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# COMMUNITY ENTERPRISES FUND

Kudumbashree aims at reaching out to all the rural poor families by empowering the women inclusively on economic, social and gender factors of societal living through collectivization and institutional building. Over the years, Kudumbashree has reached out to families by developing dedicated and sensitive women driven community structures starting from the neighbourhoods that follows a three tier system which functions in synergy with the decentralization framework and Local Self Government Institutions and structured in a way to be federated at panchayaths as Community Development Societies. These structures will work towards organizing the poor, building their capacities and the capacities of their organizations, enabling them access finance and other livelihoods resources. The basic Institutions of the women – NHGs (Neighbourhood Groups), their federations and livelihoods collectives - provide the women the platforms for collective action based on self-help and mutual cooperation. These institutions promote savings, internal credit and other financial services to meet their priority needs which include consumption needs, debt redemption, food and health security and livelihoods. Collectively they augment knowledge, skills, tools, assets, infrastructure, own funds and other resources for the members. Thus, the programme for the poor implemented through women becomes the programme by the women for the under privileged and towards catering the needs of the society. These two transitions are the success of Kudumbashree, where the mission strives towards creating self sustainable, self driven Community Development Societies. Kudumbashree has been on the road map of financial empowerment in a view of “Making NHGs the preferred clients of financial institutions”. Kudumbashree facilitates universal access to affordable cost-effective reliable financial services to its Neighbourhood Groups. Kudumbashree supports NHGs by providing Revolving Fund (RF) and Community Investment Fund (CIF) as resources in perpetuity to the institutions of the poor, to strengthen their institutional and financial management capacity and build their track record to attract mainstream bank finance, along with Interest subvention to promote NHGs to link their savings to leverage bank loans, thereby promoting internal lending.

## Revolving Fund

Fund would be available in the form of revolving fund. The Revolving Fund would be provided to the NHGs as an incentive to inculcate the habit of thrift and accumulate their own funds towards meeting their credit needs in the long-run and immediate consumption needs in the short-run. Fund would be a corpus and used for meeting the members’ credit needs directly and as catalytic capital for leveraging repeat bank finance. The key to coming out of poverty is continuous and easy access to finance, at reasonable rates, till they accumulate their own funds

in large measure.

## Community Investment support Fund (CIF)

CIF is provided to the NHGs routed through the Area Development Society and Community Development Society, to be maintained in perpetuity by the CDS. The CIF will be used, by the CDS, to advance loans to the NHGs and/or to undertake the common/collective socio-economic activities. Kudumbashree provides Community



*CEF Funds cheque distribution to selected CDS by Pathanamthitta DMC*

Investment Fund as Seed Capital to CDSs to meet the credit needs of the members through the NHGs and to meet the working capital needs of the collective activities at various levels.

### **Interest subvention**

Kudumbashree also has a provision for interest subvention, to cover the difference between the Lending Rate of the banks and 4 percent, on all credit from the banks/ financial institutions availed by women NHGs as linkage loans, for a maximum of Rs 3,00,000 per NHG. This is with a view to provide access to credit at affordable rate of interest to the rural poor and make their investments more viable. This performance-linked interest subsidy would provide the perspective of long term engagement with banks over the entire credit cycle; it would also reverse the logic of allocation-based financing in banks in favor of lending based on quality of institutions and their business plans; and it would enable repeat financing to SHGs and a long term relationship between the bank and the SHG.

### **Vulnerability Reduction Fund**

Kudumbashree provides Vulnerability Reduction Fund (VRF) to Area Development Societies routed through CDS to address vulnerabilities like food security, health security etc., and to meet the needs of the vulnerable persons in the village.

These community funds have been facilitated by Kudumbashree on a vision that the key to coming out of poverty is continuous and easy access to finance, at reasonable rates, till they accumulate their own funds in large measure.

### **The other perspective**

Micro Enterprises Development is an important strategy of Kudumbashree towards economic empowerment of

women. All members of Kudumbashree are encouraged to start 'Micro Enterprises' using local resources, and financial aid, skill training, handholding and marketing support provided by the Mission. Today, there are around 30,000 Micro Enterprises (including Animal Husbandry & Agri related livelihood groups) and around 50,000 Joint Liability Groups (Farming). There has been a set of financial tools provided by Kudumbashree mission to promote women to take up livelihood activities like startup fund, technology/ technology upgradation fund, innovation fund, interest subsidy etc routed through the mission. But these funds are pooled at and managed by State Mission and not routed through community, not monitored by community and not revolved among the needy of the community.

