

F.No. I-12011/48/2019-RL-C
Government of India
Ministry of Rural Development
Department of Rural Development
(RL-Division)

7th Floor, NDCC-II Building,
Jai Singh Marg, New Delhi-110001.

Dated the 30th September, 2020

To

The State Mission Director/ CEO
State Rural Livelihoods Mission.

Subject: Arrangements to facilitate Enterprise Finance for eligible SHG members.

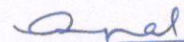
Dear Madam/ Sir,

The SHG-Bank linkage model of microfinance has played a pivotal role in leveraging basic group dynamics and move towards a more inclusive financial system. Over time, the programme has taken deep roots and could meet a good part of unbanked community's needs. Large numbers of SHG members are now taking up economic activities. The prospect for additional earnings and having some disposable income in hand has been driving members to set up their own enterprises. However, most of the enterprises taken up by SHG members are very small, mostly household based, single person run enterprise and do not give the family enough income. A significant barrier to this has been the lack of access to adequate credit.

In order to ensure access to adequate credit to all SHG members willing to take up economic ventures, all SRLMs are advised to make necessary arrangements. A note on field level arrangements that may be made by respective SRLM is attached for reference.

You are requested to draw up a detailed action plan regarding creating the necessary mechanisms for supporting credit to women led enterprises and share the same with this Ministry. Subsequently, progress on this initiative may be shared with this Ministry on a regular basis.

Yours faithfully,



(Nita Kejrewal)

Joint Secretary to the Govt. of India

Encl.: As above.

Financing of Women-led Enterprises

A. Introduction

The SHG-Bank linkage model of microfinance has played a pivotal role in leveraging basic group dynamics and move towards a more inclusive financial system. Aimed at reaching the unreached or difficult to reach population segments and improve access of weaker sections particularly women to institutional finance in rural areas, the SHG Bank Linkage efforts under DAY-NRLM has been unparalleled. Over time, the programme has taken deep roots and could meet a good part of unbanked community's needs. Having inculcated a behavior to save regularly and honing their skills in the art of managing money, rural women SHGs under the mission are now ready to graduate to the next phase. Large number of SHG members have taken up economic ventures. The prospect for additional earnings and having some disposable income in hand has been driving members to set up their own enterprises.

This is a very positive trend. Women entrepreneurship has been recognized as an important source of economic growth as they create new jobs for themselves and others contributing to the economic well-being of the family and communities and ultimately reduces poverty. From a national perspective too, fostering women entrepreneurship particularly in rural India is indispensable, given the fact that participation of women in labour force in India has seen a steady decline over last decade.

There is an urgent need to nurture and unleash this entrepreneurial spirit among women SHG members. However, most of the enterprises taken up by SHG members or their family members are very small, mostly household based, single person run enterprise and do not give the family enough income. Every member of women SHGs may not immediately graduate as an entrepreneur, but systematic efforts in setting up 'women-led enterprises' can trigger a butterfly effect. But the concern remains, even though large number of women in spite of having the willingness and ability to set up their own enterprises or grow their existing ones are unable to pursue it. A significant barrier to this has been the lack of access to formal credit.

B. Challenges faced by Women-Led enterprises in accessing credit

Women entrepreneurs or the women-led enterprises face challenges both from the demand and supply side

Demand side bottlenecks

- (i) No document/ recorded evidence on credit demand of women entrepreneurs
- (ii) Hesitation among women entrepreneurs for seeking credit support due to the fear of denial or due to initial difficulty faced in securing a loan from the SHG or formal banks
- (iii) Over-reliance on own capital/borrowings from relatives and friends to pursue economic enterprises; unwillingness to add to household debt liability
- (iv) Lack of information among women-entrepreneurs to determine the right credit source or credit product
- (v) Assets acquired by women-led enterprises are liquidated first in case of a household emergency

- (vi) In decision to seek credit for enterprises due to socio-cultural factors

Supply side bottlenecks

The challenges faced by women in seeking credit for their enterprises from SHGs are:

- (i) Self Help Groups with available resources often prioritize credit for emergency and immediate needs of members over credit for enterprises
- (ii) Hesitation of SHGs to extend large loans to one or few members
- (iii) Inability of the SHG to customize loans to suit the requirement of women-led enterprises
- (iv) Low/no gestation period given by the SHGs.
- (v) Generally EMIs instead of cash flow based recovery mechanism.

