CLF becomes old, more the complexities arise in its registration.

It is expected that the CLF formed is involved in lending/ credit activity, CIF rotation is happening in the CLF, and it is maintaining required books of records. Similarly, the CLF has its office (CLF office address needs to be mentioned in the registration documents) and has placed, at least, one staff (CLF places, generally, CLF Accountant as its first staff, immediately after formation of the CLF for maintaining records).

The name of the CLF should be decided in consultation with the concerned office of the registrar. There is a need to check whether the name which the CLF has thought for it is available or not with the office of the registrar. As the office of the registrar mostly avoids organizations having same name.

- **Orientation of CLF on Registration:** For the registration of a CLF, an orientation on Registration should be organized to make the CLF understand about the importance of registration. The SRP along with Sr CRP CLF should conduct this orientation.

**Note:** The SRP should have attended the pre- visioning exercise and should have qualified the assessment.

##### *Module: Orientation of CLF on Registration*

In this orientation the representatives from the concerned CLF's associated VOs should participate. If needed, the SRLM can do necessary changes in the module as per the state context.

- **Identifying the promoters/ desirous persons:** For the registration of the CLF, the promoters/ desirous persons need to be identified from among the SHG members of the non- registered CLF. For that, the SRP along with the Sr. CRP CLF need to organize meeting/s with the CLF going to be registered and need to facilitate the CLF for identifying such promoters/ desirous persons.
- **Organizing the general body meeting:** Once the promoters/ desirous persons are identified, then there is a need to organize a meeting with them in which following decisions need to be taken unanimously:
  - i. Discussion on the purpose of forming the proposed organization and on the proposed bye- laws and approving the bye- laws to abide
  - ii. Identifying the provisional BoDs/ Governing board- all the members in the BoDs/ Governing board should be from among the promoters/ desirous persons, preferably from among the EC members of the non- registered CLF
  - iii. Unanimous resolution for the registration of CLF in the ..... Act

Minutes of the meeting needs to be recorded properly. The SRP along with the Sr. CRP CLF should facilitate this meeting and to decide about the agenda mentioned above. Only the promoters/ founding members need to participate in this meeting.

- **Preparing the documents:** The documents required to be submitted to the registrar office for the registration of the CLFs need to be prepared. There is a need to prepare the documents in the forms and formats which are suggested/ provided by the registrar as preparing the documents in other way may subject to rejection. The SRP along with the Sr. CRP CLF should support the CLF in preparing these documents.

**Suggested list of documents:** Generally following documents are asked to be submitted for the registration an organziation:

1. Application form
2. Proposed Bye- laws (Certain number of copies, generally 3- 4 copies, of the proposed bye- laws)
3. Proceedings of the general body meeting
4. List of promoters/ desirous persons along with the KYC documents
5. List of provisional BoDs/ Governing board members along with the KYC documents
6. Copy of the Challan/ registration fee deposited

**Note:** The SRLMs are advised to engage with the Registrar, at state level, to build an understanding and clarity around the form & formats and list of documents required to be attached with the application. The form & formats may vary from state to state.

Second, the registration process has become online nowadays. The SRLMs should also need to explore around it.

- **Documents submission:** The application for the registration of the CLF needs to be submitted along with the required documents. The documents should be submitted by the Office Bearers along with the mission staff or SRP nurturing CLF. At the time of documents submission, acknowledgment needs to be taken from the registrar office. The CLF needs to keep the acknowledgement in record.
- **Follow- up with the department and issue of certificate of registration:** The CLF OBs along with the mission staff or SRP nurturing CLF needs to do follow- up with the registrar around the progress of issuing the registration certificate.

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