

VILLAGE DEVELOPMENT FUND

Promotion of Small Scale Business and Employment

1. Purpose

Support for small scale business and employment promotion through the establishment of a village development fund (VDF). The VDS serves the purpose of making small loans available to individual families who are conflict affected and food insecure. They have to have the potential to implement and sustain small scale business activities for improved household food security. The small loans shall be allocated on a collective base, thereby addressing individual requests and facilitating integration into the local market economy.

2. Description

Conflict affected families, facing temporary food deficit, however, have the potential for small scale business and employment creation and need financial assistance to start a business are identified and confirmed during PNA. They are supported in identifying promising activities and are supported in the course of establishing and running of small business. Agri-based businesses are preferred since they are expected to improve the availability of and the access to food on short-term.

The VDF creates the financial base for integrating families into the local economy. The VDF supports community projects of IFSP.

IFSP is providing support in kind or cash. Some activities require cash in hand in short intervals and in small amounts as and when required. This would include inputs for cultivation at different stages, e.g. fertiliser and plant protection. The VDF could support the establishment of a small shop or craft. Since most requests for support are untimely and occur spontaneously, they can hardly be handled by IFSP. An active CBO in the village is to be involved in supporting the assessment and rationale of the requests for small scale business and employment, forward them to IFSP in time, accompany the establishment and running of the business and later recover the loan. Close cooperation with IFSP at all stages of the process are essential.

Since the majority of the CBO have no funds from own sources to provide loans, outside interventions is necessary. The VDS bridges the gap between the demand and availability of short-term credit. It is a tool for development. The VDS shall be applied in selected villages on a test base.

The VDS does not intend to substitute the local banking arrangements, the opposite is the case: in as much as small scale business and employment creation become viable and attractive, it has to be directed to the established system. Local banks shall be involved from the very beginning as partners of IFSP. The same applies to involved government departments and non-government organisations.

The payments into the VDS for specific projects will be credited to a special account of the respective CBOs, which have to be opened for this purpose. IFSP and the CBO will take joint responsibility for the operation of this account. Recovery will be done by the CBO. All procedures will be done in a transparent manner. Public auditing will be introduced.

3. Criteria for Eligibility

3.1 Community Based Organisation (CBO)

- A registered CBO of a PNA village
- The CBO has already successfully implemented community projects of IFSP
- The CBO has a proven capacity, capability and reliability
- A special account has to be opened for the VDF
- The CBO has to guarantee with own funds for the IFSP contribution to the VDF

3.2 Individual Families

- The needs and potential of individual families for small scale business and employment creation are identified during PNA
- The family has to be confirmed as a potential beneficiary by the IFSP team, in cooperation with staff from partner institutions
- The family should be recognised as reliable and committed by the CBO
- The business proposal has to have potential and should be sustainable
- Collective agreements are preferred, e.g. several families conduct an agreement for a certain business; for this purpose '**action groups**' (AG) have to be formed
- All members of an action group guarantee the loans to the members of the group
- The loan recovery is to be done through the CBO at market rates

4. Mode of Operation

- The respective CBO is partner of IFSP. The CBO has a promoting and facilitating role. The respective CBO is 'supporting partner' of IFSP.
- An initial loan of up to Rs. 50,000.00 will be credited to the special VDF account of the CBO.
- The action group of the beneficiaries (AG) will be the implementing partners of the project and the CBO will be the supporting partner of this project. The AG is the 'implementing partner' of IFSP.
- The CBO with the support of IFSP will prepare an advanced fortnightly loan disbursement schedule with the participation of the members of the action group. The withdrawal of funds will be done by the CBO fortnightly according to loan disbursement schedule. The IFSP community mobiliser shall certify any withdrawal.
- Assistance in kind is preferred. In such cases, procurement could be done either by IFSP or by the respective CBO. The IFSP community mobiliser is to be involved in a process of consultation between the members of the AG and the representatives of the CBO.
- A business plan has to be established. The IFSP community mobiliser will prepare a draft plan. Staff from partner institutions, e.g. Dept. of Industries are to be involved.
- The ceiling of a loan to an individual family shall not exceed Rs. 10,000.00. The loan will be given in instalments as and when needed.
- The interest rate for a loans is 12% per year. Of this, 7% will be continuously added to the VDF and 5% can be used by the CBO for administration and as service charge.
- The recovery of the loan has to be made in full. Recovery has to start immediately after the start of the small scale business and as soon as the individual family is generating a surplus income. A recovery schedule stating the amount of recovery as cash or kind, period of recovery and the instalments are to be jointly prepared by IFSP staff and the CBO and agreed upon in advance in consultation with the members of the action group before the release of the loan.
- All members of the action group shall be the guarantors to each of their individual members, i.e. collectively guarantee for each loan under the VDF.
- The loan should be 'bankable', i.e. after a positive evaluation of experiences with the VDF it is aimed to encourage local banks to take over.
- Training will be provided to the CBO in loan handling, accounting, recording and reporting and necessary supporting facilities will also be provided.

5. Conditions

- The utilisation of loans from the VDF shall be exclusively for small scale business and employment promotion.
- The loans are not to be used for consumption or other purposes.
- Beneficiaries are predominantly families identified as 'vulnerable' during PNA. Their potential for small scale business and employment is to be identified by the PNA team and confirmed by the technical project committee (TPC) of IFSP. This would include the capacity of the established AG.
- The loan shall be given to a beneficiary after confirmation on the end use of the money and appropriate recovery plan.
- The beneficiaries shall enter into a collective agreement through their AG with the and the CBO and then with IFSP before the respective loan is disbursed.
- A separate account shall be maintained by the CBO. The respective community mobiliser of IFSP will countersign for this account. The countersignature of a government official from a respective department is considered (e.g. DS, RDO).
- The CBO shall keep a minimum of 25% of the total VDF as balance in the account. The whole VDF must not be withdrawn in full or expended completely.
- A bank guarantee has to be produced to IFSP at the time of signing agreement up to an amount of the existing bank account of the respective CBO..
- The recovered money shall be credited to the same CBO account, however, owned by IFSP.
- The further use of repaid loan into the VDF shall be authorised by IFSP.
- A business plan is to be established for and together with the CBO and action group.
- Records shall be kept by the AD and the CBO for all transactions.
- Records shall be kept by the individual members of the AG for all transactions.

6. Formats

Particulars of the Loan

Action Group of CBO:

Business/Activity	Name of User	Amount (Rs.)	No. of Loan Instalments

Recovery Schedule

Action Group or CBO:

Name of User	Amount (Rs.)	Recovery Period	Recovery Schedule (Rs.) (fixed monthly repayments)		
			Principal	Interest	Total