The difficulties faced by women entrepreneurs in accessing credit from financing institutions are:

- (i) Most women entrepreneurs are 'first-to-credit' customers for the formal banking system having no recorded credit history.
- (ii) Most women entrepreneurs cannot offer meaningful collaterals.
- (iii) Have incomplete or under-reported business/financial information, leading to difficulty in assessing credit worthiness or assessing credit requirement.
- (iv) Enterprises are largely informal. Hence financial institutions perceive them as high-risk borrowers.

Even in instances where few financial institutions are willing to extend credit to women entrepreneurs under various schemes, these too are fraught with difficulties like:

- (i) Longer processing time, often leading to entrepreneur relinquishing the plan itself
- (ii) Insufficient loan sizes
- (iii) Lending not matching with the actual business cycles resulting in inevitable failure of the enterprise
- (iv) Shorter tenure of loans not commensurate with type of enterprise
- (v) High interest cost

To overcome these hurdles, it is essential to diligently identify the potential entrepreneurs from among the SHG members, capture their credit requirements and match this demand with credit supply from appropriate source.

C. Purpose of the initiative

The overall objective of the initiative are as follows:

- (i) Identification of potential women-entrepreneurs from among SHG members
- (ii) To ensure access to adequate credit for identified women entrepreneurs/ women-led enterprises

D. Implementation of the initiative

1. Arrangements to be made by SRLMs

- (i) At the sub-block level, SRLM will deploy 'VittaSakhi' or Credit Counselors @ 1 vittsakhi for every 2-5 Gram Panchayats depending on the geographic terrain, accessibility and number of Self Help Groups
- (ii) Existing Cadres (*Bank Sakhi, FL-CRP, BC Sakhi, CRP-EPs and other cadres*) already operating in the area may be allotted the task of 'VittaSakhi'.
- (iii) In order to provide handholding and mentorship support to the VittaSaakhi and the entrepreneurs, SRLMs should identify and empanel retired bankers (*preferably not above scale-3*) at the block/ district level, as 'Mentors'. Empaneled block/ district level trainers (including non-bankers) who are conversant with functioning of banks may also be assigned the task of 'Mentors'. 1 Mentor should be deployed for every 10-15 *vittasakhi*.
- (iv) At the district level, the District Manager – FI or personnel holding similar responsibility may be entrusted to coordinate the entire implementation in respective districts.
- (v) At the state level, the State Project Manager – FI or personnel holding similar responsibility will be the overall in-charge for the intervention in respective districts.

2. Capacity building of cadres and SRLM functionaries

- (i) Capacity Building of SRLM functionaries
 - All SRLM functionaries will undergo a basic orientation program of 2-3 days on enterprise promotion and financing.
 - Orientation to SRLM functionaries at state & district level will be provided by NMMU through high quality resource persons following a standard module. Training programmes for SRLM functionaries may be provided both on-site and on-line.
 - Respective SRLMs will make arrangements for orientation of Mentors deployed at district/ block level. Orientation of the mentors will follow the same curriculum as that of other SRLM functionaries.
 - Orientation programme for SRLM functionaries including mentors will have the following components
 - Basics of entrepreneurship
 - Nature of rural enterprises and its dimensions
 - Estimating credit requirement for rural enterprises
 - Loan Products and schemes for rural enterprises
 - Practice sessions with live cases/ examples
- (ii) Capacity Building of *VittaSakhi*
 - All *VittaSakhi* identified will undergo orientation cum training program of 3-5 days on enterprise promotion and financing.

