

Operational Guidelines for Revolving Fund

1.0 Introduction

OFSDS-OMBADC Livelihood Promotion Project has provision of providing Revolving Fund (RF) to the VSSs covered under the Project for productive utilization in operationalizing viable Income Generating Activities (IGAs) and establishing community-based micro enterprises. The Revolving fund (RF) is one of the major mechanisms of social inclusion and promoting SHGs, CIGs and poorest of the poor forest dependant on the trajectory of economic growth. It provides the Borrowing Entities an opportunity to aggregate their products by providing the working capital to take up income generation activities for providing employment as well as additional income.

2.0 Purpose of the Revolving Fund

Revolving Fund under the project has been provisioned as a grant to the VSS, to provide loan to the Borrowing Entities (namely- SHGs, CIGs and poorest of the poor) for undertaking Income Generation Activities to supplement the family income. The purpose of revolving fund is stated below:

- To improve access to finance required towards initial investment for Income Generating Activities
- To cater to the financial needs for availing loan by the Borrowing Entities for alternate livelihood Activities
- To revolve the fund so as to maximise the coverage, value of the fund through loan and interest recovery.
- To provide a dependable fund reserve at community level beyond the project period.
- To empower the community for adopting a sustainable mechanism for fund management and IGA beyond the project period.

3.0 Source of Revolving Fund

There is provision of Rs. 2,00,000(Rs. Two Lakhs only) as Revolving Fund per VSS aimed to support the Borrowing Entities (namely-SHGs, CIGs and poorest of the poor entrepreneurs) for IGA in the target VSS area under the Project. The Revolving Fund will be allocated by the SPMU to VSSs through the Divisions. Each VSS has to develop a brief Business Development Plan for effective utilization of the allotted Revolving Fund.

4.0 Target Groups and Types of IGAs

4.1 Target Groups

The Borrowing entities will be Self Help Groups(SHGs) preferably women Self Help Groups(WSHGs), Common Interest Groups (CIGs) and the Poorest of the Poor (PoP) who have the Potentiality and interest for taking up IGA.

4.2 Types of IGAs

The OFSDS-OMBADC envisages support to augment livelihood of forest fringe communities through various income generating activities. Both traditional and innovative IGAs across farm, off-farm, non-farm and NTFP sector will form the list of enterprises to be promoted to strengthen the livelihood and income of the poor households in the target area. The revolving Fund will be utilized for promotion of IGA linked to identified products in the VSS. The IGA support to the community, therefore, will be rendered at different forms as mentioned below;

a) WSHGs, Common Interest Group (CIG) and Poorest of Poor (POP) based IGAs, where small loan based activities with a short gestation period will be admissible for achieving supplementary income by selling the product(s) at local market with handholding support by project facilitators and in convergence with other local potential agencies.

b) Loans will be made available to the Group based small income generating activities around a single commodity. Focus should be given upon collective marketing/ value addition with an objective to get higher return through linkage to higher markets by scaling up and also in linkage with other Business Plan Development Support.

c) Product based clusters will be formed around one or few viable products. Each such cluster will pick up livelihood options which may be-

(i) Forest based (Sal & Siali leaf plates, Hill Brooms, NTFP etc.). NTFP based livelihood activities will be promoted through NTFP inventory, development of NTFP strategy and facilitating linkage with business development services including marketing support.

(ii) On-farm based (agriculture, horticulture, pisci-culture, apiculture, floriculture, nurseries, etc.),

(iii) Off farm based (Dairy, poultry, goatery, piggery etc.),or

(iv) Non-farm based entrepreneurships depending upon the requirement, such as plumbing, carpentry, tailoring, cycle repair, mobile repair, shops, etc.

d) These Borrowing Entities will be financially supported by the project through loan from Revolving Fund (RF) granted to each VSS.

