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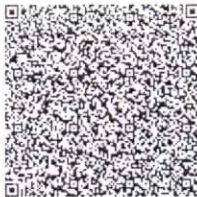
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Government of Uttarakhand

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Agreement No. **1911** /2022-23

Memorandum of Understanding

Between

Uttarakhand Gramya Vikas Samiti

(A Lead Project Agency of Rural Enterprise Acceleration Project)

Represented by Chief Project Director, UGVs-REAP

&

Uttarakhand Parvatiya Aajeevika Sanvardhan Company (UPASaC)

(A non profit company under section 8 of The Companies Amendment Act 2013)

Represented by Managing Director, UPASaC and a nodal / implementing agency for facilitating bank finance / credit linkages in REAP project

For implementation of Rural Enterprise Acceleration Project (REAP)

Statutory e-stamp

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Managing Director
UPASaC

डॉ. वी.के. आर.सी. पुरुषोत्तम
 सचिव
 कृषि एवं वायक कल्याण, ग्राम्य विकास
 समिति, परासा, मन्थ एवं डेयरी

This Memorandum of Understanding is made on the 6th day of January 2023 between the Uttarakhand Gramya Vikas Samiti-UGVS (A Lead Project Agency of Rural Enterprise Acceleration Project) acting through Chief Project Director, UGVS-REAP, here-in-after called UGVS-REAP/ REAP or the First Party AND Uttarakhand Parvatiya Aajeevika Sanvardhan Compnay (UPASaC) represented by Managing Director , UPASaC , here-in-after called Second Party.

Whereas;

- a) Uttarakhand Gramya Vikas Samiti is an independent Society under the Rural Development Department, Uttarakhand and registered under The Societies Registration Act 1860 and has been designated as implementing agency of the Rural Enterprise Acceleration Project (REAP) funded by International Fund for Agriculture Development (IFAD) and working in 95 community development blocks of all 13 districts of Uttarakhand
- b) Uttarakhand Parvatiya Aajeevika Sanvardhan Company (UPASaC) is a not for profit company under the Rural Development Department, Uttarakhand and registered under section 8 of The Companies (Amendment) Act 2013 and has been designated as project partner of REAP Project and also working in 95 community development blocks of all 13 districts of Uttarakhand.
UPASaC was set up under Uttarakhand Livelihood Improvement Project for the Himalaya (ULIPH), as a company for providing venture capital to enterprises. However, over the years it has developed as a financial services facilitator, linking Livelihood collectives and PGs/ VPGs under ILSP to commercial banks. UPASaC has provided trainings on financial and product literacy to members of producer groups and LC board and staff under ILSP. In 2020 UPASaC's services were hired by USRLM for bank linkages for self-help groups, hiring and training of multi-purpose CRPs and also for providing trainings to staff and CRPs on financial and product literacy. UPASaC, thus, has been functioning as a service provider to both UGVS and USRLM but is yet to ensure sustainable sources of revenue. UPASaC has studied the Business Development Facilitator model of the IFAD funded project of MAVIM and Post Tsunami Sustainable Livelihood Programme (PTSLP) is keen to adopt this for sustainability.
- c) The Government of India has secured a loan from the International Fund for Agricultural Development (IFAD) (hereinafter referred to as "the Fund" or "IFAD") equivalent to USD 105 million for implementing Rural Enterprise Acceleration Project (REAP), and has entered into Financing Agreement with IFAD on 02 June 2022;
- d) Whereas out of the total project cost of INR 2778.66 Crore, INR 1365.38 Crore (49.14%) has to be mobilized from bank as SHG/PG/VPG credit linkages, Livestock loans through PGs/SHG, individual enterprises loan, LCs - working capital , Working capital Loans to FPOs, and other business term loans for nano, micro and small community enterprises.
- e) UPASaC has been designated as the nodal agency to facilitate in rural financial services from banks and other FFIs and to complete the target of financial inclusion in the project. The financial services strategy will provide financial support through the banking system for livelihoods diversification, enterprise promotion and CBO strengthening to better operationalize the activities planned under sub components 1.1, 1.2 and 2.1.
- f) NOW THEREFORE the UGVS-REAP & UPASaC hereby agrees and holds the following roles and responsibilities to cater the need of the rural financial services and financial inclusion as mentioned in the REAP design documents:-