- Orientation for *VittaSakhi* will be done by trained SRLM functionaries at state & district level.
- The training to *VittaSakhi* will focus on building their understanding about rural enterprises and also impart necessary skills to enable them perform their roles. Standard Training curriculum for *VittaSakhi* will be provided by NMMU. SRLMs will have the flexibility to include relevant topics for making the training effective.
- Training programme for *VittaSakhi* will include the following components
 - Basics of entrepreneurship
 - Nature of rural enterprises and its dimensions
 - Identification of women entrepreneurs
 - Facilitation & observation Techniques for Estimating credit requirement of rural enterprises
 - Identification of potential credit source
 - Monitoring enterprises
 - Practical sessions

3. Identification and enrollment of entrepreneurs

Role of *VittaSakhi*

- (i) Identification & enrollment of the potential entrepreneur within a SHG will be done by the designated *VittaSakhi* for the area
- (ii) *VittaSakhi* will initiate the process for identification of the potential entrepreneurs from the SHG meeting.
- (iii) For identification of the potential entrepreneurs, *VittaSakhi* will validate information collected from prospective members through records available with SHG, discussion with other members of the same group and neighbors.
- (iv) *VittaSakhi* will make mandatory visits to the place of residence/ place of business of the potential entrepreneur.
- (v) Details of the identified entrepreneur requiring credit support will be enrolled on the UDYAMI portal, already developed by MoRD.
- (vi) During registration of the entrepreneurs, priority will be given to women entrepreneurs already identified under the various programmes like SVEP; other farm & non-farm interventions under DAY-NRLM or any state specific schemes.
- (vii) *VittaSakhi* will identify the potential entrepreneur from among members fulfilling the following eligibility conditions.
 - Member should be from SHG that has accessed at least one cycle of loan from commercial bank or any financial institution
 - The parent SHG of the member should not be a defaulter of any bank/financial institution/ federation
 - Member should have been associated with the said SHG for at least 1 year
 - Member should have cumulatively borrowed at least Rs.10000 through the SHG
 - Member should be regular in attending meeting of the SHG in last 6 months.
 - Member should be regular in savings with the SHG in last 6 months
 - Member is regular in repayment of loans taken from SHG
 - Member should not be an individual defaulter in any Bank/financial institution.

- Loan amount requested by the identified SHG member should be minimum of Rs 25000
- The cumulative loan outstanding on the SHG member should not exceed Rs 1 lakh from all sources combined including the proposed loan.
- The member should be willing to contribute at least 10% of the planned investment in the proposed enterprise.

Role of Mentors

- (i) Mentors should ideally be from the same district.
- (ii) In the initial stages, Mentors should accompany and handhold the *VittaSakhi* during the process of identification and enrollment.
- (iii) Mentor will make on-site visit for a proportion of the entrepreneurs enrolled by the *VittaSakhi* on the UDYAMI portal.
- (iv) Any gaps/shortcoming observed by mentors in the process of identification & enrollment of entrepreneurs will be rectified by mentors through on-site inputs to *vittaSakhi*

4. Assessment of identified economic enterprise

Role of VittaSakhi

- (i) *VittaSakhi* will conduct an on-site assessment of the economic enterprise on the following parameters.
 - Potential of the activity in the area
 - Does the entrepreneur have the requisite information about the enterprise?
 - Does the entrepreneur have the requisite skills to run the enterprise successfully?
 - Does the entrepreneur have the basic linkages at required site for the enterprise?
- (ii) Each *VittaSakhi* will be provided with a booklet on Model activities based on the potential in the area. This will assist them during assessment of the enterprise.
- (iii) In addition, *VittaSakhi* will also seek necessary information from other entrepreneurs running similar activity and relevant individuals and institutions available in the area.