5.0 Eligibility Criteria for Selection of the Borrowing Entities

5.1 General Criteria

The eligibility criteria for sanctioning revolving fund are as below:

- The Borrowing Entities must belong to the same village and must be a member of the VSS.
- They must support in forest protection and functioning of the VSS.
- They must have access to the resource and skill to take up IGA activities and must also be interested in joining the product cluster promoted under the project with the defined standard operating procedure of product sourcing, collectivisation, value addition etc.

- The Borrowing Entities should have at least one year of experience in functional activities and an operational bank account in the name of the group. The poorest of poor applicants must be residing in the village since last 3 years, should not be a migrant and should have a bank account in her/his name.
- The Borrowing Entities should have capability to utilise revolving fund towards IGA profitably and refund the loan in time. Past records of fund/loan management in case of groups will also be referred to by the VSS before granting of loan.
- The Borrowing Entity has to prepare and submit the required information as per the format supplied by the VSS outlining the business proposal, investment and repayment schedule along with the application, which is most essential for sanction of loan from the Revolving Fund.
- The Borrowing Entity must not be a defaulter in loan repayment under any branch of the Bank.

5.2 Criteria for Selection of SHGs

The criteria for selection of SHGs preferably WSHGs and the SHG Rating Tool has already been defined in the Guidelines on Formation and Strengthening of SHGs and Grounding of IGAs under OFSDS-OMBADC Livelihood Promotion project. This shall be used for selection of SHGs for the purpose of availing loan from RF. The Borrowing Entities in general and SHGs in particular, who have availed loan from Bank/ Mission Shakti / OLM will not be eligible in availing loan from the RF of OFSDS-OMBADC project to avoid duplication.

5.3 Criteria for Selection of Common Interest Groups

- The Common Interest Groups (CIG) will be formed/ selected by the Executive Committee of the VSS after receiving an application

signed by the aspirant members and the proceeding will be duly documented as a resolution in meeting of the EC.

- The CIG members must be identified as a group in the well-being ranking during preparation of Micro Plan.
- CIG can be formed taking 3-10 individuals (Women, Men, Mix) of the same hamlet/village.
- The CIG members must be residing in the village for last 3 years and not be migrant workers.
- The members must have valid Aadhar card.
- Each member has to pursue the common interest towards IGA, especially around the product cluster decided for the village.
- The CIG has to open a bank account of the group in the service area branch to be operated by two of the CIG members jointly.
- The CIG will be eligible for loan after at least one month of its existence and has to follow the applicable process prescribed by RF guideline.
- None of the members should have availed loan from other sources for the same purpose and should not be defaulter at any source.
- The maximum amount of the loan for CIG is Rs.20,000/-, which may be increased in the subsequent cycles depending on the success and timely repayment of loan amount.

5.4 Criteria for Selection of Poorest of the Poor

- Poorest of the poor, who are left out of the SHGs and CIGs for social, economic or procedural reasons will be eligible for loan from RF provided they meet the other general conditions.
- The POP must be residing in the village for last 3 years and not be a migrant worker. He must have a valid Aadhar card in his/her name.

- The POP members must be identified as the prospective Borrowing Entities in the well-being ranking during the preparation of micro plan and duly recorded in it.
- The age of the POP must be within 25-60 years.
- The POP Member has to provide a social guarantee for the loan from two credible members of the VSS duly signed by the guarantors, which will be a part of the Loan Application.
- The POP must be willing to take up the IGA around the product cluster decided for the village.
- The POP must have an operational bank account in his or her name.
- The POP must not be a defaulter at any Financial Institution or Micro Financing Institutions.
- The Maximum loan amount to POP will be Rs.5000/-, which may be increased in the subsequent cycles depending on the success and timely repayment of loan amount.