1. Institutional Arrangements: UPASaC will be the implementing agency facilitating credit and insurance. UPASaC will enter into MOUs with financial institutions/insurance companies and facilitate SHGs/PGs/LCs/FPOs to access financial services. Rural Finance Manager (RFM) at PMU (UGVS) will overall be responsible for the sub component 2.2. RFM will facilitate the studies/pilots and scaling up of products/processes. RFM will guide the partnerships with the private sector financial institutions being sought under REAP.
2. UPASaC will be the nodal organization to facilitate financial services for the different target groups. REAP (UGVS) will build the capacity of UPASaC to act as business facilitator of banks/insurance companies.
3. UGVS shall provide funding support for training and capacity building and UPASaC. Staff will be trained and used as part of a cadre of Master Trainers. They will be mobilized to train bank mitras and multi-purpose CRPs, who in turn will provide relevant training to SHGs/PGs/VPGs. Training to SHGs/PGs/VPGs will be through short modules and will be conducted on specific days set aside for meetings.
Keeping in view the need for financing of enterprises and financing LCs/FPOs, District staff (rural finance coordinators and assistant rural finance coordinators) will be trained in enterprise financing, portfolio management, LC/FPO financing etc under REAP . Six types of training will be provided to the staff of UPASaC both at district and state level.

Managing Director
UPASaC

(अंतर्दीक्षी आर०सी० पुरुषोत्तम)
सचिव
कृषि एवं कृषक कल्याण, ग्राम्य विकास
सहायिता, पशुपालन, मत्स्य एवं डेयरी
कनकपुराण शासन

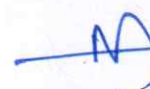
| S.No | Training | Resource person |
|------|---|---|
| 1 | Orientation training for staff | UPASaC |
| 2 | Training of trainers for RFC/ARFC on products | UPASaC with resource persons from banks/insurance companies |
| 3 | Enterprise financing | Bankers' training institution such as BIRD, CAB etc |
| 4 | Cash flows and NPA management for enterprises and individuals | Bankers' training institution such as BIRD, CAB etc., |
| 5 | Digital financial services | Bankers' training institution such as BIRD or leading research agencies in DFS such as Micro Save etc., |
| 6 | Financing of livelihood collectives and FPOs | Bankers' training institution such as BIRD, CAB etc., |

