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Government of India
Ministry of Rural Development
Department of Rural Development
RL Division

NDCC-II Building, 7th Floor,
Jai Singh Road, New Delhi-1,
Dated 3rd Nov., 2020.

To

The Principal Secretaries
All States / UTs

Subject: Guidelines for release of funds to Producer Enterprises being promoted under the farm value chain interventions under DAY-NRLM.


Madam / Sir,

I am directed to say that Value chain development through promotion of Producers' Enterprise is one of the important and current thrust area under DAY-NRLM. Guidelines to support States on promotion and financing producers' enterprises have already been issued earlier. These guidelines issued have clearly articulated the process for promotion of Producers Enterprise and directed that the funding support to Producer Enterprises should be released by SRLMs directly to the Producer Enterprises in their Bank accounts. Success of the women owned Producers' Enterprises will largely depend on the timely completion of planned activities and fund availability at Producers' Enterprise level, hence avoidance of delay in fund release is one of the most important conditions.

To ensure timely fund release to the PEs and smooth implementation of the value chain projects, a "Guidelines for release of funds to Producer Enterprises being promoted under the farm value chain interventions under DAY-NRLM" has been approved under DAY-NRLM. The guideline for release of funds to Producers Enterprises being promoted under the farm value chain interventions under DAY-NRLM is attached herewith for kind information.

Yours faithfully,

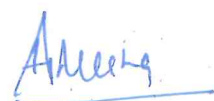
Encl: As above


(H. R. Meena)

Deputy Secretary to Govt. of India

Copy to :-

1. CEOs/SMDs of all States / UTs.
2. PPS to Additional Secretary, Rural Development, MoRD.
3. PPS to Secretary, MoRD



Guidelines for release of funds to Producer Enterprises being promoted on the farm value chain interventions under DAY-NRLM.

A. Background:

Higher order economic activities through value chain development by promoting large sized women owned Producers Enterprises (PE) has been taken up under DAY-NRLM through project mode under different sub-components namely, NRLM - Innovation component, NRETP & MKSP – Value Chain. DAY-NRLM has issued the following two guidelines to facilitate SRLMs to promote Producer Enterprises (PE), i) Guidelines for promoting Producers Enterprise under NRLM and ii) Guidelines for financing Producers Collectives under DAY-NRLM.

These guidelines have clearly outlined the process of various activities to be taken up including training of BoD members, members and PE staff while initiating a Producer Enterprise.

i) Guidelines for promoting Producers Enterprises (PE) under DAY-NRLM:

The guideline intends to build a common understanding on the purpose & benefit of promoting PEs, help formulating value chain development strategy and provide comprehensive guidance for promoting PEs that are sustainable, member-owned and member-controlled organizations.

The guideline elaborates the role of implementing agencies, i.e., SRLMs, identification of areas of intervention, formation of Producer Enterprise, business models/ operation/ risk/ principles/ structure of PEs. The guideline also clearly outlines the i) Organization structure with HR processes of the PE, ii) Governance of the PE mentioning the board structure (draft MoA annexed), sub-committees to handle the commodities and PE management, iii) Training and Capacity building activities mentioning the specific areas of training for the PE staff, Board of Director and members.

ii) Guidelines on financing producers' collectives:

It outlines the structure of funding support to the PEs with specific components as well as the permissible activities, fund flow mechanism from SRLM to PEs, criteria to release fund to PE, procedure for procurement of equipment/machinery and services for value addition. The components for funding support to PE include i) Infrastructure for value addition, ii) Strengthening Producers Enterprise (IB/ CB cost), iii) Working Capital, iv) Human Resource and administrative costs and v) Support for transportation of goods procured from the members. This guideline also outlines the funding mechanism for Producer Group promotion and the important budget components for the same like working capital and infrastructure for PG.

The above guidelines issued have clearly articulated the process for promotion or Producers Enterprise and directed that the funding support to Producer Enterprises should be released by SRLMs directly to the Producer Enterprises in their Bank accounts without any delay. As success of these women owned enterprises will largely depend on the timely completion of planned activities and fund availability at Producers' Enterprise level, avoidance of delay in fund release is one of the most important conditions.

To ensure timely fund release to the PEs and smooth implementation of the project, this '**Guidelines for release of funds to Producer Enterprises being promoted on the farm value chain interventions under DAY-NRLM**' are being issued.

