EUROPEAN UNION

SUCCESS

RSPN

Community Investment Fund: Access, Utilisation and Contribution in Rural Setup

Introduction

The Community Investment Fund (CIF) is a pro-poor mode of financing and one of the main programme interventions under the European Union funded Sindh Union Council and Community Economic Strengthening Support (SUCCESS) programme. CIF functions as a capital grant provided to women-led community institutions in rural areas by the Rural Support Programmes (RSPs). This capital grant is then run by the community institutions as a revolving fund targeted at poor households. The eligible poor households, having poverty score of 0-23 as identified through a Poverty Scorecard (PSC) survey, can access and utilise the allocated amount for initiating income-generating activities as per a pre-approved micro-investment plan. The distinguishing aspect of the CIF is the that the fund is managed by the women themselves and they are the ones who decide which poor member should receive the interest free loan and on what terms.

As of October 2020, the SUCCESS programme has supported a total of 88,707 households with total portfolio of PKR 2.0 billion. The average amount of CIF was PKR 16,000 with a maximum amount of PKR 30,000 per loan. With an overall recovery rate of 95%, the community institutions were able to manage the initial amounts with an overall revolving rate of 38%

This research brief outlines some of the major findings of a recently conducted study assessing the impact of financial access, such as CIF, on poor households under the SUCCESS programme. The report can be accessed here: https://success.org.pk/wp-content/uploads/2021/06/Impact-of-Financial-Access-Interventions-Report.pdf

The SUCCESS Programme: Building Local Social Capital

Sindh Union Council and Community Economic Strengthening Support (SUCCESS) Programme is based on the Rural Support Programmes' (RSPs) social mobilisation approach to Community Driven Development. Social Mobilisation centers around the belief that poor people have an innate potential to help themselves; that they can better manage their limited resources if they organise and are provided technical and financial support. The RSPs under the SUCCESS Programme provide social guidance, technical and financial assistance to the rural poor in eight districts of Sindh. The programme implementation started in Feb 2016 and will conclude in June 2022.

Methodology

As part of the afore mentioned study, a survey of 4023 households along with 16 focus group discussions and 24 key informant interviews were conducted with beneficiaries, community leaders, and programme implementers and managers to assess the impact of financial interventions on rural women. Of the 4023 households, 2015 were those that received CIF, while 2018 received another type of financial instrument. Sample was drawn from households that had receiving financial access at least one year prior to the survey. This research brief looks specifically into the results for CIF recipient households within the study.

Key Findings

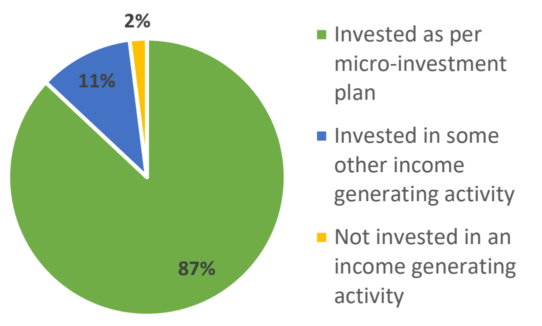
1. CIF – A source of easily accessible interest-free micro loans for rural women

According to the household survey, more than 80% of the beneficiaries found the process of obtaining CIF easy and reported being content with the repayment schedules. Data further revealed that the cost-effectiveness of CIF makes it accessible to the poor; the reported service charges and any other associated costs, including any transport costs incurred in the process, were estimated to be around PKR 1,400 for an average loan amount of PKR 20,000. The cost of a CIF loan thus comes out to be about 8% per annum, which is relatively low in comparison with other sources of finances, such as microfinance whose interest rates are around 20-25% per annum. The interest rate charged by the informal lenders is usually much higher, up to 80% than other formal sources.

2. Most loans utilised for Income Generating Activities as per the Micro-Investment Plans

Of the households sampled, 98% invested the CIF loan on income generating activities. Breaking this down further, 87% loans were invested according to the pre-approved micro-investment plans submitted to the community institutions at time of funding application. 11% loans deviated from the micro-investment plans, though they were still utilised for income generating activities, whereas 2% of all loans were consumed for health emergencies or other needs (Figure-1).

Figure-1: CIF Investments



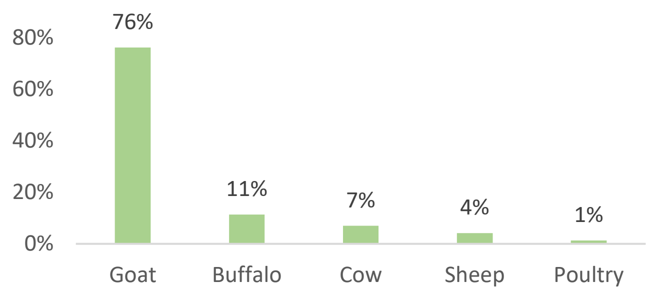
With regards to the type of investments, around 82% of the CIF beneficiaries utilised the loan for investing in livestock, 10% in agriculture and 8% in enterprise in the informal sector.

3. One year later, more than 85% households still own either the animals bought through CIF or its offspring

93% of CIF investments in livestock went towards purchase of animal, while 5% were spent on animal feed and 0.2% on construction of animal sheds. 2% of beneficiaries took loans for livestock but used the amount in other activities. As depicted through Figure-2, majority of livestock purchases consisted of goats, mainly due to lower cost and the ease in rearing and caring for them. Besides, sheep, cows and buffalos were purchased as other animals and households added their own saving where the amounts of CIF were not sufficient to buy the larger animals.