4. Capacity development of LCs, FPOs & SHGs/PGs for savings, credit, insurance:
- 4.1 Training of Bank mitras and multi purpose CRPs: UPASaC will help USRLM in hiring and training multi-purpose CRPs. These CRPs will be placed in each of the LCs, and CLFLCs. They will be provided with an orientation training by UPASaC to understand their roles and responsibilities and carry out their tasks effectively. They will also receive in depth training on banking procedures, on SHG loan documentation, follow-up with banks and ensuring timely repayment of loans etc. They will be trained on financial products that will be offered by REAP – especially credit, insurance etc., and digital financial services. All these trainings will be organised by UPASaC.
- 4.2 Since a cascade approach to training will be adopted and training of SHGs/PGs/VPGs will be conducted during the meeting days a separate budget for these trainings is not envisaged. BMs will also train SHG/PG members in digital financial services.
- 4.3 Bank mitras, multi purpose CRPs, will also be provided task based payment. The support from REAP will be on a sliding scale.
- 4.4 Training to LCs/CLF- LCs/FPOs: Staff will be trained in financial resource management, banking procedures on raising working capital and investment loans amongst others. Staff will also be trained on insurance and especially on product features, exclusions, underwriting, and claims settlement processes. These trainings will be organised by UPASaC with resource persons drawn from the banks and insurance companies.
5. UPASaC will convene meetings with banks, NBFCs and also fintech players to assess their business models and their interest in financing the producers, enterprises and LCs/FPO. UPASaC will enter into partnerships with interested banks and other financial institutions and insurance companies once project implementation commences. Credit linkages between banks and SHGs/PGs will finance livelihood activities. UPASaC will work together with selected financial institutions to strengthen their technical and financial capacity to scale up financial services for all categories of the target group. While credit will be the major service that will be facilitated to ensure adequate finance for enterprises and livelihoods, UPASaC will also deepen savings services and improve off take of insurance products to build resilience of the households to face vulnerabilities and especially climate related disasters. UPASaC shall convene following workshops:
- 5.1 State level workshops with banks, NBFCs and other financial institutions: Once the project implementation commences, UPASaC will convene meetings with banks, NBFCs and also fintech players to assess their business models and their interest in financing the producers, enterprises and LCs/FPOs. MOUs will be signed between interested financial institutions, UPASaC and UGVS. This consultation will be carried out in the initial two years to ensure MOU with institutions. b) Co-ordination meetings at block and district:
- 5.2 UPASaC will also convene co-ordination meetings with banks at block and district level to inform the banks of the targets and to sort out operational issues for smooth credit flow. Though block level and district bankers' committee meetings are convened quarterly as per lead bank scheme in the country, they review many Government schemes and other general lending. In order to ensure that banks understand REAP's requirements and operational modalities and bottlenecks are resolved, separate quarterly meetings with financing banks initially for two years should be established and later meeting on a half yearly basis. These meetings will be convened by REAP and UPASaC together.