### **The Social Need**

Kudumbashree followed the strategy of beneficiary mobilization through community structure, capacity building through series of training, Entrepreneurship Development Program and Skill Development Training to facilitate the Kudumbashree women and family members to pursue livelihood activities and entrepreneurial aspirations. Often thrift and internal loans support the entrepreneurial aspirations of some but not many. The absence of a proper bankable project, the distrust of financial institutions over conventional enterprises projects, tedious processes of bank loans, demand of collateral, absence of credit products that support working capital requirements and value chain interventions pose a hurdle over the entrepreneurial aspirations of Kudumbashree women.

### **Community Enterprises Fund**

Considering the credit needs of women entrepreneurs and importance of community managed loans over institutional loans, CEF has been designed by the NRLM and Marketing State team by modifying the Community Investment Fund

to cater to the livelihood aspects of micro enterprises by lending soft loans through Community based Organisation namely CDS. Under Deen Dayal Antyodaya Yojana National Rural Livelihoods Mission (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.

In the financial year 2017-18, 400 CDS has been identified across Kerala. Selection was on the consideration of the quantum of community routed funds i.e. CIF fund received earlier by the districts and distributed across the CDS. Each CDS was assisted with 5 Lakhs each to assist Micro enterprises registered under these CDS. 20 Crores has been dispersed across Kerala.

**Pre requisites of eligibility**

The entrepreneur shall be an active member of an 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 loan and maximum loan**

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 maximum interest rate that could be charged is fixed 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 50000/- and for group enterprises is 150000/- and eligibility solely resides on the active membership in Kudumbashree NHG and accreditation of the 2nd level community organisation stating the financial punctuality and non defaulting of internal loans. The loan procedure is designed in such a manner that the amount will be dispersed to the beneficiary within 35 days counting from the day that the entrepreneur has submitted application to the NHG.



**The Procedure**

Entrepreneur shall discuss 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 NRLM 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 dispersal of the loan is routed directly to the bank account

of the entrepreneur, subject to a change in future in which fund will be routed through the bank account of the NHG towards the entrepreneur to capture the transaction in NRLM MIS.

## Implementation of CEF

### •Community Ownership

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 undertaken 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.

### •Monitoring of 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 stationed 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.

### •Loan Pool Expansion

The community 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, 15percent 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.

## Information Education and Communication

Kudumbashree Marketing Team has initiated this novel idea of facilitating loans through community organizations specifically for entrepreneurial need in the year 2017-18. The dissemination of information about this loan product was a major component to aid the entrepreneurs and to complete the full dispersal of the fund allocation to CDS to the entrepreneurs. Kudumbashree devised a plan to use its existing cadre of MECs to disseminate the information to the grass root levels. MECs were trained to conduct panchayaths level awareness classes for entrepreneurs about this loan product. The cadre of these bare foot technicians who also play a major role in the project plan preparation and presentation of loan utilization plan were given one day training at regional levels by the department to equip them with information about the program and their job role. MECs were assisted with honorarium for identification of beneficiaries, preparing project plans, convening entrepreneurial meets to discuss entrepreneurial needs and doing the follow-up activities.

The district program managers of the marketing department were also capacitated with one day training on the Management Information System of NRLM to map in the dispersal of funds from District Missions to the concerned CDS.

## Impact Assessment

Data of 2017-18 shows that 340 CDS has released CEF to 2197 enterprises, which shows a rough statistics of around Rs.64,000 per enterprises has been lend out as community loans. The loan portfolio statement analysis results in the conclusion of Non - Performing Assets being nil and Number of failed installments tallying to ranges nearing zero. The real resonance of the field realities states that the rise in increase in the number of micro enterprises registered in the last fiscal year has also been of the impact of CEF. CEF has also aided women entrepreneurs both aspiring ones and the existing to tap the opportunities effectively. Case studies of such examples are listed below; Radhamani, Kalyani, Valsala and Varsha are of Perumannakari CDS of Thanoor Block, Malappuram District. Lifted in their entrepreneurial spirits and aiming to gain livelihood through Kudumbashree, four of them