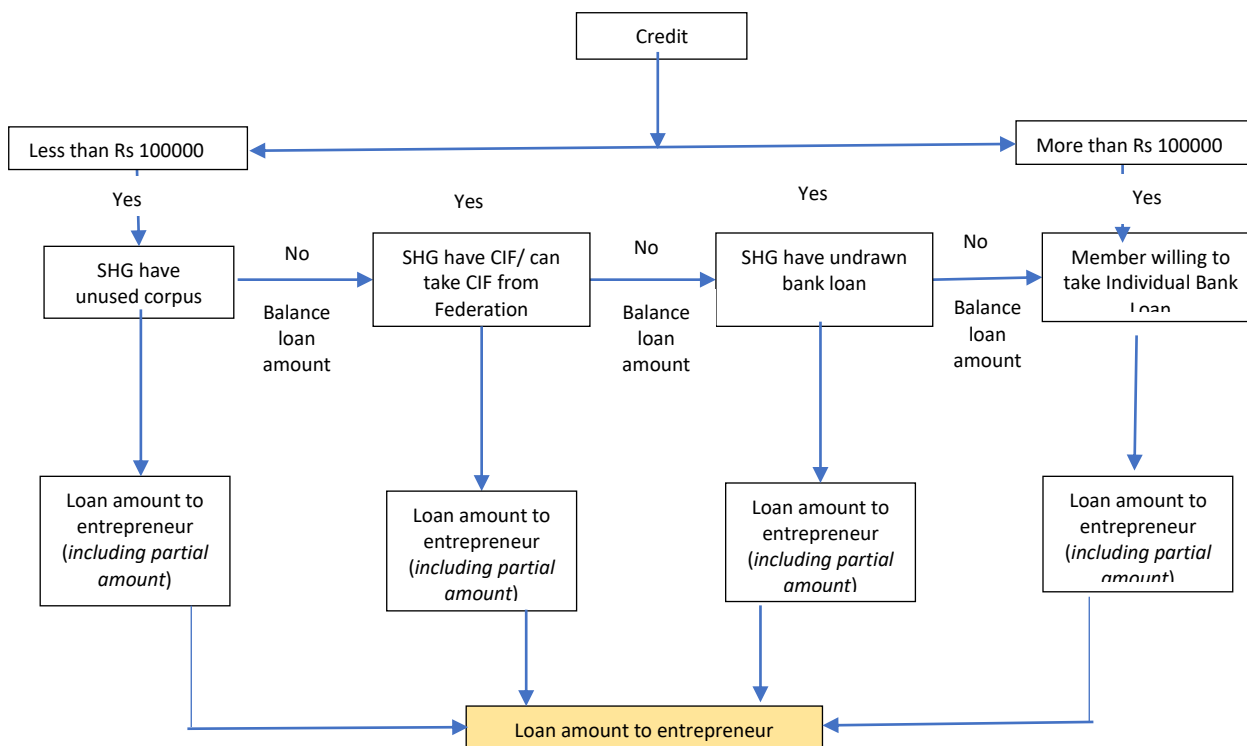
Role of Mentors

- (i) Mentors will provide necessary guidance to *VittaSakhi* for conduct of appraisal of the enterprise.
- (ii) Mentors will also prepare a list of model economic activities which have potential in the areas along with required investment. This will be provided as booklet to *VittaSakhi* as handbooks. This list will be regularly updated.
- (iii) The handbook will also have details on various loan and subsidy based scheme which the entrepreneurs can take advantage of.

5. Planning of potential credit source

Role of VittaSakhi

- (i) VittaSakhi in discussion with the identified entrepreneur and her parent group will determine the potential credit source for financing of the enterprise
- (ii) The following logic may be used by *VittaSakhi* while determining the potential credit source.
- (iii) It may be noted that, credit demand of less than Rs 50000 should ideally be met through the Self Help Group from unused corpus, CIF support from Federation or undrawn bank loans. Credit demand of more than Rs 50000 may be sent to banks seeking individual loans. Credit demand in excess of Rs 1 lakh should compulsorily be sent to banks for seeking individual loans.
- (iv) No individual loan applications will be submitted to banks with demand of less than Rs 50000.



