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A review of Community Enterprises Fund (CEF) assistance in Kudumbashree CDS

Community Enterprise Fund (CEF) is designed to deliver soft loans to entrepreneurs to satisfy their entrepreneurial needs with very small interest rates. This document is a review of the CEF assistance in Kudumbashree CDS.



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A. Overview of the project and objective

State Poverty Eradication Mission popular as Kudumbashree was formed with the objective of eliminating absolute poverty in the State of Kerala. Unlike other poverty eradication movements, Kudumbashree has adopted a strategy of fostering organized bargaining capacity by bringing together poor families. Kudumbashree implements poverty elimination projects through community based three tier organizational setup led by local self-governments. Neighborhood groups (NHG) are the basic unit in this three-tier community level system. Each Neighborhood group consists of 10 to 20 female members aged 18 and above representing each family. These Neighborhoods are federated into Area Development Societies (ADS) in the ward level and Community Development Societies (CDS) in the Municipal/Panchayat levels.

The Mission's strategy is to promote economic empowerment of the poor and contribute to local economic development. The Mission has several programmes for economic empowerment targeting women and youth from the Kudumbashree family network. Major Kudumbashree programmes are micro enterprises, collective farming and livestock farming. Kudumbashree views Micro Enterprise Development as an opportunity for providing gainful employment to the people below poverty line and thereby improving their income and living standard. However, micro finance, which helps the poor in accessing institutional finance, has been the first initiative in local economic development.

Community Enterprise Fund is a dedicated fund given as grant on the lines of Community Investment Fund (CIF) provided under NRLM, to give loans to the entrepreneurs. It will help to enhance credit worthiness of the entrepreneurs and also showcase the ability of the community institution led enterprise capital provisions to demonstrate disciplined credit behavior. This will also enhance bank's confidence in the unorganized sector. It is a dedicated fund which cannot be diverted to other uses.

This study reviewed the Community Enterprises Fund (CEF) scheme in Kudumbashree CDS. The objective of this study was to determine;

1. Average amount of loans utilized for the enterprise
2. The percentage of defaulters who have taken CEF loan
3. How CEF supported entrepreneurs to avail bank linkage loan
4. The role of CEF loan approval committee
5. Effectiveness of the repayment monitoring system at CDS level

B. Background of the study

Considering the credit needs of women entrepreneurs and importance of community managed loans over institutional loans, Community Enterprises Fund (CEF) has been designed by the NRLM and Kudumbashree by modifying the Community Investment Fund to cater to the livelihood aspects of micro enterprises by lending soft loans through Community based Organization namely CDS. Under DAY-NRLM, CEF is designed to deliver soft loans to entrepreneurs to satisfy their entrepreneurial needs with very small interest rates. Loans for the entrepreneurial needs from the community structure itself with low interest rates and easy repayment modes, creating financial punctuality and commitment among the entrepreneurs through the community network, constant monitoring of the entrepreneurial activity by the community network and thereby initiating social commitment of the community over the enterprise are some of the highlights of this program. CEF is designed to cater the capital needs of enterprises opting for expansion such as procurement of assets, working capital requirements, the needs of obtaining forward and backward market linkages and also as startup capital for new enterprises. CEF could also be availed by enterprises based on the primary sector. CEF can be availed by nonfarm livelihood ventures and farm related activities.

Pre requisites of CEF eligibility

The entrepreneur shall be an active member of a Kudumbashree NHG, with financial discipline and integrity with a history of non-default in internal loan repayment and having a bank account exclusively for the enterprise.