6.0 Constitution of Loan Appraisal Committee for Scrutiny and Approval of Loan

A Loan Appraisal Committee will be constituted at VSS Level consisting of 5 members, namely- the Chairperson or Vice Chairperson, Secretary, Treasurer, the Animator and any other EC member to be nominated by the EC of the VSS. In case, if all the members of the committee are not present during the process of scrutiny, then the Chairperson, the Secretary of the VSS and nominated member of the VSS shall form the quorum and shall scrutinise and process the loan applications for approval by the EC of the VSS. The LAC will be reorganised after three years of formation of VSSs. Each Loan application will be accompanied with a Loan Processing fee of Rs. 100/- only per application, which will be remitted to the VSS Account. This amount will be utilised by the

appraisal committee for meeting the expenses incurred for processing the application and financial management. The POP is exempted from paying the loan processing fee.

7.0 Procedure for Loan Application by the Borrowing Entity

The Borrowing Entity will submit the loan application along with the Business Plan for the proposed IGA to the VSS. The Business plan format will be made available by the VSS. The EC members, the Animator and the PNGO members will facilitate the filling of the prescribed forms as required by the Borrowing Entity.

7.1 Loan Amount

The maximum loan admissible to a Borrowing Entity involving a group of members, namely SHG and CIGs is Rs. 50,000/- (Rs. Fifty Thousand only) in one loan cycle. This excludes the 20% of own contribution which is to be made in cash or kind including labour by the Borrowing Entity.

In case of Poorest of Poor (individuals), the loan amount will be from 5,000/- to 20,000/- (Rs. Five Thousand to Rs. Twenty Thousand) only. The 20% of own contribution may be exempted for Poorest of Poor by the EC at the time of discussion while applying for the Loan.

7.2 Interest Chargeable

A simple interest of 6% per annum will be charged on each loan sanctioned, which is lower than that offered by the banks and other financing institutions. The purpose is to encourage the Borrowing Entities in availing loan from the Revolving Fund for undertaking small scale Income Generating Activities.

In case of default in repayment as detailed and agreed in the repayment schedule, a penalty of 1% of the loan sanctioned per incident of default will have to be paid to the VSS by the Borrowing Entity. There will be no penalty on prepayment of loan before the loan period or tenure. If the delay or non-repayment is due to some natural external exigency, penal interest will not be chargeable. The

Loan Appraisal Committee will intimate the reasons for penalty or waiver of penalty in writing to the EC and the same will be recorded in the Proceedings of the next Executive Committee after taking a suitable decision.

7.3 Repayment Schedule

The loan period/ tenure will be of 6 to 12 months within which the principal and the interest will have to be repaid by the Borrowing Entity. The loan application and the Business Plan must contain a loan Repayment Schedule in which the Borrowing Entity will mention the periodical spending of own contribution and the loan amount. The repayment may be monthly or periodically and is to be mentioned accordingly in the said schedule. The Repayment Schedule must be mutually agreed upon by the Borrowing Entity and the Loan Appraisal Committee. The responsibility of recovering the loan shall rest with the VSS.

7.4 Disbursement Schedule

A Disbursement Schedule will be mentioned in the Loan Sanction/ Approval Order. The contribution of Revolving Fund will be up to 80% of the total amount required for the income generating activity and the remaining 20% will be met from own contribution of the Borrowing entity in cash or kind or both.

The loan amount will be disbursed in 2 to 6 instalments after considering the physical and financial progress of the Business proposal sanctioned. The own contribution (20%) by the Borrowing Entity must be made with proof thereof and to be provided to the Loan Appraisal Committee before the disbursement of the final instalment. The details of proposed Disbursement Schedule will be mentioned in the loan approval order.

8.0 Procedure for Approval of the Loan and Business Plan

The Loan Appraisal Committee will scrutinize the loan applications along with Business Plan for correctness of the applications and

forward it to the EC for sanction of the loan based on the merit of the proposal. The committee can seek support of PNGO functionary and the Livelihood Coordinator for hands on technical support during appraisal. The committee will take maximum of 3 days to scrutinise and recommend the loan application to the EC of the VSS. Before recommending the sanctioning of loan, the Loan Appraisal Committee must check the credibility of the borrower and their financial worthiness in term of past record of utilization of loan, repayment of loan amount etc.

