

# **Tripura Rural Livelihood Mission**

**Rural Development Department**



## **Guideline for functioning of Community Enterprise Fund (CEF) under Start-Up Village Entrepreneurship program.**

**Prepared by: State Mission Management Unit (SMMU), TRLM and Kudumbashree-NRO, Kerala**

## **Vision and Scope**

The vision of SVEP is “To help the rural poor come out of poverty by helping them set up enterprises and provide support till the enterprises stabilize.” To provide them with business skills, exposure, loans for starting and business support during the first critical six months of the enterprises by using the NRLM SHGs and their federations. These skills shall be imparted by local youth who shall be trained in business management, monitoring and support using ICT and audio-visual aids. These local CRP-EPs shall also provide support to the enterprises.

The SVEP shall benefit the households and communities even beyond the financial gains it provides. It shall help rural people specially the marginalized sections, women, and SC and ST communities to gain a sense of dignity and self-reliance leading to great social changes. Similarly, the wealth generated in the local economy shall have a multiplier effect resulting in strengthening the local economy and reduction in distress migration. People engaged in a range of enterprises shall create further employment and improve the market. It shall also encourage new age enterprises in ICT/infotainment. It shall promote enterprises in the field of sanitation, drinking water, renewable energy etc. This shall offer more economic opportunities for the rural areas and bring people out of poverty.

## **Objectives of SVEP**

The overall objective of SVEP is to implement the Government’s efforts to stimulate economic growth and reduce poverty and unemployment in the villages by helping start and support rural enterprises.

The key objectives of SVEP are:

- a. To enable rural poor to set up their enterprises, in its proof-of-concept phase, by developing a sustainable model for Village Entrepreneurship promotion through integrated ICT techniques and tools for training and capacity building, enterprise advisory services and to provide loans from banks/SHG & federations.
- b. Develop local resources by training a pool of village level community cadre (CRP EP) and build the capacity of the NRLM and SHG federations to monitor and direct the work of the CRPEPs.
- c. Help the rural entrepreneurs to access finance for starting their enterprises from the NRLM SHG and federations, the banking system including the proposed MUDRA bank.

## **Community Enterprise Fund (CEF) under SVEP**

Community Enterprise Fund (CEF) is a dedicated fund given as grant to community institutions on the lines of Community Investment Fund (CIF) provided under NRLM, for the pilot blocks under SVEP to give loans to the entrepreneurs selected as per the guidelines and not CLF of SVEP. It will help to enhance credit worthiness of the village entrepreneurs and also showcase the ability of the community institution led enterprise capital provisions to demonstrate disciplined credit behavior. This will also enhance bank’s confidence in the unorganized sector. It is a dedicated fund which cannot be diverted to other uses.

The sole purpose of the CEF is to purchase capital goods, inputs, working capital etc. to start new enterprise or diversify/expand the existing business as per the business need of individual business enterprise, as appraised by Block Resource Centre-Management Committee (BEPC). CEF will be given as a loan amount only to promote non-farm based and off farm sustainable enterprises in the block at rate of interest of 7% pa.

**a. Rate of interest to be charged to the entrepreneur borrower, who will borrow money from the CEF under SVEP.**

The rate of interest charged by the SHG from the loans given using the CEF of SVEP, to the entrepreneur should ideally not exceed 7% per annum on a reducing balance basis. The rate of interest should be decided ensuring that the enterprises supported are financially viable at that rate of interest. Ideally the same rate of interest should be charged to all the entrepreneurs in the block. But the rate of interest charged from the enterprise may vary among different blocks in the state. The interest amount accrued from disbursement of CEF to entrepreneur will be deposited at Nodal CLF SVEP bank account of respective BRC-EP. This interest rate may be used in running the BRC-EP.