Tenure of CEF loan and maximum loan amount

The maximum tenure of loan and maximum quantum of loan that could be provided is fixed on the basis of the ownership model of the enterprise. The rate of interest charged by the entrepreneur from the loans given using the CEF should ideally not exceed 1% per month on a reducing balance basis (or 12% per annum on a reducing balance basis). Hence the maximum interest rate that could be charged is fixed by Kudumbashree Mission as 4 percent per annum calculated at diminishing rates with repayment period not exceeding 24 months and conditional moratorium of 6 months according to the discretion of approval committee. The maximum quantum of loan that could be availed by Individual unit is Rs.50,000 and for group enterprises is Rs.1,50,000 and eligibility solely resides on the active membership in Kudumbashree NHG and accreditation of the 2nd level community organization stating the financial punctuality and non-defaulting of internal loans. The loan procedure is designed in such a manner that the amount will be disbursed to the beneficiary within 35 days counting from the day that the entrepreneur has submitted application to the NHG.

The sanction procedure

Entrepreneur shall discuss his/her financial requirement in the NHG and shall avail the services of the Micro Enterprises Consultant to map in the fund requisites of the enterprises according to the enterprise expansion plan. CEF Application shall be submitted by the entrepreneur to the concerned NHG in the prescribed format along with bank details and other personal credentials. Owners of group enterprises who belong to different NHGs shall route their loan application through one NHG of their choice. The NHG on its approval of the loan application shall forward the application with their consent to the ADS. ADS, after the verification of the application forwarded by the NHG shall forward it to CDS with the consent of ADS Committee. The loan application would be then vetted by the CDS Committee. The information about the loan application shall be intimated to the concerned Block Coordinator and the block coordinator shall personally vet the application and shall suggest amendments if any.

The loan application with the consent of these community structures will be vetted and verified by the loan approval committee constituted at the CDS. The loan approval committee is chaired by CDS Chairperson along with Vice chairperson, member secretary, concerned ADS chairperson, vice chairperson and the Block Coordinator who is in charge of Micro enterprises and Marketing. The entrepreneur and the MEC who drafted the loan plan shall present their financial requirement and the activity to be undertaken with this assistance before the loan approval committee. Only the loan approval committee can approve or deny loan and/or fix the moratorium period, repayment period and interest rates. Now the process of distribution of the loan is routed directly to the bank account of the entrepreneur

Repayment of the CEF

The repayment of the loan by the entrepreneur can be paid at the CDS Office. It is the duty of the NHG to ensure proper repayment of the installments. Once in a quarter the subcommittee of the loan approval committee which includes the Block Coordinator, ADS representative and the MEC shall verify the activities undertook by the entrepreneur with the loan. If the enterprise fall into a critical situation under any circumstances that would deter timely repayment, the subcommittee shall identify such enterprises and shall report to Loan Approval Committee for timely intervention as necessary. With these intervention strategies, Kudumbashree ensures proper participation of community in the enterprise and bring in the component of social monitoring of this financial product routed through the community.

The community Enterprise fund is designed to revolve in the community itself. As the repayment installments come in to the CDS, the CDS will facilitate the funds to entrepreneur who is next in row seeking loan. The corpus fund that is entitled to be facilitated among the enterprises is designed to grow at a pace at the rate at which the loan is dispersed. The 75

percent of the interest is earmarked for the CDS, 15 percent for the ADS and 10 percent to the NHG who recommend the loan application. The ADS and the NHG can utilize this fund either for their own activities as approved by the respective committee or convert it as corpus fund of the body. 50 percent of the part of interest that CDS obtain from CEF could be utilized for the own activities of the CDS and the remaining part shall be mandatorily accounted to CEF account to increase the lending corpus. The CDS shall disperse the interest collected quarterly to the concerned bodies. This implementation plan is derived on the greater purview of creating revenue pools for CDS, ADS and NHG to meet their own expenses. The manner in which CEF implementation is devised focuses on Kudumbashree's greater objective of developing CDS into a self-sustainable institution with steadier revenue streams to capacitate itself to take up own initiatives.

Monitoring of the project by Kudumbashree Mission

The team of MEC and Block coordinator shall visit the enterprise and shall report the progress of activities to the District Program Manager Marketing at District Mission Office. The CDS shall audit the account in which it operates the CEF loan dispersal and repayment yearly and shall report to District Mission on a monthly basis about CEF. Block Coordinator is entrusted with the responsibility of preparing the Loan Portfolio Statement of the CDS mapping the beneficiaries, loan utilization, repayment, revolving of the funds for others as repayment accumulates. These follow-ups ensure proper monitoring of funds and the generation of appropriate reporting to the mission.