It will be the responsibility of the President and the Animator of the VSS to see that the proposal reaches the EC of the VSS immediately for approval. Objections/ rejection of the proposal shall be intimated in writing with reasons thereof to the applicant.

In case of dispute, the matter shall be forwarded to the Range Officer for redressal within 7 days and the decision of the Range Officer shall be final. Transparency shall be maintained by the VSS in selection of the Borrowing Entity and sanction of loan. All proceedings of the Appraisal Committee and the Executive Committee shall be recorded as resolution in the proper register.

9.0 Accounting Procedure and Record Keeping:

The accounting procedure and record keeping for smooth financial management at different levels will be done in the prescribed proforma.

At VSS level the treasurer will keep the financial records with the assistance of Animator and Team Members of the PNGO.

At Range level the Data Entry Operator with the support of FMU Coordinator and at the Division level the project Accountant with the support of the DEO will be responsible for record keeping in all forms and posting the required data in the MIS portal.

At the Division and Range level, the Coordination cum Credit Committee (details to be supplied by SPMU later) will work as the

monitoring committee of the RF loan. A Monthly Progress Report will be prepared at Division with the information flow from VSS and Range and sent to the SPMU for reporting and progress tracking purpose.

At the SPMU level, the Project Accounts Team with the support of the OMBADC cell will manage the financial records and compile the monthly progress reports received from the Divisions and take up internal audits at cluster and VSS level. Transfer of funds by the VSS to the Borrowing Entity and by the latter to the Beneficiary shall be done through Direct Benefit transfer to the Beneficiary's Bank Account. The reverse flow of loan with interest also shall be through digital/ electronic bank transfer.

The basic aspects on record keeping & Accounting on Revolving Fund are as below:

- VSS will maintain an exclusive RF Account, preferably in the same bank where other VSS accounts are maintained for OFSDS-OMBADC.
- The RF account should be jointly operated by the Chairperson and the Member Secretary of the VSS.
- A separate cash book and loan ledger for RF shall be maintained at VSS level by the Loan Appraisal Committee.
- All disbursements and re-payments will be from and to the RF fund respectively, shall be made digitally/electronically.
- Internal/Concurrent audit on receipt and utilization of the RF shall be conducted on quarterly and annually basis through the internal audit mechanism as per the provisions of OFSDS-OMBADC Livelihood promotion Project.
- The Monthly Progress reports in the prescribed formats will be maintained by the VSS, Range, Division and compiled reports will be sent to the SPMU latest by 10th day of the succeeding month for further scrutiny.

10.0 General conditions of RF Management

- The Revolving Fund is a grant to the VSS which will be utilized by the VSS for giving soft loans to the Borrowing Entities as detailed in previous sections as a working capital for any IGA by the Borrowing entity. 20% of the Capital expenditures required under the proposed Business plan will be met from the own contribution of the Borrowing Entity.
- The loan size will be finalized considering the factors of fund available, the demand by the borrower and the investment adequacy for the proposed Business Plan.
- Financial management being the key required skill, trainings to the committee members at VSS, Range and Division/Cluster level will be conducted to augment the skill level for managing the fund effectively.
- The default of payment by the Borrowing Entity has to be handled by the VSS through regular counselling, regular follow up and peer pressure. The default at VSS will be attributed to Poor/Bad rating of VSSs and subsequent RF and other provisions may be kept on hold or stopped. The project may also recall the Revolving fund from the VSS.
- The books of accounts and other records of the RF will be audited along with VSS account yearly once and the audit report will be placed in the General Body of the VSS for approval under intimation with compliance to Range and Division.
- The books of accounts and other records maintained by the Borrowing Entity for the approved Business Plan will be subject to periodical audit as decided by the Division / SPMU and the compliance thereof will be intimated to the concerned authority.
- Payments at all levels i.e. VSS, Cluster, Range and Division will be backed by proper Receipts.