B. Project Sanction Procedure

SRLM as Project Implementing Agency will submit value chain development project proposals to the Ministry for promotion of producers' enterprises in specific business plan template prescribed under different components guidelines of DAY-NRLM such as NRLM – Innovation Fund, NRETP and MKSP – Value Chain. The State Rural Livelihoods Missions (SRLM) as Project Implementing agency (PIA) will undertake proposal development and subsequent facilitation of the project roll-out.

Desk Appraisal: The proposal submitted by the SRLMs would be appraised by a team of experts having thorough understanding of value chain interventions including business models and commodity markets. The expert team comprises of Farm Livelihoods team of DAY-NRLM handling value chain development interventions and National Resource Persons empanelled by NIRD&PR having expertise on value chain development. The proposals are evaluated against prescribed appraisal criteria and scored accordingly. In case the proposal is not found to be suitable to be taken to the pre-EC stage, the SRLM would re-work the proposal based on the comments.

Pre-Empowered Committee: The proposals found suitable under desk appraisal process are then subject to evaluation by the Pre-Empowered Committee (pre-EC) chaired by the Mission Director, NRLM. The Projects submitted would be examined and considered by the Pre-EC before it is submitted to the Empowered committee for its recommendation.

Empowered Committee (EC): Once the project proposal and the budget have been examined in the Pre-EC meeting and found suitable, the proposals are put forth for consideration and approval by the Empowered Committee chaired by Secretary, RD. If the project is approved by EC, fund will be released to SRLM.

C. Preparedness

The SRLMs have to ensure the followings after the project proposal is approved by the Empowered Committee (EC):

1. The Technical Support Agency (TSA) for the project implementation needs to be onboarded within two months of the approval of the project.
2. The DPR of the Producers Enterprise shall include the scheduling of fund requirement on six-monthly basis and the procurement plan for goods/services with timeline.
3. State has to ensure timely release of matching State share for the sanctioned project.
4. The accounts of producers' enterprise shall be maintained in any Accounting Software Package suitable for this purpose.
5. The PE shall ensure proper maintenance of accounting books, records, documents and other evidence relating to the project, adequate to show, without limitation, all costs incurred from the grant for the project and the overall progress of the project.
6. The PE shall have separate Bank account specifically assigned for receipt of Grant from SRLM.
7. A Producers' Enterprise is promoted as an independent producer owned organization and SRLM shall not issue any such directives/orders which violates the autonomy of the Producers' Enterprise.

8. State to extend all necessary support and guidance for timely completion of the procurement of goods/services by the Producers' Enterprise and recruitment of human resources as per the approved DPR. SRLM and/or project-based TSA, if engaged may support the PE, in case of requirement. The primary responsibility of procurement of goods and services as well as recruitment of staff will be with the PE under direct oversight of TSA.
9. CEO, ZP and DMMU, SRLM, shall play a strong role in creating a conducive environment for implementation of project by supporting the Producers Enterprise in the following areas:
 - a. Mobilization of small and marginal farmers in the fold of PE.
 - b. Form more SHGs to include eligible non-SHG households, who are members of Producers Enterprise.
 - c. Arrange for financial support through CIF/Govt schemes and/or Bank linkages to SHG members for milch animal induction or any such asset acquisition activity.
 - d. Coordinate with line departments for convergence.

D. Fund Release Mechanism

1. A grant letter needs to be issued to the Producers Enterprise (PE) clearly mentioning all funding conditions applicable under DAY-NRLM. A draft grant letter is at **Annexure – I**
2. The first two tranches of the first instalment should be released to PE along with the State share as soon as the fund is received from NRLM, so that field level work can start without delay.
3. Subsequently, based on the six-monthly fund requirement, the State shall prepare a PE wise fund allocation plan and release fund directly to the PE's account against the request after the recommendation the Project management committee. Fund should be released to PE based on the annual action plan prepared by the PE and approved by Project management Committee (PMC) set up to oversee the project implementation chaired by State Mission Director.
4. The PE should submit request for fund requirement to the SRLM bi-annually based on approved annual plan. The request for release of funds by the Producers Enterprise shall be sought with fund utilization certificate for the previous advance(s) & the physical progress report thereof. The PE can submit their fund requirement request to SRLM after utilizing 60% of the previous installment(s), even before six months. The fund should be released to PE within one month of the receipt of the request from PE.
5. In case of delay/shortfall, SRLM should ensure release of an advance payment to PE immediately which is equivalent to the fund requirements for activities to be performed in coming 2 months by the PE.
6. State should ensure that the PE's accounts are audited as per regulatory provisions of the appropriate laws and completed in time.
7. Internal Auditors shall be appointed by the PE's which is mandatory as per Company Act for a registered company, who will conduct the audit on a monthly basis and submit the audit report regularly. An indicative note on the Terms of Reference and scope is at **Annexure II**.
8. PE should have a purchase manual as a SoP to take up purchase of goods and services in the PE. While preparing the purchase manual, the PE may