6. Access to credit

Role of VittaSakhi

- (i) *VittaSakhi* will facilitate the actual disbursement of credit to the entrepreneur as planned.
- (ii) In order to ensure timely disbursement of credit to the entrepreneur, *VittaSakhi* will do necessary facilitation with the parent SHG of the entrepreneur.
- (iii) All credit disbursements made to the entrepreneur will be updated on the UDYAMI portal

- (iv) *VittaSakhi* will also support mentor in preparation/ completion of the applications for individual loans to banks/ financial institutions

Role of Mentors

- (i) Mentors will intervene and do necessary facilitation in all such cases where there is a delay in disbursement of credit to entrepreneur.
- (ii) Mentor will also expedite sanction of CIF loans from Federation to SHG wherever required.
- (iii) Mentor will coordinate and facilitate the process of withdrawal of undrawn bank loans available with the group
- (iv) For entrepreneurs seeking individual loan from banks, mentor will prepare loan application. The loan application will be completed with signature from the entrepreneur along with necessary supporting documents.
- (v) Mentor will ensure timely submission of the individual loan applications to the identified bank/ financial institution and make regular follow-up for timely disbursement.

7. Monitoring & Tracking of enterprises

Role of VittaSakhi

- (i) *VittaSakhi* will conduct regular monitoring of the enterprise through on-site visits
- (ii) Monitoring of enterprises should be done on following parameters:
 - Activity status: [*Not started/ Continuing/ Failed/ running in loss/ season over*]
 - No of people employed other than entrepreneur: -
 - Estimated Monthly income:
 - Repayment: [*Repaid in full/ Repaying on time/ Irregular/ Defaulter*]
- (iii) *VittaSakhi* should make at least 1 visit every quarter (visit more frequently in case of seasonal activities) to the enterprise site.
- (iv) Monitoring reports should be updated on the UDYAMI portal along with GPS coordinate and photograph of the enterprise
- (v) In case where the entrepreneur is irregular in repayment/ defaulter, necessary steps will be taken up by *VittaSakhi* with support of SHG and Federation to ensure timely repayment of loans.

Role of Mentor

- (i) Mentors will also make on-site visits to entrepreneurs to monitor the performance of the enterprises
- (ii) Mentors should be in regular touch with banks/ financial institutions and monitor the repayment of individual loans by entrepreneurs
- (iii) In all such cases where the enterprise has failed or running in losses, mentor should coordinate through SRLM functionaries to ensure necessary supportive actions for the enterprise.

- (iv) In all such cases where the enterprise has not started or the repayment is irregular or entrepreneur has become a defaulter the mentor should guide the *VittaSakhi* to take corrective/ support actions.
- (v) Mentors should organize Monthly/ bi-monthly meetings of *VittaSakhi*. Block/ District functionaries of SRLMs should also participate in these meetings

8. Integration with Livelihoods Interventions

Credit alone will not be sufficient to sustain and expand enterprises. Enterprises will also require timely and appropriate techno-managerial inputs. In order to ensure this, the following arrangements should be put in place by respective SRLMs.

- (i) Assessment of techno-managerial inputs required by enterprises will be done by respective thematic personnel.
- (ii) One of the key focus of the techno-managerial support would be formalization of the eligible enterprises and mainstreaming of isolated enterprises with appropriate value chains.
- (iii) Based on the assessments, a detailed plan will be chalked for extending the necessary support.
- (iv) Necessary focus should be given to ensure repeat linkages for members who have taken credit and initiated their economic enterprises.
- (v) The handbook on potential enterprises for *VittaSakhi* will be developed in coordination with all thematic verticals and will be based on enterprise surveys carried out under SVEP; reports on value chain analysis in various sectors; reports published by DIC; reports published by NABARD and other commercial banks
- (vi) A coordination cum review committee should be set up at the state level under the Mission Director/ CEO/ COO involving officials from all thematic verticals.
- (vii) The committee will conduct regular review of progress under the intervention and will also chalk out a plan to ensure timely delivery of techno-managerial inputs from various thematic as per requirements of entrepreneurs.
- (viii) The committee will also introduce new policies and modify existing ones as required to suit the intervention.

