

Suggested Guidelines for Community Enterprise Fund (CEF) under SVEP



Startup Village Entrepreneurship Development Programme (SVEP)
National Rural Livelihoods Mission

[\(For appropriate editing and finalization by the state\)](#)

Ministry of Rural Development

(This document should be referred in conjunction with the SVEP master circular of Ministry of Rural Development. In case more information is required on certain aspects, the details provided in the SVEP master circular will be considered as final)

Start-up Village Entrepreneurship Programme (SVEP)¹

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. This 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.

In its first phase of validating the concept, SVEP is expected to support creation and strengthening of about 1.82 lakh village enterprises in 125 Blocks across 24 States in the targeted four years i.e. 2015-19. This is expected to create employment for about 3.78 lakh persons.

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.

¹ Please refer the SVEP master circular of Ministry of Rural Development, Govt. of India

- 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 CRP EPs.
- c. Help the rural entrepreneurs to access finance for starting their enterprises from the NRLM SHG and federations, the banking systems including the proposed MUDRA bank.

Community Enterprise Fund (CEF) under SVEP

Community Enterprise Fund is a dedicated fund given as grant 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 norms 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 behaviour. 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 the Block Resource centre (BRC) set up under SVEP. CEF will be given as a loan amount only to promote non-farm based and off farm sustainable enterprises in the block at or lower than a rate of interest of 12% pa.

The broad guidelines for the usage of the CIF/CEF²

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

The rate of interest charged by the SHG from the loans given using the CIF/CEF of SVEP, to the entrepreneur should ideally not exceed 1% per month on a reducing balance basis (or 12% per annum on a reducing balance basis). The rate of interest should be decided and agreed by the CBO and CRP-EPs facilitated by the SRLM and PIA. 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 may be divided among SHG, VO and CLF in the ratio of 25%, 25% and 50% respectively. Earning from Nodal CBO's interest operations will be utilised in running the BRC and surplus will be divided to all the constituent CLFs in proportion. Among the 50% interest collected by the nodal CLF, 70% of the interest will be kept by the Nodal CLF and the rest 30% would be shared among

² Please refer Chapter 5 of the SVEP master circular of Ministry of Rural Development, Govt. of India

the other CLF's in proportion of the loan disbursed under SVEP by the respective CLFs. This provision has been made to increase the corpus of the SVEP CEF.

- to the loan disbursed by them to their member CBO's and member entrepreneurs. (In case of the BRC being managed by a nodal VO, then among the constituent VO's). The interest earning and expenses should be computed and distributed quarterly. The provision has been kept for increasing the corpus of the nodal CLF/VO.
- 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 terms and schedule including moratorium if any, should be decided by the CBO and CRP-EP with facilitation from SRLM. This 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 CIF/CEF to an individual entrepreneur and to a group enterprise**

To ensure equity in the usage of the CIF/CEF and to prevent cornering of the CIF/CEF funds by a few, it is suggested that the maximum amount of loan from the SVEP CIF/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. 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 25% for each round of loan repayment. However, the state may take a call on these number based on the local conditions and the number of enterprises to be promoted. However, the underlying principle of equity should be adhered to.

1. Who can apply for CEF

- Must be an active member of SHG or their family members (unmarried son / unmarried daughter/husband/ unmarried brother/ unmarried sister/parents) and resident of the block
- Must be having good track record and financial credibility, No default on SHG loan
- SHG loan OUTSTANDING should not be more than 25,000 in case of applying for setting up new enterprise. On loan applications for strengthening existing enterprises, this rule does not apply. The BRC 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/MEC and vetted by the BRC
- Application should be recommended by SHG and VO
- Both existing and new enterprises can apply
- No age limit 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.

2. Application Process & Documentation

2.1. Process

- Programme details shared at SHGs/VOs meetings
- Potential entrepreneur expresses interest for starting an enterprise
- Recommendations for training of potential entrepreneurs forwarded to Nodal CLF/VO/BRC through their respective institutions (SHGs/VOs)
- Orientation & EDP Training/ organised for the potential applicants by BRC using the CRP-EP's
- Post the training and completing the viability test by the potential entrepreneur; CRP - EP will help in preparation of the Business plan in supervision/facilitation of SVEP mentor.
- The business plan has to be submitted with the CEF application form in the SHG for processing.

2.2. Documentation

- Application form (formats to be developed by SRLMs)
- Business plan – prepared by CRP EP and vetted by BRC
- 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

2.3. Application Process

- The Business plan 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/Nodal CLF/VO). The application is to be further recommended by each level of the community Institution. 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 Nodal CLF/VO/BRC.

- Nodal CLF to compile the applications received, on having substantial applications the BRC meeting shall be convened for deliberation and decision on forwarding the application to the Block Resource Centre (BRC). The BRC should meet at least once a month.
- Block Resource Centre (BRC) will formulate a Project approval committee (PAC) comprising members elected from the general body of the CLF. The PIA- block anchor person / mentor, BPM (SVEP) would be permanent invitees. CRP-EP supporting the relevant enterprise and or the entrepreneur applying for the loan would also need to be present to explain their case. In case of loan applications above a certain value (Rs.50000 per entrepreneur) the state may ask for the loan application approval ratified by the BPM and in case of loan applications above Rs.100,000 per entrepreneur, then the loan application approval has to be technically evaluated and ratified by the DPM. This ratification shall be done by the designated official being present in the PAC meeting as an invitee or by the file being sent to her. In any case the case should be analysed and feedback given within 7 days of the PAC meeting. The PAC shall take the final decision of the loan application and shall forward the same to the nodal CLF/VO to disburse the loan.