Of those households that invested in livestock, around 63% owned an animal previously. Post CIF, 92% of households reported owning at least one animal. Similarly, the average heard size per household also increased post CIF.

Figure-2: Livestock purchased by utilising CIF



Earrings from livestock came in two forms: animal sales and sales of livestock products. Overall, about 14% of households sold livestock, with a higher percentage of sales coming from those that took multiple loans (19%).

Interestingly, 88% of households reported still owning either the animals bought through CIF or its offspring, even after more than one year of receiving the CIF. These animals thus prove to be a stock of value for the beneficiary households.

4. Majority of CIF loans in agriculture utilised for input purchase

Most of the beneficiaries bought inputs such as seeds (46%) and chemical fertilizers (34%). A 7%, smaller number of loans also went towards purchase of pesticide, while other running expenses, such as for machinery use, labour payments, and payments for water etc. were about 13%. Not surprisingly, most earnings from agriculture were realized by end-season, with multiple loan takers benefiting the most in terms of profit.

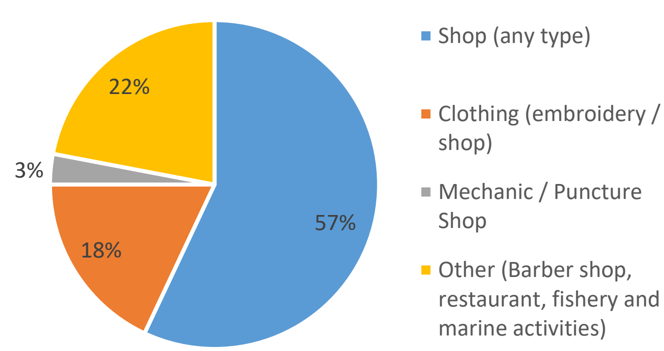
5. Majority of CIF in micro-enterprise used towards establishment of new businesses

Majority of CIF beneficiaries invested CIF amount into three major enterprises such as opening retail shops (tuck shop, vegetable carts) followed by handicraft work and mechanic or puncture shops. Figure-3 gives details for the breakdown of the different type of enterprise investments.

Overall, 82% of CIF beneficiaries who invested in enterprise established new businesses while 18% used CIF for expansion of old setups.

Although CIF is meant to be utilised by the female beneficiaries of the SUCCESS programme themselves, this Is not always the case. Further probing revealed that about 30% of beneficiaries solely ran the enterprise, 'husband or son' ran the enterprise for 55% beneficiaries, while other family members, besides husband or son, ran the enterprise for 12% of the beneficiaries. Very little 'joint-running' was reported, as only 3% of beneficiaries reported running the enterprise alongside her husband or other family members.

Figure-3: Types of Enterprise



6. Profits from CIF investments contribute 11% to household incomes

The overall estimated contribution of CIF investments to the monthly household income came out at 11%. Category wise, the average profits from livestock investments using CIF for the sampled households stood at PKR 12,702 per annum, or PKR 1,059 per month (net earnings from the sale of livestock plus the average net income from milk and meat production). For agriculture, reported seasonal profits were PKR 19,836 (the average growing season is usually 6 months) or PKR 1,653 per month. Finally for enterprise, the monthly profits were at PKR 2,030.

Based on these numbers alone, the investments in livestock showcase the lowest returns while investments in enterprise yield the highest. However, this is only a partial picture since investments in livestock also prove to be a store of value as 88% of the households are yet to sell their CIF animals or offspring. While the established enterprises also act as a store of value, the current value of enterprises owned is almost half the current value of animals owned.

Finally, interesting results were also seen when comparing single versus multiple loan takers. Households that took multiple CIF loans had higher net profits than those who took a single loan as multiple loans directly translate into a larger herd size in most cases. Similarly, for enterprise, the current value of the business increases by more than 50% in the case of multiple loan cycles.

7. Post CIF 42% households improved poverty score band

Overall, 24% of CIF beneficiary households were able to break out of the 0-23 poverty score band. Looking at the movement of each household individually, Figure-4 reveals that since the Baseline in 2016, 42% of beneficiary households improved their poverty score band, 30% remained in the same band, while 28% households fell into a lower PSC band[1]. See Figure-4 for details.

Figure-4: Movement of Households across Poverty Score Bands Before and After CIF

		Poverty Score Distribution Current Survey 2020						
		0 – 11	12—18	19 – 23	24 - 34	35 - 59	60 – 100	Total
Poverty Score Distribution Baseline 2016	0 – 11	131 (39.7)	119 (36.1)	40 (12.1)	30 (9.1)	10 (3)	0	330 (16.3)
	12—18	228 (24.8)	313 (34)	201 (21.8)	149 (16.2)	29 (3.2)	0	920 (45.6)
	19 – 23	110 (14.4)	226 (29.5)	168 (22)	214 (28)	45 (5.9)	2 (0.3)	765 (37.9)
	24 – 34	0	0	0	0	0	0	0

Note: Percentages given in parenthesis

Conclusion

CIF plays a vital role as an alternative financial source in providing micro loans to poor households in rural areas to start income-generating activity as per the guided micro-investment plans. As the procedures of microcredit institutions are tough and costly to maintain in a rural setup, the CIF is a low-cost sustainable solution for the provision of revolving capital fund to poor households. Its access, utilisation and contribution in rural setup appear to be positive and prove as a transformative force in enabling poor households to come out of the poverty trap.

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[1] Establishing causation or correlation was beyond the scope of the study.