- 5.3 Training through financial institutions .UPASaC will coordinate with the banks for staff training and RBI/NABARD will be engaged to carry out the trainings with funding support from REAP. The training curriculum will be developed/modified to suit REAP requirements. Funds for the same have been budgeted. The training costs will be borne by the banks.
6. System of on line and digital processing of loan documents will be facilitated with banks by UPASaC. Interest subsidy as applicable under different Government schemes will be made available for agriculture and Group lending by UPASaC.
- 7.1 Bank loan for micro enterprises: Bank loans for enterprises will be facilitated by UPASaC. RFC/ARFC will support the entrepreneurs to complete loan documentation and comply with bank requirements. They will also follow up to ensure that loans are sanctioned in time.
- 7.2 Financing of small enterprises in value chains: UPASaC will facilitate loans to the small enterprises that will come up in the value chain interventions. In agricultural value chains, 158 enterprises/growth centers will be set up by private sector and 100 enterprises/growth centers by LCs and FPOs. The investment sizes will range from Rs. 2 million to Rs. 4 millions. The type of enterprises that are likely to come up include sorting, grading and milling units, pack houses, small rice mills, oil extraction units, food processing units, modern nurseries, ginger and turmeric handling units etc., Bank loans will range from 50% of the investment in case of private sector and 30% in case of LCs/CLF-LCs/FPOs (the rest to be financed by matching grants and beneficiary contribution).
- 7.3 Financing of LCs and FPOs: UPASaC will facilitate financing of eligible LCs/CLF-LCs and FPOs for inputs and output marketing. On an average the viable business for LC/CLF-LC is Rs 6 million with 10% margin. Own capital of CLF-LC is likely to be about Rs. 1 million. CLF-LCs will need working capital loans to carry out their business which will help service member needs on time and also move them towards financial sustainability.
- 7.4 Kisan credit cards (KCC): UPASaC will facilitate Kisan Credit Cards for working capital for agriculture operations and also for dairy and other livestock. The Reserve Bank of India guidelines will be followed by the banks. While land holding details are necessary for the KCC for agriculture for livestock, proof of construction of sheds, would be adequate. It is expected that about 13,000 members especially women will be issued KCCs. The average expected limit is Rs.25,000 per member. These credit limits are fixed for a term of five years and is increased 10% annually. Total disbursement under KCCs is Rs. 433 million which includes an initial disbursement and annual increases to the limit
- 7.5 Financing of SHGs/PGs for livelihoods and nano enterprises: Bank credit to SHG/PGs will be the major source of finance for financing livelihoods and also nano enterprises. REAP (UGVS) will support engagement of 601 Bank Mitras (BM), the multi-purpose community resource persons, in LCs/CLF-LCs who will facilitate groups to prepare credit plans and complete loan documents and also follow up on recoveries. (It is estimated that 60% of 60,000 self help groups and PGs/VPGs (50000 SHGs + 10000PGs/VPGs) are assumed to be credit linked with cash credit limits set for 3 years. First linkage is Rs. 100000 and yearly enhancement taken as 30% as incremental loans. The total outlay in the SHG/PG/VPG credit linkages is Rs. 1378.02 crores.
- 7.6 Risk comfort mechanism - First Loss Default guarantee and other mechanisms (Total Outlay Rs. 5.00 Crore): REAP will facilitate finance for Livelihood Collectives/Farmer Producer Organisations. 161 LCs/440 CLF-LCs and 95 FPOs will be facilitated working capital credit for marketing produce. Banks and financial institutions perceive high risk in lending to LCs and FPOs. They expect risk sharing instrument from the project. First loss default guarantee is the popular instrument among private sector financial institutions - NBFCs - focusing on FPO financing. The Risk Sharing Facility helps manage some of the risks associated with MSME lending to encourage partner financial institutions to expand their loan portfolios. Fintechs/BCs of banks lending to enterprises require FLDG. The other risk sharing mechanisms are margin deposit
- 8 Insurance: Crop loan insurance scheme, a heavily subsidized scheme of the Government of India, is operational in the state. Weather based insurance scheme covers vegetables and fruits and yield based insurance scheme covers cereals. Livestock insurance coverage is low. Claim experience has been a deterrent for wider uptake of insurance. Three pronged action will be taken by UPASaC to improve insurance coverage especially to mitigate climate change related losses.
- a) Through an insurance consultant at UPASaC, the interested insurance companies will be engaged to study the insurance needs, product changes needed and modify processes to improve insurance claims.
- b) Pilots will be undertaken with the insurance companies for product development/product changes modification of processes and engagement of LC/CLF-LCs as agents. LC/CLF-LCs will be appointed as facilitators /agents for underwriting proposals and also quick claim settlements.
- c) REAP will also carry out trainings on insurance as risk mitigation strategy especially to mitigate climate change related losses, and product literacy.



Managing Director



(डॉ. बी.वी.आर.राव) सचिव
 वृद्धि एवं प्रगति कल्याण, ग्राम्य विकास
 सचिवालय, पर्यावरण, कृषि एवं जल
 विभाग, राजधानी