refer NRETP procurement manual for guidance, though necessary care should be taken to ensure that purchase manual thus prepared is duly approved by the BoD of the PE.

9. Submission of Audited fund Utilization certificate (FUC)/report will be Quarterly. If the audited FUC submission is not obtained at the time of seeking advance by the PE, then unaudited FUC shall be submitted till the previous month along with necessary recommendation from TSA while seeking subsequent fund advances. The producers' company should submit the audited FUC for each Quarter that shall be submitted within 20 days after completion of Quarter whereas for the Year ending March, the audited FUC shall be submitted within 60 days after completion.
10. It should be the endeavor of the State to ensure Producer Enterprise shall continue their operations seamlessly, thus observations by the auditors should be complied with, at the earliest with the support of Technical Support Agency. The funds will be withheld only if material observations have not been complied with, in support of which a revised audited report would be given not later than six months (Except for force majeure) from the date of the previous audit report.
11. SRLM shall be entitled to conduct an audit of project, within a month of the SRLMs' audit notification as mutually agreed with PEs. The Terms of Reference of the audit will be shared with PEs at least one month before the Audit.

E. E. Training and Capacity Building for Producers Enterprise:

Training and capacity building is a critical aspect in promotion of the Producers' Enterprise. A robust training plan should be prepared by the SRLM to ensure that the all levels of staff are prepared for the implementation. The trainings to the Producers' Enterprises' staff, board of directors and the spearhead team are the responsibility of the SRLM.

1. **Training of Producers Enterprise staff:** The Staff of the Producer Enterprise must be taken through various training programs as and when required. The trainings may cover the following topics –
 - a. Empowering Grassroots Members
 - b. Strengthening Governance and Leadership
 - c. Supporting Effective Market Research
 - d. Strengthening Business Management
 - e. Supporting Improved Production
 - f. Supporting Appropriate PE Structures
 - g. Facilitating Trade Linkages
 - h. Facilitating Access to Market Services
 - i. Business understanding and judgement
 - j. Negotiation skills and confidence
 - k. Market information
 - l. Legal/ statutory compliance
 - m. Leadership and Management skills
 - n. Business understanding
 - o. Motivation, integrity and dedication
 - p. Participatory governance processes
 - q. Technical Capacity (value addition, quality, post-harvest, pre and post production)
 - r. Business and market literacy
 - s. Basic management and accounting

- t. Formal structures and rules - These define members' rights and the formal systems of decision- making and control, such as voting rights.
- u. Motivation and trust - If individual members do not trust the PO's decision-making process or they are not satisfied with the benefits they receive from the PE they may become disillusioned and withdraw from active involvement in the PE.

2. Training of Board of Directors of the Enterprise. The Board of Directors have to be taken through trainings at regular intervals to build their capacity for good governance and decision making. Following are the main areas of leadership capacity building that needs to be conducted:

- a. Leadership and Management skills
- b. Business understanding
- c. Motivation, integrity and dedication
- d. Participatory governance processes
- e. Business and market literacy and strategy

3. Training to members: The following trainings should be conducted for the members of the PE. The responsibility of the training of the members lies with the PE.

- a. Technical Capacity (value addition, quality, post-harvest, pre and post production)
- b. Business and market literacy
- c. Basic management and accounting
- d. Formal structures and rules - These define members' rights and the formal systems of decision- making and control, such as voting rights.
- e. Motivation and trust - If individual members do not trust the PE's decision-making process or they are not satisfied with the benefits they receive from the PE they may become disillusioned and withdraw from active involvement in the PE.