- Effort will be made to increase the fund size of RF by application processing fees, recovery of interest and penal interest and by proper maintenance of records and scrutiny of monthly progress reports at different levels.
- If the facility of availing loan from a bank is available to any Borrowing Entity, then priority will be given to avail the loan from the bank rather than to borrow from the Revolving Fund.
- The Executive Committee of the VSS shall maintain the records of receipt, sanction and disbursement of loan applications in the prescribed format.
- In case if the Executive Committee of the VSS observes that there are surplus funds in the Revolving Fund after exhausting all the eligible applications for loan, then the surplus funds shall be kept as Term Deposits/ Flexi- Funds in the same bank. These term Deposits must be liquidated once a loan application is found to be eligible by the Loan Appraisal Committee.
- For non-compliance of Operational Guidelines, the Range Officer/ Divisional Forest Officer will have the right to stop/ withdraw the Revolving Fund from the VSS and shall take appropriate steps for recovery of the said fund.
- Assistance from the services of administrative structure of Odisha Livelihood Mission and Mission Shakti will be availed by the project staff. Similarly, the services of personnel of the two organizations will also be utilized in skill and capacity building by the project staff.

11. Duties and Responsibilities of the Borrowing Entity/ VSS/ Range /Division / SPMU

The Roles and Responsibilities of various stakeholders are as detailed below:

Entities	Responsibilities
Borrowing	<ul style="list-style-type: none"> • To be a responsible member of the VSS and have

<p>entity</p>	<p>healthy relation with VSS</p> <ul style="list-style-type: none"> • To discuss and decide on the IGA and the fund requirement before applying for loan from RF in consultation with the Loan Appraisal Committee of the VSS • To develop the Business Plan and complete it in all respect before submitting the loan application. • To ensure that the loan is productively used for the same purpose as per the approved Business Plan. • To ensure utilisation of own contribution (cash or kind) before release of the last instalment of loan. • To ensure the repayment of loan as per the approved repayment schedule. • To adhere to the terms and conditions laid down in the Loan Agreement. • To ensure all the financial transactions are made electronically/ digitally.
<p>Loan Appraisal Committee</p>	<ul style="list-style-type: none"> • To scrutinise and process the Loan Application and Business Plan as per the Revolving Fund Guidelines. • To advise and assist the Borrowing Entity in preparing the Disbursement Schedule and Repayment Schedule. • To forward the approval / rejection to the Executive Committee of the VSS for necessary action. • To ensure that the Loan Application and the Business Plan are scrutinised and forwarded to the Executive Committee within 3 days from receipt of the same from the Borrowing Entity.
<p>Executive Committee of the VSS</p>	<ul style="list-style-type: none"> • To appraise the VSS members about the availability of the Revolving Fund and its guidelines for IGA. • To ensure proper utilization of Revolving Fund following the Operational Guidelines of the RF. • To constitute the Loan Appraisal Committee and record the same as proceedings in a resolution of the EC. • To open and maintain a separate account for the operation of RF. • To assess the loan worthiness of the Borrowing Entity by examining its financial case history for any