C. Methodology of the study

1. Sample technique

District-wise detail of number of entrepreneurs having CEF loan in rural CDSs of all district was taken. Top five rural CDSs where most number of CEF loan had been disbursed were selected. Selections of entrepreneurs were done randomly after consultation & group discussion with district missions. A telephonic interview was conducted with selected entrepreneurs, MECs, CDS members and district mission staff for the study.

Sl No	CDS Name	District	CEF Allocation	No. of CEF loans	Amount of CEF Loan
1	Puthuppadi	Kozhikode	14,00,000	93	58,80,000
2	Nadathara	Thrissur	15,00,000	74	35,00,000
3	Olavanna	Kozhikode	10,00,000	73	42,00,000
4	Chemencherry	Kozhikode	10,00,000	69	35,50,000
5	Mathilakam	Thrissur	13,00,000	69	30,55,000

2. Method of data collection

Secondary data on CDS wise CEF sanction and repayment details collected by State Marketing team is used for the study

3. Tools of data collection

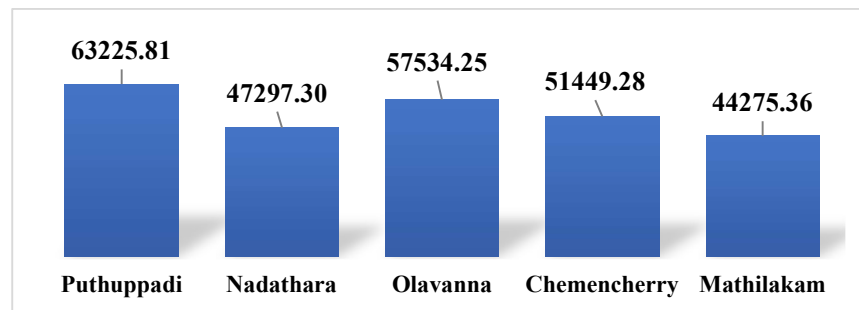
Primary data was collected through telephonic interviews with entrepreneurs, MECs, CDS members and district missions.

D. Findings

1. The microenterprises were facing difficulties in accessing adequate credit at a reasonable cost. The poor in particular, did not have access to bank finance and the mechanism of finance from moneylenders or MFIs or NHGs was not suited for businesses. Enterprises need working capital finance and start-up finance, with some moratorium and flexible repayment schedules. Kudumbashree addressed this gap by providing a loan to the entrepreneur for start-up, from the dedicated community enterprises fund, vested with CDSs.

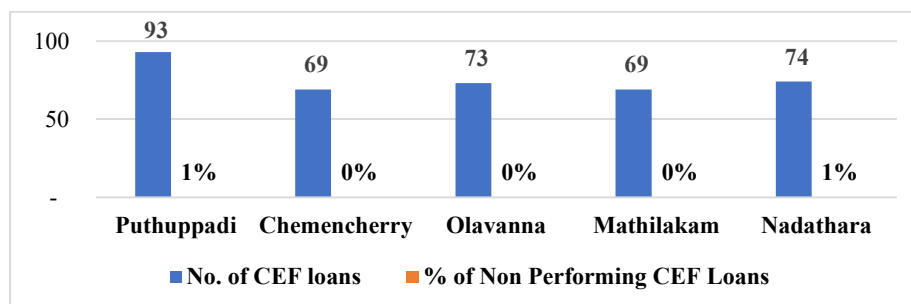
2. Average CEF Loan Amount

Chart 1: Average CEF Loan amount



The average CEF loan amount was highest in Puthuppadi at Rs. 63225.81 followed by Oalavanna (Rs.57534.25), Chemencherry (Rs.51449.28), Nadathara (Rs.47297.30), Mathilakam (Rs.44275.36). A fall in average CEF loan disbursement indicates a lesser amount of CEF loan to Entrepreneurs. This also indicates low credit availability to entrepreneurs from Kudumbashree CDSs which may not be encouraging for entrepreneurs to venture into sustainable income generating activities.