F. Monitoring:

1. A Project Management Committee (PMC) set up at the State level shall have overall responsibility of review, monitoring and evaluation of the project and support the producer companies in effective implementation of the project. The PMC should meet at least once in a month.
2. The committee shall comprise the following members
 - a. State Mission Director, SRLM- Chair
 - b. Nominated Member of NRLM
 - c. Nominated Member of TSA
 - d. Chief Executive of supported Producer Company
 - e. SPM – Livelihood/Livestock – Convener
 - f. Head – Finance, SRLM
3. The responsibility of the Project Management Committee (PMC) should not be delegated/sub delegated in whatsoever manner to district administration.
4. The Project Management Committee should review the progress on financial, physical & procurement of goods/services of each Producer Enterprise

Annexure – I Grant Letter Template

To

Chief Executive,

..... (name of PE).

Address.....

Subject: Sanction for an amount of Rs..... lakhs to fund the producer enterprise under a project named “.....” to be implemented from to

Dear Madam / Sir,

We are pleased to inform you that SRLM has approved a grant of Rs..... (Rupees Only) to Producer Company Limited, (*address*) as per the proposals & budget approved for the project titled “.....” by the Ministry of Rural Development, Government of India for a period from (date) to (date) against the DPR submitted. The grant is made subject to the following conditions:

1. Head wise amount of fund approved:

Sr.	Head	Amount (in lakh Rupees)
1.	Infrastructure support for value addition	
2.	Cost towards Strengthening Producer Enterprise	
3.	Working Capital	
4.	Management Support	
	Total	

2. Support from TSA PC should take support from the TSA appointed. SRLM may list down the support to be taken by PC from TSA.

3. Disbursement of Grant

- a) Fund will be released directly to the bank account of the PE based on the approved project budget with an intimation to the Technical Support Agency.
- b) The PE may request for fund requirement to the SRLM on a six-monthly basis and on the Annual Plan approved by the PMC. The request by the Producer Enterprise shall be submitted along with **fund utilization certificate (FUC)** for the previous advance & the physical progress report thereof.
- c) The PE may submit their fund requirement request before six months after utilizing 60% of the previous instalment. The fund would be released to PE within one month of the receipt of the request from the PE.
- d) If the audited FUC submission is not due at the time of seeking advance, then unaudited FUC shall be submitted till the previous month along with necessary recommendation from Technical Support Agency (TSA) while seeking subsequent advance.

4. Utilization of Funds

- a) Fund will be released subject to a satisfactory review of the performance by PMC (Project Management Committee) as envisaged in the DPR and utilisation of funds. Every Fund release to the Producer Enterprise would be based on the recommendations from TSA.
- b) Funds from Other sources should not be used for the specific line items specified in the Project Budget unless prior approval is taken from the SRLM.
- c) Neither SRLM nor any of its office bearers will be made a party to any adversities caused to Producer Company or its employees/ representatives in any form or manner, financial or otherwise, as a result of actions undertaken by others over which SRLM has no say.
- d) PC should have adequate/appropriate Accounting/Financial systems and Procedures and should Maintain proper books of accounts to track the expenditure.
- e) Interest accrued on the grant fund should be reported to SRLM in the QPR and Fund Utilisation Certificate.
- f) Unutilized fund after closure of the project may be returned to SRLM.

5. Reporting

- a) **Annual Work Plan (AWP):** The Annual Work Plans will be submitted in the format decided mutually. Fund should be released to PE based on the annual work plan prepared by the PC and approved by Project management Committee (PMC) set up to oversee the project implementation chaired by State Mission Director.
- b) **Quarterly Progress Reports:** quarterly reporting of the progress should consist of followings:
 - i. **Quarterly Progress Report (QPR):** This report should be submitted within 20 days of completion of the quarter to SRLM providing a description of activities undertaken / completed during the quarter, as per the AWP, as per the format prescribed by SRLM
 - ii. **Utilisation Certificate (UC):** An audited Fund Utilisation Certificate (FUC) in the format prescribed by SRLM should be submitted within 20 days of the end of each quarter to SRLM.
Note: Quarterly periods shall be calculated from the beginning of April 1st and ending March 31st of the relevant year.
- c) **Annual Progress Report** should be submitted yearly within 30 days of completion of the financial year, to SRLM, providing a detailed description of progress made in the project, as well as specific progress in project activities against the AWP, as per the format prescribed.
- d) **Audited Statement of Accounts:**
 - i. A consolidated annual audited statement of accounts of Producer Enterprise including a separate schedule regarding the project supported by SRLM should be submitted in the format prescribed by SRLM *within 15 days* from the approval of financials in Annual General Meeting.
 - ii. Grant received from SRLM should be treated as an Earmarked Fund. Only the revenue grant utilized during the year should be routed through Profit & Loss statement. The balance unutilized advance at the end of each financial year may be treated as advance towards acquisition of remaining capital items subject to a maximum limit of total Capex Grant outlay.
- e) **Project End Report:** A Project End Report should be submitted at the end of the project as per the format prescribed by SRLM.