**b. Repayment schedule for loans and scope for a moratorium period for the loans granted from the CIF/CEF of SVEP.**

The terms of repayment and schedule including moratorium if any, should be decided by the BEPC. CRP-EP group can provide support in putting forward schedule of moratorium for an entrepreneur. The repayment schedule should be decided based on the need of the enterprise being promoted and may vary depending upon the type of enterprise being supported. There is no need for all the entrepreneurs in a block to have the same repayment schedule. The loans may have a moratorium on principle repayment of 3-6 months for the enterprises that need such a moratorium.

**c. Maximum amount that can be lent from the CEF to an individual entrepreneur and to a group enterprise**

To ensure equity in the usage of the CEF and to prevent cornering of the CEF funds by a few, it is suggested that the maximum amount of loan from the SVEP CEF that can be given to one individual entrepreneur be fixed at Rs.1 lakh. Similarly, in the case of a group enterprise, the maximum amount that can be given as loan to a group enterprise is Rs. 5 lakhs and the maximum loan per member of a group enterprise cannot cross the individual threshold of Rs.1 lakh. The BEPC can decide on number of tranches of the loan amount to be disbursed to entrepreneur. In case any enterprise repays the first tranche of loan, then the subsequent tranches of loan to the same enterprise for business expansion can be enhanced by a factor of not more than 25% for each round of loan repayment.

**1. Who can apply for CEF:**

- Must be an active member of SHG (or) Household of active SHG member.
- Must be having good track record and financial credibility, No default on SHG loan.
- SHG loan OUTSTANDING should not be more than 25,000 for last 3 months consecutively in case of applying for

setting up new enterprise. On loan applications for strengthening existing enterprises, this rule does not apply. However, the BEPC/BRC management committee and CLF will take a view on credit-worthiness of the applicant, for additional loans, before sanctioning the loan

- Entrepreneur should have completed orientation and EDP training as prescribed under SVEP
- Business plan for the enterprise for which the loan is applied for, must be prepared by CRP- EP and vetted by the BRC Management Committee
- Application should be recommended by respected SHG and VO
- Both existing and new enterprises can apply
- No age limit to the entrepreneur nor to be exclusive to the women
- Preference should be given to the highly vulnerable beneficiaries under MGNREGA, marginalized sections, women, SC and ST communities and should also include rural artisans.
- Any member having overdue for more than three months of loan from CEF/Bank Loan or having NPA of loan should not be considered for any enterprise financing from the CEF unless repaid previous dues/ portion of dues as decided time to time.