9. REAP (UGVS) will support paperless MIS software system to track savings, credit and insurance services. Tracking member level usage of services will ensure that the poorer members in the groups are availing the services especially credit equitably. Credit rating modules for institutions and enterprises will be included in the software.
- MIS software for paperless transactions: REAP will support development of MIS software (ERP solutions) for tracking the financial transactions in SHGs, PGs/VPGs, LCs, CLF- LCs and FPOs.
10. REAP (UGVS) will provide tablets/other equipment to all LCs to implement paperless MIS. Bank Mitras, multi-purpose CRP, will also train SHG/PG members in digital financial services. The equipments like laptop, computer and other furniture as stated in the REAP costables shall also be made available by UGVS through centralized procurement complying the IFAD procurement rules
- 11 REAP (UGVS) will support the staff salary as per decision of UPASaC's Board/Govt. orders as mentioned in REAP's PIM document.
- 12 UPASaC is expected to be fully sustainable by mid-term through the commission it earns from business facilitation.
- 13 UPASaC shall engage MICROSAVE (or any other technical service agency of Bill & Melinda Gates Foundation) as a potential partner to support USRLM and UPASaC to address the challenges related to financial inclusion, as part of the project. BMGF may extend this support MICROSAVE which could provide technical assistance to UPASaC and USRLM. The technical assistance (TA) and capacity-building support may be provided by establishing a Technical Support Unit (TSU) and could address the following areas:
- 1) Training and capacity building of UPASaC Staff;
 - 2) Strengthening digital channels including a digital strategy and roadmap for UPASaC as well as scale-up of gender sensitized channels for delivery of financial services;
 - 3) Development and enhancement of financial products and services, especially those targeted at women;
 - 4) Sustainability of UPASaC, including digitization of its operations and demonstration of viable business models for self-reliant functioning. The TA could be provided for three/four years including the initial strategic planning and situation assessment planned for the first three months. Towards the end of the project, six months would be utilized to transfer the support to USRLM and UPASaC to ensure that lessons learned have the potential for replication and scaling-up on completion of the BMGF inputs.
- 14 Exposure Visits: REAP shall provide fund support for exposure visits of senior officials of Government, senior bankers and UPASaC management together to innovative and sustainable financial services models in the country. In the first year the senior officials team will visit MAVIM, to study Tejaswini, an IFAD funded project model for sustainability of financial institutions. Involving banks in the visit will ensure that they understand the nuances of the model and its adaptation to Uttarakhand. Similarly a visit will be organised to SKDRDP, a BC for banks for enterprise financing, and to Samunnati's AMLA (aggregation, marketing linkage and advisory services) to study its approach for sustainable FPO promotion.
- 15 Studies on product/ process modifications and pilots: REAP shall carry out result oriented studies along with interested financial institutions and insurance companies to adapt products and processes to the needs of the project beneficiaries in the State. Some of the studies identified based on discussions with LCs, UPASaC, financial institutions and insurance companies are described below. The type and scope of studies will be finalised during project implementation:
- 15.1 Study of financing mechanisms for sustainable development of micro enterprises such as matching grant, patient capital, micro equity etc., to arrive at effective mechanisms to support micro enterprises.
 - 15.2 Study the need for risk comfort mechanisms for financing nascent LCs and FPOs and first time entrepreneurs and finalise the contours of these instruments if needed.
 - 15.3 Engaging UPASaC as a business facilitator for the banks with LCs/CLF LCs as subagents of UPASaC. Systems and processes will be put in place for the effective functioning of the BFs
 - 15.4 Study the current impediments for uptake of insurance products including subsidised products by smallholders. Understand the expectations of small holders in the product features and processes for underwriting to claim settlement in order to carry out product and process innovations. The study will also cover the scope for engaging LCs/CLF- LCs as insurance agents/ facilitators and detail out HR, MIS, and other requirements to pilot and scale up this model. Policy issues if any will also be identified and addressed.
 - 15.5 Study the scope of operations of fintechs in financing enterprises at reasonable rates of interest to be carried out in collaboration with fintechs and financing banks.
 - 15.6 Study the scope for value chain financing through input suppliers /traders for specific VC commodity producers.
- 16 Apart from the existing Rural Finance Coordinator of UPASaC, the Assistant Rural Finance Coordinator and consultant credit at district level will also be hired by UGVS. Consultant Credit specialists, on a part time basis will be hired, for vetting loan proposals for small enterprises and CLF-LCs and FPOs with funding support from UGVS as per costables. These consultants will be hired by UGVS and they will work closely with district teams