3. Number of Non -performing CEF Loans



The number of non-performing CEF loan is 0% in Chemancherry, Olavanna and Mathilakam CDSs. There is 1% one non-performing CEF loan in Puthuppadi and Nadathara CDSs. This indicates that there is lack of proper follow up and monitoring by CDS for ensuring 100% repayment.

4. Entrepreneurs interviewed reported that taking loans from CEF was easy. CEF has been an important factor for the setting up of the enterprises and resultant income increase.
5. Funding from other sources is high indication that the requirement of funds for enterprises is high and CEF has not been able to fulfill the same. Along with this, the entrepreneurs also reported that there is not enough money in CEF to lend to these enterprises.
6. The respondents reported that the release of CEF was a rigorous exercise and the process involved in the same takes some time for the disbursement.
7. Most of the respondents felt that the funds allocated under CEF should be increased for the enterprises to function effectively.
8. The CEF was expected to help enhance creditworthiness of the entrepreneurs and also showcase the ability of the community institution led enterprise capital provisions to demonstrate disciplined credit behavior. But, good credit record of the entrepreneurs did not necessarily translate into enhanced bank's confidence and very little credit support was received from banks for starting enterprises.
9. Most of the entrepreneurs are preferring a subsequent loan from CEF for their working capital finance. Respondents reported that they did not get subsequent loans.
10. The CEF is generally not enough to start-up the enterprise and the entrepreneur has to finance it from some other source – internal finance or external sources.
11. The CEF is an important enabling factor for the setting up of enterprises as the alternative funding options are more difficult to access. The major reasons for reduction of CEF loan amount from applied loan amount is reported as follows:
 1. Amount requested did not match the actual requirement
 2. Entrepreneur did not have the required understanding of the business
 3. CDS committee was not confident about the repayment capacity of entrepreneur.In few cases the funds requested for by the entrepreneur from the CEF were reduced and a loan for a lesser amount was released from the CEF.

E. Suggestions

1. **Facilitation of bank linkage for loan:** The CDSs needs to be further strengthened and trained to understand loan fund policies and procedures of banks better to be able to develop successful financial linkages of entrepreneurs with banks for loans under micro enterprises, MUDRA or other schemes.

2. **Community owned CEF repayment monitoring mechanism** should be strengthened to ensure 100% repayment of CEF loan.
3. After formation of enterprises, **the enterprises business performance and loan repayment history to the CDS should be captured in the repayment monitoring software** and this is supposed to be provided to the banks while applying for a loan for scaling up the enterprise.
4. The **banker's sensitization meetings should be organized** at district level. This will help to improve the bank linkage of the entrepreneurs.
5. The **growth of the existing enterprises is an important factor** in Kudumbashree's enterprise development programmes. Therefore Kudumbashree should facilitate new funds for the entrepreneurs who have grown in size.
6. District missions **should take necessary steps to reduce the frequency of CEF loan sanctioning meetings.**
7. The CEF loan should be **based on the evaluation of the business plan prepared with the support of the MECs.** Proper business plan appraisal of the enterprise should be done by the CEF loan approval committee. The loan amount sanctioned should be based on such business plan appraisal.
8. **Utilization of CEF loan** by the entrepreneurs should be monitored by the CDS committee.
9. As per the CEF guideline, the 75% of the interest is earmarked for the CDS, 15% for the ADS and 10% to the NHG who recommend the loan application. This need to be implemented at CDS level. The CDS committee should be properly trained on the **sharing of CEF interest component** prior to implementation.

References

Mathew, Philip Jiby. 2018. Community Enterprises Fund, *making a difference Kudumbashree write shop* (2018): 1–7