The proceedings of the PAC meeting duly ratified by the SRLM members and PIA members should form part of the fund release documents to be given to the bank as supportings for the funds to be transferred to the beneficiary account.

The number and designation of the invitee and ratifying members of the project approval committee is to be decided by the concerned SRLM in consultation with the NRO/PIA.

The entire process of loan application under SVEP CEF, once forwarded by SHGs, should ideally be done within 45 days. 45 days approval duration is must and thus systems need to be structured to facilitate that.

While defining the project approval committee and processes for loan approval, the state should ensure that the ownership of the CEF and the primacy of decision making of the CBO is 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

- Different loan products would be tested from 2nd year onwards for SVEP enterprises. Eg. Cc limit etc.

4. Flow of CEF

Initially CEF amount shall be transferred to from SRLM 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/VO to respective VOs, based on appraisal of the all the applications received. Nodal CLF/VO may transfer the loan amount to the SHG member applicants bank account through SHGs (SRLMs may decide on adopting a process for direct transfer of CEF to the SHG member applicants bank account while giving paper notifications to the VO/SHG for booking the loan in their books of accounts).

Communication related to disbursement of loan to the borrower shall be communicated to all related community institutions by the BRC. The applicant also needs to be intimated formally about the sanctioning 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 and should be filed and maintained in the BRC.

In case the entrepreneur is not the SHG member but her family member as defined in section 1. Above, then the loan amount should be transferred to the bank account of the family member who a 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.

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 NTFP.

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 repayment schedule will be prepared by the 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 instalments, The schedule should be proposed in the business plan itself and should be given along with

the loan application. The BRC and the Sanctioning committee can review the proposed schedule and suggest modifications.

The borrower has to repay the amount in the time frame of up to 24 months in case of individual loans, and up to 36 months in case of group loans. Moratorium of 3 - 6 months may be considered, where the business so demands.

Moratorium and Repayment schedule would be proposed to the Nodal CBO for approval by BRC, based on the nature of business. The loan repayment schedule has to be mentioned in the loan appraisal form. Prepayment of loan to the SVEP CEF is allowed without penalty

The beneficiary will pay the monthly instalment through the borrower SHG member (who has to be the family member of the entrepreneur) to the SHG which in turn will forward the complete monthly instalment to VO and subsequently the VO will forward the same to the nodal CLF/VO without any deduction. Steps should be taken to minimize time lapse between funds flow from the SHG to the Nodal CBO.

In each quarter the interest collected on the loan from the CEF fund will be distributed to the SHG, VO and nodal CLF in the ratio of 25:25:50. From the 50% interest collected by the nodal CLF, the expenses of the CLF in running the BRC would be deducted and of the surplus, 70% of the surplus will be kept by the Nodal CLF and the rest 30% would be shared among the other CLF's in proportion of the loan disbursed under SVEP by the respective CLFs.

This provision has been made to increase the corpus of the SVEP CEF.

7. Monitoring and management of CEF Fund

1. The responsibility of the repayment from the entrepreneur will be of the concerned SHG and VO.
2. The social audit of the enterprise will be done quarterly by the monitoring sub-committee of the VO and CLF with the help of the CRP-EP.
3. The social audit report has to be sent to the BRC within 10 days of the completion of the audit by the CRP-EP.
4. 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.
5. The SVEP account should be flexible and have the provision of Sweep in/auto Fixed Deposit Facility for optimum use of available fund. Where this facility is not provided by the bank, the idle funds should be kept as a FD in the bank to maximize interest income.
6. Nodal CLF/VO may negotiate bigger loans at competitive interest rate from banks and financial institutions. The interest rate for 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.
7. Submission of UC to nodal CLF/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 format C)

8. The PIA should help the BRC prepare, understand and submit to NRLM BPM and District Mission offices a 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. Such statement shall be submitted on a 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. Formats

SRLMs are required to develop (or use the existing formats as applicable) the following formats for SVEP CEF applications from enterprises

- A. Application Format
- B. Business Plan
- C. Utilisation Certificate
- D. Four party or Tripartite agreement form (Entrepreneur, family member who is a SHG member, SHG member SHG/VO & BRC)
- E. Recommendation forms – SHG, VO, CLF
- F. Fund Receipt format
- G. Books of records for entrepreneur

10. Non Negotiables under SVEP

The followings are non-negotiable in CEF under SVEP -

- Maximum interest rate of 12% can be charged on SVEP CEF loans to the members
- SVEP CEF loan will be on the name of SHG members
- Nodal CLF will have a separate bank account for SVEP and all the transaction related to SVEP will be done from this account only.
- Business plan approval process will be SHG – VO – CLF – BRC - Nodal CLF
- 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 SRLM & NRLM