- support from UGVS as per costables. These consultants will work closely with district teams guiding the district staff. Similarly an Insurance Consultant will be hired on a parttime basis to guide the insurance related work.
- 17 Effectiveness: This Memorandum of Understanding (MoU) shall be effective from the date of signing of the MoU and shall be effective till the closure of the REAP project
 - 18 Amendment/ Modification: Any amendment/ modification to this MoU can be made with mutual consent in writing.
 19. UPASaC shall open a separate account of in the name of UPASaC - REAP Account to mobilizing of fund from UGVS to UPASaC
 20. The expenditure incurred and books of account of REAP project handled by USRLM UPASaC shall be subject to the audit by the auditor appointed by UGVS-REAP. IFAD shall also have the power to audit the books of account of UPASaC with regard to REAP project.
 21. Dispute Resolution: Any dispute arising out of the contract, which cannot be amicably settled between the parties shall be referred to adjudication/arbitration as per the decision of government of Uttarakhand and UPASaC's Board of Directors.
 22. Procurement: All procurement shall be made in accordance with the IFAD Procurement Rules as amended time to time.
 23. Prohibition of Fraud and Corruption:
 - 23.1 UPASaC shall abide by and perform the MoU in compliance with the Revised IFAD Policy on Preventing Fraud and Corruption in its Activities and Operations (hereinafter, "IFAD's Anticorruption Policy").
 - 23.2 In accordance with IFAD's Anticorruption Policy, the Fund has the right to sanction firms and individuals, including by declaring them ineligible permanently or for a stated period of time, to participate in any IFAD-funded or IFAD-managed activity or operation (debarment). The Fund also has the right to recognize debarments by other International Financial Institutions in accordance with IFAD's Anticorruption Policy.
 - 23.3 The UPASaC will take appropriate measures to inform potential sub-contractors, sub-consultants, consultants, agents and any of its agents or personnel of their obligations under IFAD's Anticorruption Policy and require their compliance with this policy in connection with their involvement in competing for, or executing, this MoU.
 - 23.4 The UPASaC is required to fully cooperate with any investigation conducted by the Fund, including by making personnel available for interviews and by providing full access to any and all accounts, premises, documents and records (including electronic records) relating to this contract or the relevant procurement process and to have such accounts, premises, records and documents audited and/or inspected by auditors or investigators appointed by the Fund or by the client.
 24. Prohibition of Sexual Harassment, Sexual Exploitation and Abuse: UPASaC expressly agrees to abide by and to perform the contract in compliance with IFAD's Policy to Preventing and Responding to Sexual Harassment, Sexual Exploitation and Abuse, which is an integral part of these conditions of contract. The UPASaC shall take all appropriate measures to prevent and prohibit sexual harassment and sexual exploitation and abuse on the part of its personnel and subcontractors or anyone else directly or indirectly employed by the consultant or any of its subcontractors in the performance of the contract. UPASaC shall immediately report to the client or IFAD any incidents of sexual harassment and sexual exploitation and abuse arising out of or in connection with the performance of the contract or prior to its execution, including convictions, disciplinary measures, sanctions or investigations. UGVS / IFAD may take appropriate measures, including the termination of the contract, on the basis of proven acts of sexual harassment, sexual exploitation and abuse arising out of or in connection with the performance of the contract.
 25. Termination: This MOU can be terminated with prior permission of Govt. of Uttarakhand.

In WITNESS WHEREOFF the parties hereto have caused this MoU to be signed in their respective names as of the day and year first above written

Chief Project Director
UGVS-REAP
For and on behalf of Uttarakhand Gramya Vikas Samiti,
UGVS-REAP

(डॉ० बी०बी०आर०सी० पुरुषोत्तम)
राजिब
कृषि एवं ग्रामीण विकास
सहकारिता, पर्यावरण एवं जल संवर्धन
उत्तराखण्ड शासन

Date: 6/01/2023
Place: Dehradun

Witness 1

Managing Director
UPASaC
For and on behalf of UPASaC

Managing Director
UPASaC

Witness 2.