## **2. Application Process & Documentation**

### **2.1 Process**

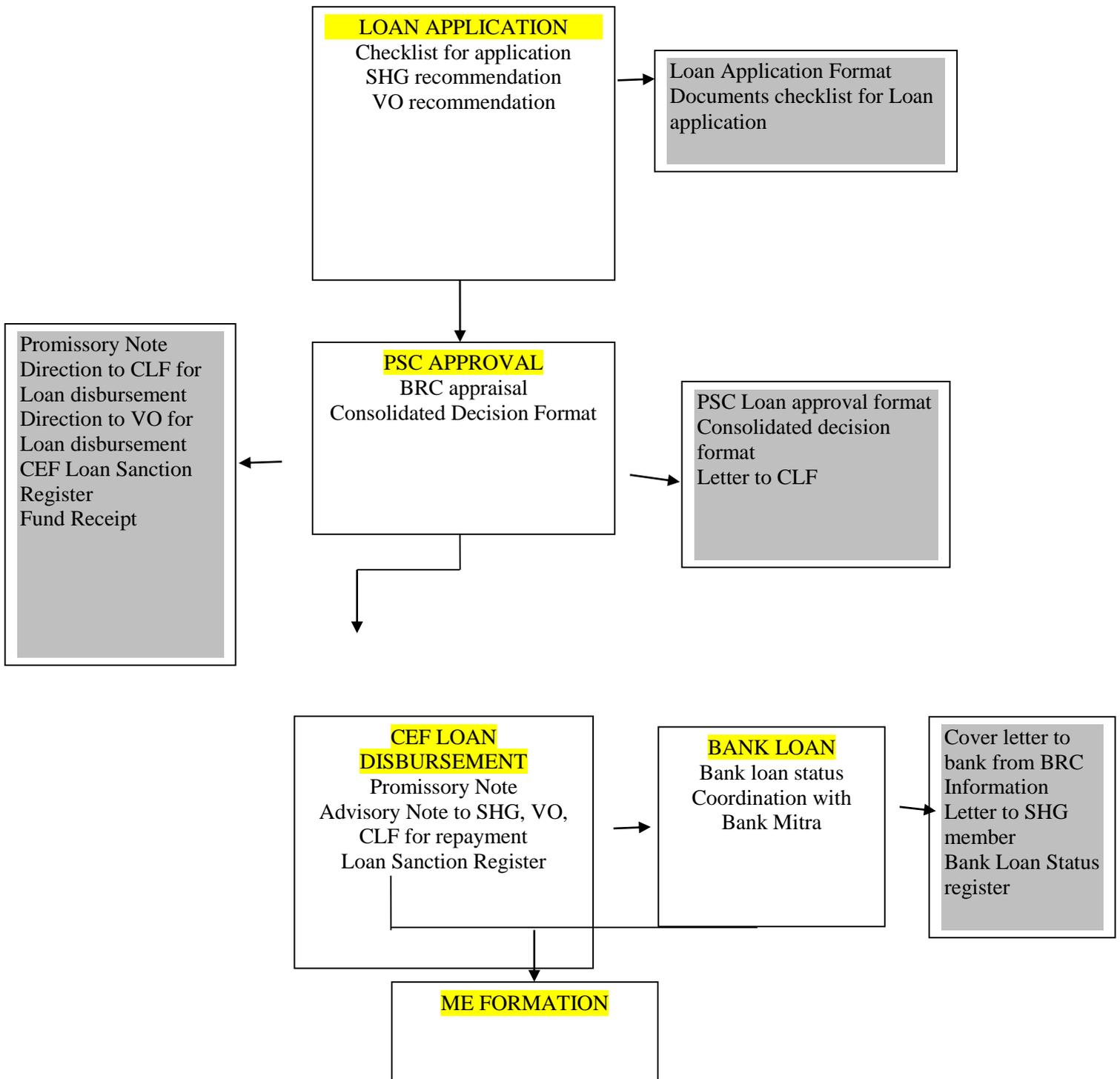
- Programme details shared at SHGs/VOs regular meetings
- Potential entrepreneur expresses interest for starting an enterprise
- Recommendations for training of potential entrepreneurs forwarded to BRC-EP through their respective institutions (SHGs/VOs/CLFs)
- Orientation & EDP Training/ organized for the potential applicants by BEPC/BRC management committee using the CRP-EP's
- Post training and completing the viability test by the potential entrepreneur; CRP - EP will help in preparation of the Business plan in supervision/ of BPM-SVEP and NRO/PIA mentor.
- The business plan must be submitted with the CEF application form in the SHG for Processing.

### **2.2 Documentation:**

- Application form
- Business plan – prepared by CRP EP and vetted by BEPC/BRC management Committee with support of CRP-EP/CRP-EP group
- Applicants Bank account details
- KYC, Aadhar, SECC TIN, NREGA job card (as applicable)
- Undertaking for taking necessary licenses (wherever applicable) for business to be included with the application.

### 3. Application Process

## CEF/BANK LOAN PROCESS



- The Business plan is to be recommended for loan by CRP-EP based on the assessment of the viability of the enterprise and the potential entrepreneur's ability to run the enterprise viably.
- Business plan with supporting documents to be discussed at the SHG meeting and forwarded with recommendation to the immediate higher-level institutions (SHG->VO->CLF> BRC management committee). Applicant entrepreneur and concerned CRP-EP shall be present to advocate its case during appraisal at the VO level approval.