joined together through GoT & EDP, found their interest points and skill sets meet at cooking and catering services and completed training from AIFRHM in catering and hospitality services. Kottackal Ayurveda College Canteen was allotted to Kudumbashree women to run canteen to provide affordable, healthy and tasty food for students and patients. District mission responded to the opportunity and was able to place these entrepreneurs to take up the task. The beginning of Thanima Café Kudumbashree Catering unit under the leadership Srimathi Radhamani was thus. To start the canteen, Startup Capital became the hurdle. Four women, one among them also a widow, found it difficult to raise capital funds to purchase assets. All four belonging to Thanoor Block and Perumannakkari CDS, one among the 400 CDS assisted with CEF, applied for this Community loan specifically designed for Kudumbashree Micro enterprises. They were granted with Rs. 50,000/- with which they bought plates and machinery that had urgent requirement to make things running. They were able to get one third of the initial capital expenditure through CEF within 30 days of making application at their NHG.

In this case of Thanima Café Kudumbashree unit, CEF assistance empowered the entrepreneurs to meet the initial capital expenditure in a timely manner, without procedural lags and process delays at minimum interest rates affordable to startup entrepreneurs. The canteen at Kottackal Ayurveda College clocks average sales of 12,000/- per day.

### Case 2

*Chandralekha, an entrepreneur of Manjoor CDS, Kottayam District, owns a carry bag manufacturing unit in an annex shed adjacent to her house. She started the CR Carry bags enterprise by receiving assistance from Industries Department through PMEGP Scheme. CR Carry bags employs two Kudumbashree women in her business and gets regular work order for her produce from nearby stores and bakeries. She does her procurement of raw materials from Ernakulam as bulk rolls of cloth, paper and semi plastics.*

*Within a few weeks into business she learnt that custom printed Carry bags have more enquiries and would fetch her more money per kilogram of carry bags sold but outsourcing the print work doesn't match her scale of production and increase her cost of production.*

*From the ME meet at CDS through the MEC, she learnt about CEF and received assistance of Rs.50000/- at 4% Interest within 35 days of placing the application at the CDS. She utilized the assistance for value addition, to purchase assets and to support her working capital expenditure. She bought a screen printing device, furniture for her small office and partially used as working capital to purchase additional raw materials to cater the increased work order. Now she enjoys additional 500/kg for each custom printed carry bag order and is thankful to her CDS for assistance.*

### Case 3

*The entrepreneurial success story of Mrs. Sujatha of Manjeri Kootilangadi CDS is also another saga of CEF. The problem Sujatha identified in her society is the increased exploitation in the field of broking of marriages. She identified that utilizing the strong community network of Kudumbashree she could provide a solution to this problem. Her enterprising spirit saw the possibility of an online marriage portal that could facilitate marriages through Kudumbashree. But the project plan couldn't get enough financial support to give strength to the entrepreneurial wings of Sujatha. This is where CDS, MEC and the community structure intervened and gave her capital assistance through CEF. Now Mangalyanet, the online Kudumbashree matrimonial site stands tall in pride of the entire district.*

### Case 4

*Shibi, Beeja, Nisha, Radhamani, Nazima beevi are the women entrepreneurs behind Real Madura Sweets Unit of Pathanapuram, an enterprise which is just an year old. The enterprise started with the little investments of thrift from these enterprising spirits. Initially, they started producing their products at their households itself and found their markets in nearby households. Later on, as business grew, they shifted their operations to a hired small shed near to their homes and expanded the markets to monthly markets and fairs facilitated by Kudumbashree. As the demand grew, it was then they seek for assistance with the mission to improve their business and thus were facilitated with CEF. With the 1,50,000/- they received as CEF, they bought Microwave Oven, Vessels, Fridge, Sealing Machine, Flour Mixer etc., they also invested in erecting advertisement boards across their streets for reaching out to more customers. With the business up gradation they achieved through CEF, they started purchasing raw materials in bulk quantities and were able to reduce costs and could produce quality products at larger scale. The hardworking entrepreneurs are now on full confidence that they could soar better heights through Real Madhura Sweets Unit.*

### Fund Disbursement Module of NRLM MIS

The portion below shows how the fund disbursement module in the NRLM MIS is to be completed by various users, i.e. CDS Accountant, NRLM Accountant, DPM, ADMC/DMC.