	<p>previous default before final sanction and release of loan amount.</p> <ul style="list-style-type: none"> • To ensure that the loan is productively used for the same purpose as per the approved Business Plan. • To record the approval/rejection of the loan application in the proceedings of its meeting. • To keep adequate stock of loan application, business plan, loan agreement forms etc. for the Borrowing Entities to access RF. • To sanction the loan from the RF within stipulated time frame as per the RF Operational Guidelines. • To monitor the utilisation of loan amount and the own contribution sanctioned to the Borrowing Entities for IGA. • To monitor and ensure the disbursement and repayment of the loan sanctioned for any defaults. • To invest the surplus Revolving Fund as term deposits or in flexi- accounts in the same bank having RF account. • To apprise the General Body of the VSS about the status of RF and loans granted and recovered in the GB meeting. • To ensure overall management of the RF, proper documentation and regular audits. • To submit MPR on utilisation of RF to the Range Officer along with details of default.
<p>P-NGO Team Members, and Animators</p>	<ul style="list-style-type: none"> • To facilitate the sensitization of the Members of Executive Committee of VSS and Loan Appraisal Committee about the Operational Guidelines on Revolving Fund. • To facilitate the preparation of Loan Application, Business Plan and other documents required to avail loan from RF. • To orient the Borrowing Entities on the Pros and Cons of various income generating activities. • To assist the Loan Appraisal Committee in selection and approval process of loan application by the Borrowing Entities. • To assist the Treasurer of the Executive Committee

	<p>of the VSS for maintaining of all records related to management of Revolving Fund.</p> <ul style="list-style-type: none"> • To engage with market players and to support the community members on market linkage. • To support the Loan Appraisal Committee and the Executive Committee of the VSS on financial management and documentation. • To support in preparation of the MPR at the VSS and the Range levels. • To support the Loan Appraisal Committee as and when requested by them. • To make routine follow up of the loan taken for IGA and its disbursement and repayment. • To assist the Range and Division in conduct of periodical Audit of Revolving Fund.
Range	<ul style="list-style-type: none"> • To build the capacity of EC members of the VSS, Animators, Foresters and Forest Guards on RF management. • To ensure proper utilization of Revolving Fund following the Operational Guidelines of the RF by the VSS. • To review and monitor sanctions, disbursements and repayments of loan at the VSS level • To facilitate the operation and management of RF at the VSS Level including the preparation of business plan, sanction of loan etc. • To facilitate the market linkages for the products of the potential IGAs. • To extend necessary support to VSSs in regular monitoring the financial management and default management of RF. • To document the processes, achievements, success stories and issues related to RF management for the Range. • To resolve issues related to defaults and failures of IGA and RF Management. • To resolve any conflicts related to approval of Revolving Fund at the VSS Level. • To prepare and submit MPRs to Division on the

	<p>status of fund, IGA, benefits etc.</p> <ul style="list-style-type: none"> • To upload monthly the information related to Revolving Fund of the Range in the IMS Portal of OFSDS-OMBADC.
Division	<ul style="list-style-type: none"> • To build up the capacity of P-NGO team, Livelihood Coordinators, other project Staff and range Officer on RF management. • To review and monitor the Range -wise sanctions, disbursements and repayments of loan on a monthly basis and submit relevant MPRs to SPMU. • To facilitate in identifying IGA opportunities and linkage with banks for the RF operation etc. • To extend necessary technical and managerial support to VSSs and Ranges in monitoring the financial management and default management of RF. • To facilitate the market linkages for the products of the potential IGAs. • To document the processes, achievements, success stories and issues related to RF management. • To resolve issues related to defaults and failures of IGA and RF Management. • To prepare and submit MPRs to SPMU on the status of fund, IGA, benefits etc. • To upload monthly information related to Revolving Fund of the Ranges in the IMS Portal of OFSDS-OMBADC.
SPMU	<ul style="list-style-type: none"> • To prepare and disseminate the provisions of Operational Guidelines for Revolving Fund. • To ensure timely release of RF to the Divisions. • To supervise the utilization of Revolving Fund and develop the operational mechanism for the financial management. • To monitor and facilitate the required changes in the guidelines over period of time. • To develop the training module for different capacity building themes for all stakeholders and facilitate the rolling out of these plans related to the utilization of RF.

	<ul style="list-style-type: none"> • To prepare MPR and QPR of the RF. • To facilitate the conduct of audit of the Revolving Fund. • To ensure and monitor the monthly uploading of information related to Revolving Fund of the Divisions in the IMS Portal of OFSDS-OMBADC. • To monitor the optimal utilisation of the Revolving Fund at all levels.
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