Recommended cases to be forwarded to the BRC-EP to put up in Project Approval Committee (PAC) meeting for loan approval recommendation.

- The PAC meeting shall be convened, once enough applications are received and discussed. The BEPC should meet at least twice a month and the frequency of meeting can be increase depending upon the number of applications received. Not more than 25 loan applications shall be discussed in one PAC meeting.
- While conducting PAC meeting for approval of CEF applications BPM-SVEP, NRO/PIA – mentor, should attend as ex-officio members. The NRO/PIA- mentor, BPM- SVEP and CRP-EP representatives would be permanent invitees. DPM will be part of this meeting in case of loan amount is more than Rs 50,000. District representatives to be special invitees as and when required. CRP-EP supporting the relevant enterprise and or the entrepreneur applying for the loan would also need to be present to explain their case. Priority shall be given to other fund sources like Bank linkages, CIF, any government convergences etc.. CEF may be used as a last option in case of non-availability of other financial resources. In case of loan applications above Rs.50000 per entrepreneur the loan application should be forwarded to Bank first. Only in case of rejection or non- response for 30 days by the bank, should the application be made for loan from SVEP CEF. The BEPC shall take the final decision of the loan application and shall forward the same to the BRC Accountant for uploading in the NRLM SVEP website for further ratifications by SRLM staffs at different levels.
- BRC Accountant uploads the approved loan application along with proceedings of the BEPC meeting duly ratified by the Block Project Manager (SVEP), District project manager (in case loan is equal and above Rs 50,000) and NRO/PIA representatives' members into the NRLM SVEP website and forwards for further ratifications.

The entire process of loan application under SVEP CEF, once forwarded by SHGs, should be done within 45 days. While processing the loan approval, we should ensure that the ownership of the CEF and the primacy of decision making of the CBO are not compromised, without diluting the principle of financial feasibility of the proposal and the ability and credit worthiness of the entrepreneur/ SHG member taking the loan.

### **3. Loan products for SVEP Enterprises**

As suggested Different loan products would be tested from beginning onwards for SVEP

enterprises. E.g. Mudra loan, loan from other financial institutions etc.

#### **4. Flow of CEF**

Initially CEF amount shall be transferred from SPMU to Nodal CLF/VO's/BLF's account. The Nodal CLF/VO/BLF should have a separate bank account operated exclusively for SVEP, which should have auto FD facility (wherever the bank has a product like this). In case the bank does not have a product of this kind, then the funds which are not expected to be utilised in the next 30 days should be kept in a Fixed deposit in the bank. The intention is to maximize the yield on the CEF, either from the bank or from the rotation to the SVEP entrepreneurs. Minimal amount should be kept idle in a savings bank account. The fund will be transferred by Nodal CLF to the respective SHG and further to SHG member's bank account based on appraisal of applicants and applications received. BEPC will give paper notification to the CLF/VO/SHG for booking loan in their books of account after proper minutization of loan appraisal process. Communication related to disbursement of loan to the borrower shall be communicated to all related community institutions by the BEPC. The applicant also needs to be intimated formally about the sanctioning of the loan.

SHG member applicant should be given the loan amount through cheque/online transfer only, cash disbursement of loan is not permitted. The acknowledgment of loan from the entrepreneur and all the constituent CBO's should reach the BRC-EP and should be filed and maintained in the BRC-EP and should be ensured by BEPC.

In case the entrepreneur is not the SHG member but her family member such as husband, unmarried Son, unmarried Daughter, brother/sister, then also the loan amount should be transferred to the bank account of the SHG member, and the repayments would also be routed through the same SHG member. Thus the SHG member, even if not actively or solely managing the enterprise would have an ownership stake in the enterprise leading to her empowerment.