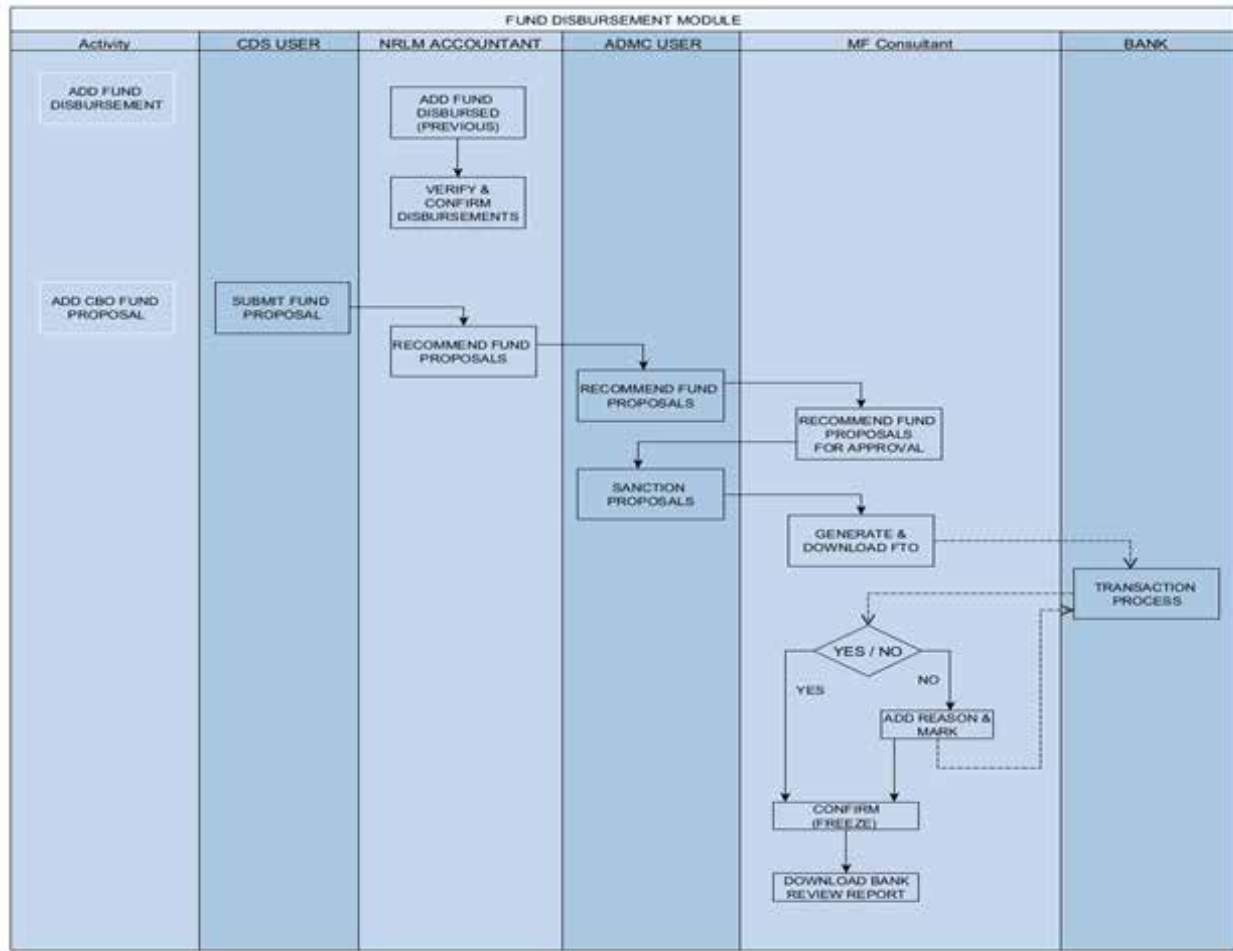


Figure: Process flow of NRLM MIS FUND DISBURSEMENT MODULE

CEF disbursement details from District Mission to CDSs should be added into NRLM MIS site. This process is likely to be started when deciding the fund beneficiaries (CDSs) at District Mission level. Procedure for the rollout of fund disbursement (FD) module in 'nrlm-mis' website is detailed below.