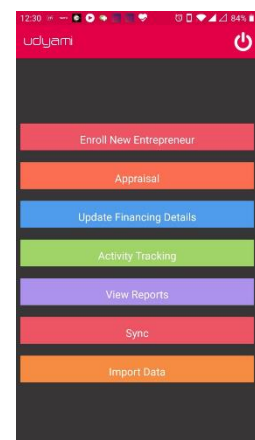
9. Use of UDYAMI app

The entire intervention will be data driven. To facilitate this, an online system UDYAMI has been developed by MoRD. The system has two components

- (i) UDYAMI – Android application
- (ii) UDYAMI – Web Portal

(i) UDYAMI – Android application

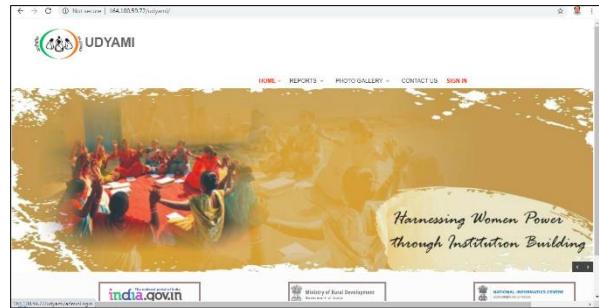
- This android app will be used by *VittaSakhi* record the following details



- Identification & enrollment of potential entrepreneur;
 - Appraisal of entrepreneur & planning potential credit source;
 - Updating of actual credit disbursement;
 - Tracking of enterprise
 - GIS location and photograph of enterprise
- The app will permit off-line entry of information. However, it is essential to regularly sync the updated information with the application server.

(ii) UDYAMI – Web Portal

- All SRLMs will be provided with necessary user credentials for using the portal. Respective SRLMs can create login credentials for *VittaSakhi* to use the UDYAMI app.
- This portal will be primarily used by mentors and SRLM functionaries to view reports based on data entered through the android app.
- The reports populated on the portal will aid faster decision making and targeted intervention
- The portal will also project appropriate GIS based reports which will allow SRLMs to plan common infrastructure/ facilities to support the enterprises



10. Honorarium

VittaSakhi and mentors are key actors in the interventions. To maintain their motivation and involvement in the interventions, it is essential that they are adequately remunerated for their efforts

Honorarium for *VittaSakhi*

- Each *VittaSakhi* will be paid based on the tasks performed by them.
- The proposed rate for payment for each task may be as below:
 - Identification & enrollment of potential entrepreneur: **Rs 20 per enrollment**
 - Appraisal of entrepreneur & identification of credit source: **Rs 25 per entrepreneur**
 - Updating of actual credit disbursement: **Rs 50 Per entrepreneur**
 - Tracking report of enterprise: **Rs 20 per report**
- No other payment for travel, internet usage etc will be payable to *VittaSakhi*.
- SRLMs, will be at liberty to finalize the rate for the tasks performed. However, it should be ensured that each *VittaSakhi* is adequately remunerated for their tasks.

- Payment to *VittaSakhi* may be done based on the performance reports generated through the UDYAMI portal

Honorarium for Mentors

- Each mentor will be paid a fixed honorarium for 7 days per month @ Rs 1000 per day toward facilitation and mentorship tasks.
- In addition, each mentor will be paid Rs 1000 per individual loan application. This will be paid in three tranches – Rs 200 on submission of application to the bank branch and updation on UDYAMI portal, Rs 300 on actual disbursement of loan by bank, and Rs 100 timely repayment in every quarter for first 4 quarters after expiry of moratorium period is any
- Stationary and other essentials for preparation of loan applications will be provided by respective SRLMs.
- No other payment for travel, internet usage etc will be payable to mentors.