BEPC with support of CLF/VO/SHG and SRLM shall ensure a separate register to be maintained at each level (SHG, VO, CLF) for keeping record of CEF loan disbursement and repayment. The BRC may engage a bookkeeper for maintaining books of accounts and other registers similar to the registers maintained at CLF level. The payment for this bookkeeper may be made from the interest repaid of loans from the CEF. In case of group enterprise, credit would be transferred to the enterprise account. In case of group enterprises having members from more than one SHG, the loan would be directly transferred to enterprise account from the Nodal CLF. However, In case group enterprise having membership from same SHG or loan for individual enterprise, the credit shall be transferred to enterprise account by the SHG. The Nodal CLF would transfer the loan amount to concerned SHG or VO as the case may be. Individual and group loan would be based on appraisal of all the application received by BRC. BRC would also send paper notifications to the concern CLF/VO/SHG for acknowledgement and for reflecting the loan in their books of accounts. The mode of transfer of loan amount to entrepreneur would be preferable through cheque/electronic transfer.

#### **5. Activities under CEF**

The purpose of CEF is to purchase capital goods, inputs, trading inventory etc. to start a new enterprise, upscale or diversify the existing business. For many businesses, the loan will be required mainly for working capital. Before approval of the business plan, it shall be discussed that how the loan money would be invested (whether fixed assets or in working capital). CEF will be given as a loan only to promote non-farm/off farm based enterprises in the block. It shall not be given for agriculture, nor for animal rearing nor for the collection of

NTPP.

Following are few activities which can be taken up with CEF:

- Any business which is non-hazardous and legal as per govt .regulations.
- Any Trading related business
- Business to provide Services
  
- Manufacturing and Production of goods

## **6. Repayment**

The objective of SVEP is to support members/ family members of SHG network towards self-employment and provide loans at low rate of interest. In order to facilitate this process, a Block resource center is to be created at Block level which will be managed by representatives from all the CLF and will be operated by CRP-EP group to provide business advisory services to the members of CBO. As the primary benefit is availed by SHG members, it becomes an equal responsibility of CBO to ensure smooth running of the project.

### **Loan Disbursement/Repayment Process to be followed by SHG**

Once the loan is disbursed to SHG's account for the beneficiary, SHG should immediately provide the loan to the beneficiary via online transfer or cheque. The SHG should maintain a separate ledger with record of inflow of money to SHG's account under SVEP. Once the loan repayment for beneficiary starts, the loan repayment is to be done via SHG/CLF network. The amount (interest and principal amount) returned by beneficiary should be immediately transferred by SHG to CLF without any deduction. To ensure track of loan repayment, SHG should maintain such entries in their SVEP ledger and should engage their book keeper to maintain record keeping in their SHGs. The SHGs should also ensure that timely loan repayment process is followed. The SHGs should submit the amount to CLFs in the upcoming CLF meeting following their SHG meeting.

### **Loan Repayment Process to be followed by VOs**

The loan repayment amount collected at SHG should be submitted in the CLF meeting. The VO should also maintain a separate ledger to monitor the loan repayment under SVEP. VO should also ensure that SHGs are submitting loan repayment amount on time. The amount (interest and principal amount) collected should be transferred by CLF to BRC without any deduction. To ensure track of loan repayment, like SHGs, VO should also maintain such entries in their SVEP ledger and should engage their book keeper to maintain record keeping in their VOs. Keeping in mind the conduct of CLF meetings, VOs should ensure that on-time return of loan is ensured by their SHGs so that repaid amount reaches on time.

### **Monitoring of Loan Repayment Process by CLF**

The role of CLF is to monitor the loan repayment of SVEP CEF amount. The CLF is required to maintain a separate ledger to monitor the loan repayment under SVEP. To ensure track of loan repayment, CLFs should also maintain such entries in their SVEP ledger and should engage their CLF Accountant to maintain record keeping in their CLF. Keeping in mind the conduct of meetings

at BRC-EP, CLFs should ensure that the loan repayment is done on time.