After disbursing NRLM funds from state mission office to district mission offices, District Mission may identify the beneficiaries. Beneficiaries and disbursement amount shall be decided as per the existing criteria. After the selection of beneficiaries, District Mission official can give the instruction to CDS accountant to put an online FD request in the NRLM MIS site. Next, following steps will be done through nrlm-mis website before the cheque is issued to CDSs as per manual process.

The first step shall be done by the CDS Accountant and shall Login into NRLM MIS site using existing username & password. He/she shall add CBO fund proposal link under 'Fund Disbursement module' and fill details, and save the details. After all CDS Accountant has done this part, the next role is of NRLM accountant at District Mission. He/she shall Login as 'Block' using existing username & password. At the block user, he/she shall Select 'Block name'

of beneficiary CDSs and shall verify all details including credit a/c details of CDSs and should Recommend proposal FD request by CDS accountant.

The ADCM of the district shall Login as 'District' user to verify the CBO Fund Proposal. After verification of all details including credit a/c details of CDSs, ADCM shall recommend it to District finance. Then the fund proposal will be forwarded to marketing program manager of the district. The Marketing program manager shall login as District finance. Only after getting proposal from DMC/ADMC for recommendation he/she shall 'Recommend Proposals' under 'Fund Disbursement' module. After verification of fund type, fund source, CBO type, bank type; he/she shall recommend for debit from the District Missions' account. Then he/she shall 'Enter Debit account details' of District Mission with all the details such as Payment mode(Cheque/dd etc) and Number(Cheque No./ DD no. etc) and thereafter recommend it for approval. After recommending the fund proposal by Marketing DPM, ADCM/DMC can login as 'final approval authority. The final approval authority shall sanction proposal under 'Fund disbursement' module. [This is on basis on the assumption that the district mission has completed the manual processes

beforehand. And approval in the software module should be done only after complete existing manual sanction process by DMC at district mission offices].

The Program Manager shall login again after above procedure and shall generate Fund Transfer Order of the 'Approved proposals'. FTO shall be downloaded and Verification of all the details including debit a/c details of District Mission & credit bank a/c details of beneficiaries, mode of payment and amount shall be done. After this process CHEQUE may be issued to beneficiaries, and FTO may be submitted to the bank of District Mission. After crediting the amount to the a/c of beneficiaries on the basis of CHEQUE submission, confirmation of disbursement should be collected from bank based on the FTO by District Mission. The DPM shall 'confirm disbursement' in MIS 'fund disbursement' module. Once the fund disbursement is confirmed with the details from bank, bank review report may be downloaded & keep it in file for office procedure. After the fund disbursement process, District Mission officials must check the reports in the 'nrlm-mis' website for ensuring that the transaction details is correct.

### The Way Forward

The feedback from field shows that the community has taken full ownership of the enterprise supporting community funds - CEF. Kudumbashree intends to route an additional Rs.10 Crore from NRLM fund allocation to be earmarked as CEF in this fiscal year, in addition to tailor made CEF for farmers including poultry farmers. The target group will be those who were not given either of the CIF or CEF in earlier periods and ranked in such a way according to the concentration of existing micro

enterprises in the CDS, registered and functioning. The CIF which were in circulation with the community is also asked to convert it as CEF and shall be lend out as loans for entrepreneurial activities. Capacitating all CDS with CEF assistance to equip themselves as enterprise promoters not just through beneficiary identification and training but also as an agency with financial power to support enterprises with easy community monitored soft loans.

Kudumbashree also aims at developing an efficient system for monitoring repayment and circulation of loan among the community by redesigning the existing system to be fail safe. Currently the process is mapped through spreadsheets; plans are on the roll to integrate this process with Kudumbashree MIS for proper monitoring. There is also an idea of pooling the entire community fund to a common bank account, whereby the bank would facilitate and share their system of fund flow management with Kudumbashree. Close to the chest monitoring is required for these community funds, to ensure the envisaged applications of the loans are effectively implemented, measure the quantum of circulation and to growth of the corpus and also to design interventions as necessary in due course. As of now, CEF is designed as a loan product with the benefit of the borrower on the heavier side. There is a need of thought about the redesigning of the loan product to ensure growth of the corpus is matched with the concept of inflation, fixation of moratorium period according to the nature of activity to be undertaken using credit with vision over the factor of circulation and also a debate over the characteristic of the interest rate to suit the entrepreneurial needs.