The type of reports, frequency and period of submission is provided in the table below:

Name of the Report	Period	Frequency
Annual Work Plan (AWP)	Financial Year	Within 20 days from the end of previous Financial Year
Quarterly Progress Report (QPR)	Every Quarter	Within 20 days after completion of every quarter

Name of the Report	Period	Frequency
Utilisation Certificate (UC)	Quarterly unaudited	Within 20 days after completion of every quarter
	Six Monthly Audited	Within 20 days after completion of every six months
Annual progress Report	Financial Year	Within 30 days from end of Financial Year
Project End Report	One-time activity	End of the Project

f) Contributions from Other Sources not brought into the Accounts of the Grantee

- Details regarding funds from other sources utilised for the project, specifying the amounts brought into the accounts of the grantee, must be detailed in the format prescribed and Utilisation Certificate of this letter.
- A duly certified statement/document/letter of proof from the funding agency/government department/institution must be attached with the QPR / UC for the period under review, certifying the amount mentioned being raised from the said source towards the project.
- Project Management Committee shall undertake such activities as it deems fit to satisfy itself of the source of funding and its impact on the project.

g) Changes in Budget: Any modifications to / deviations from the Budget of any nature whatsoever regardless of its impact on the feasibility of the project shall be subject to the recommendation of Project Management Committee and approval of the competent authority.

6. Monitoring and Evaluation: The progress of the project will be reviewed & monitored by the Project Management Committee (PMC) set up for this purpose. SRLM may conduct audit of project fund. The Terms of Reference of the audit shall be shared with PE at least one month before the Audit. SRLM will appoint any external agency that it deems fit to carry out a technical/evaluation study as and when required. SRLM may take up documentation of the producers' enterprise as and when required.

7. Other Conditions: Following are the other conditions may be added by SRLM.

- No use of name of SRLM in any correspondence, display board may be done without prior information
- Indication of the clauses regarding Indemnification, Termination, Governing Law.

Annexure- II

Indicative Terms of Reference and Scope for Internal Auditor

The Producer organization may get the Internal Audit done on monthly basis or may engage the Internal Auditor on daily basis for pre audit of each transaction. It is highly encouraged that the auditor so engaged shall attend the office of the Producer Enterprise regularly and pre-audit all the files, purchase orders, payment and receipt vouchers, sales bills, purchase bills, entries pertaining to any other incomes, stock entries, cash book and bank book, reconciliations, Checking and applicability of TDS, TCS & GST etc. and establishment/service matters of the employees.

The firm should be in existence for at least 3 years before the date of engagement and have experience in conducting internal audits of Producer Companies/trading/Manufacturing concerns. The CA firm engaged for Internal Audit to deploy a Qualified Chartered Accountant or an Audit/Article Assistant with not less than 2 years of experience.

The Internal Auditor should also suggest other areas of improvement and should highlight any shortcomings in its monthly report after Complete checking of the Receipt/payment Vouchers as per the provisions of the GST Act. Reconciliation of Sales and Purchase Accounts with Store Books on monthly basis and debtors if any which are outstanding and doubtful.

The Internal Auditor shall submit a report indicating any discrepancies noticed in the utilization of funds as per the approved budget. Financial Accounts, Utilization Certificate, Procurement bank Reconciliation should be included in the report submitted to the CEO of the producer organization.

The internal Auditors are free to look into all the aspects of working which affect the financial management of the Producer Enterprise and any abnormality noticed by them whether covered in the guidelines shall be reported by them. The broad areas to be covered by the internal auditor is for Purchases, Fixed Assets and Inventory, Accounts, Trading Activities and legal compliances.