CLFs should also ensure that Book keepers at SHG/VO level are keeping sufficient records to maintain transparency in loan repayment process.

The repayment schedule will be prepared by the beneficiary (SHG member) in consultation with CRP-EP based on the nature of the business and its ability to generate adequate profits and cash flows to repay the loan installments, The schedule should be proposed in the business plan itself and should be given along with the loan application. The BEPC with support from CRP-EP can review the proposed schedule and suggest modifications.

The borrower has to repay the amount in the time frame of up to 36 months in case of individual loans, and up to 36 months in case of group loans. Moratorium of upto 6 months may be considered, where the business so demands.

Moratorium and Repayment schedule would be proposed for approval to BEPC, based on the nature of business. The loan repayment schedule has to be mentioned in the loan appraisal form. After loan approval from BEPC, same repayment schedule shall be uploaded in the NRLM SVEP website by BRC Accountant. Prepayment of loan to the SVEP CEF is allowed without penalty.

#### **Interest sharing at CBO level:**

The distribution of interest collected from CEF loan shall be on quarterly basis from BRC. The ratio of sharing the interest with SHG, VO, CLF, Nodal CLF shall be as 20:20:20:40

### **7. Monitoring and management of CEF Fund**

- The responsibility of the repayment from the entrepreneur will be of the concerned SHG and VO. In case the CEF fund is not being utilized in entrepreneurial activity mentioned in the loan application, the BEPC shall issue a notice to the concerned SHG member and on receipt of the notice the member has to reply to the BEPC at BRC within a week. If the explanation given by the SHG member is not found satisfactory then BEPC shall proceed for the recovery of the entire loan amount disbursed.
- An annual Chartered Accountant (CA) audit has to be conducted of the SVEP account of Nodal CLF/VO by a chosen CA firm from the district.
- Nodal CLF/VO may negotiate bigger loans at competitive interest rate from banks and financial institutions. The interest rate on lending from such borrowed funds may be charged at slightly higher interest rate being paid to the lending institution but the spread should not be more than 3% per annum.
- Submission of UC to BRC EP/VO - Submission of the UC is to be done through SHG/VO along with supporting documents viz, receipts/ bills, enterprise related photographs, etc. as per the UC format. The UC will be submitted at the Block Resource Center of the concerned block.
- CEF loan portfolio statement that will give details of the loans sanctioned, disbursed, collected,

interest earned, outstanding amounts, delayed loans and amounts, defaulted loans and amounts and NPA shall be submitted monthly to BEPC by BRC accountant. Such statement shall be submitted on monthly basis.

### **8. SVEP CEF to be given only if bank loan not available**

In case of loans to individuals, exceeding Rs. 50,000/-, the loan application should be made to the bank first. Only in case of rejection or non-response for 30 days by the bank, should the application be made for loan from SVEP CEF. This rule may be relaxed in blocks where banking presence and loan disbursals are low.

### **9. Format for SVEP CEF applications from enterprises**

- Application Format
- Business Plan
- Recommendation forms – SHG, VO
- Fund Receipt format
- Books of records for entrepreneur
- Utilization Certificate
- Promissory note by Entrepreneur

### **3. Non-Negotiable under SVEP**

The followings are non-negotiable in CEF under SVEP –

- Maximum interest rate of 7% can be charged on SVEP CEF loans to the members
- SVEP CEF loan will be on the name of SHG members
- Nodal CLF to have a separate bank account for SVEP operations and all the transaction related to SVEP will be done from this account only.
- Business plan approval process will be SHG – VO/VO livelihood subcommittee – Nodal CLF/BRC
- Loan repayment will be to SHG and follows SHG – VO –CLF-Nodal CLF
- After projection of loan amount under CEF, remaining SVEP CEF funds will be kept as fixed deposit in the bank where Nodal CLF has the SVEP bank account.
- Audit of the SVEP account of CLF is must every year by a CA firm and report needs to be submitted to DPMU,SPMU &NRLM

