



A Perspective on Rural Organizations & Finance based on Indian Experiences

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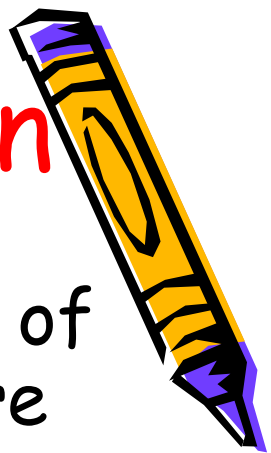
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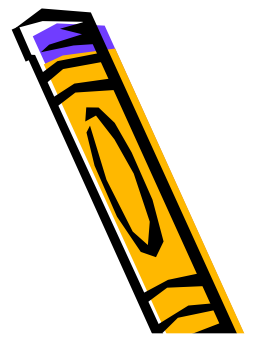


Roadmap of the presentation

- Organizations for promotion and financing of Rural Development and Rural Infrastructure created by
 - Government agencies through projects/ schemes
 - Agencies created by Private Companies usually to perform Corporate Social Responsibilities
 - Cooperatives or Other NGOs
 - Hybrid organizations, as some recent trend suggests
- Brief SWOT analysis of coops
- Warana Model in pictures
- Possible Future Strategies



Schemes & projects of Ministry of



Rural Development

Economic Betterment
Social Transformation

Increased
Community
Participation

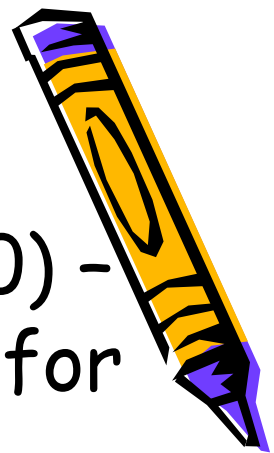
Decentralization
of planning

Enforcement of
land reforms

Access to credit

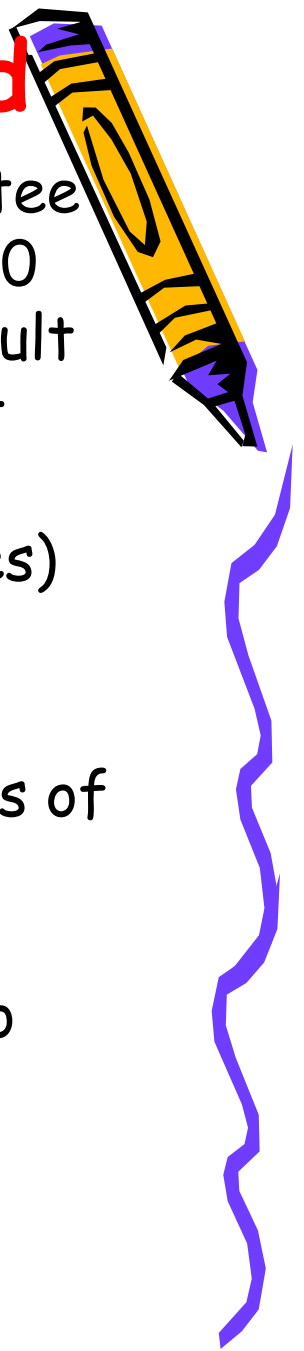
Flagship Programs of MoRD

- Prime Minister's Village Road Plan (2000) - to connect all habitants exceeding 500 for plains and 250 for hills
- Golden Jubilee Village Self-employment Plan (1999) for all BPL families
- Indira Housing Plan (1985) to construct houses for SC/ST, free bonded laborers, minorities, non-SC/ST BPL families, widows of defense staff, retired staff of para-military



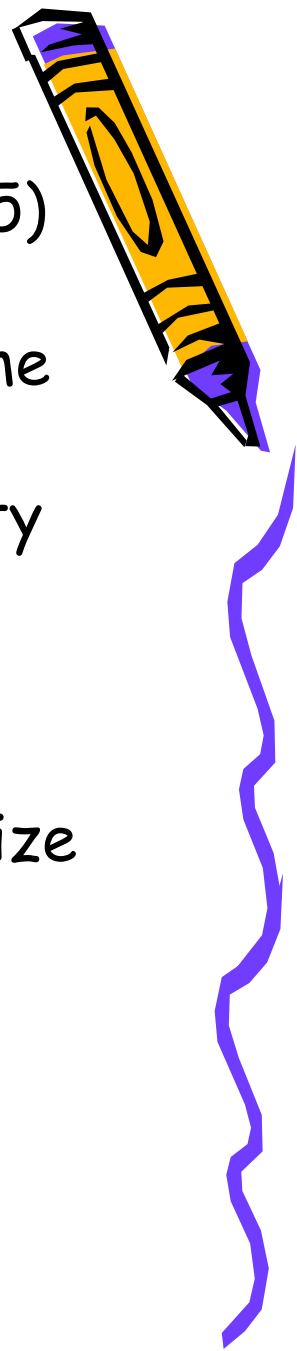
Flagship Programs of MoRD contd

- Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) (2005): Legal guarantee for 100 (so far achieved 48) days of employment/year to adult members of rural household; Minimum wage rate set above market rate (unlike in Test Relief System in British India - currently, INR 130 / day (2009 prices))
- Criticisms: Delay in payment of wages; Fictitious laborers / job cards created by officials indicating leakages; Roads and canals built by unskilled laborers of very poor quality; Ban on use of machinery; No skill formation; Created labor shortage with serious implications; Demand for job-days strangely equal to supply



Flagship Programs of MoRD contd

- National Social Assistance Program (NSAS) (1995) with 5 components: . National Old Age Pension Scheme (NOAPS); National Family Benefit Scheme (NFBS); Indira Gandhi National Widow Pension Scheme (NWPS); Indira Gandhi National Disability Pension Scheme (NDPS); Annapurna (AS) - food security to senior citizens
- National Land Records Modernization Program (NLRM)(2008): to modernize land records; minimize property disputes; enhance transparency; have conclusive land titling, though 20 out of 39 states/Uts yet to spend a single penny so far.
- vii) Integrated Watershed Management Program (IWMP) (2009)

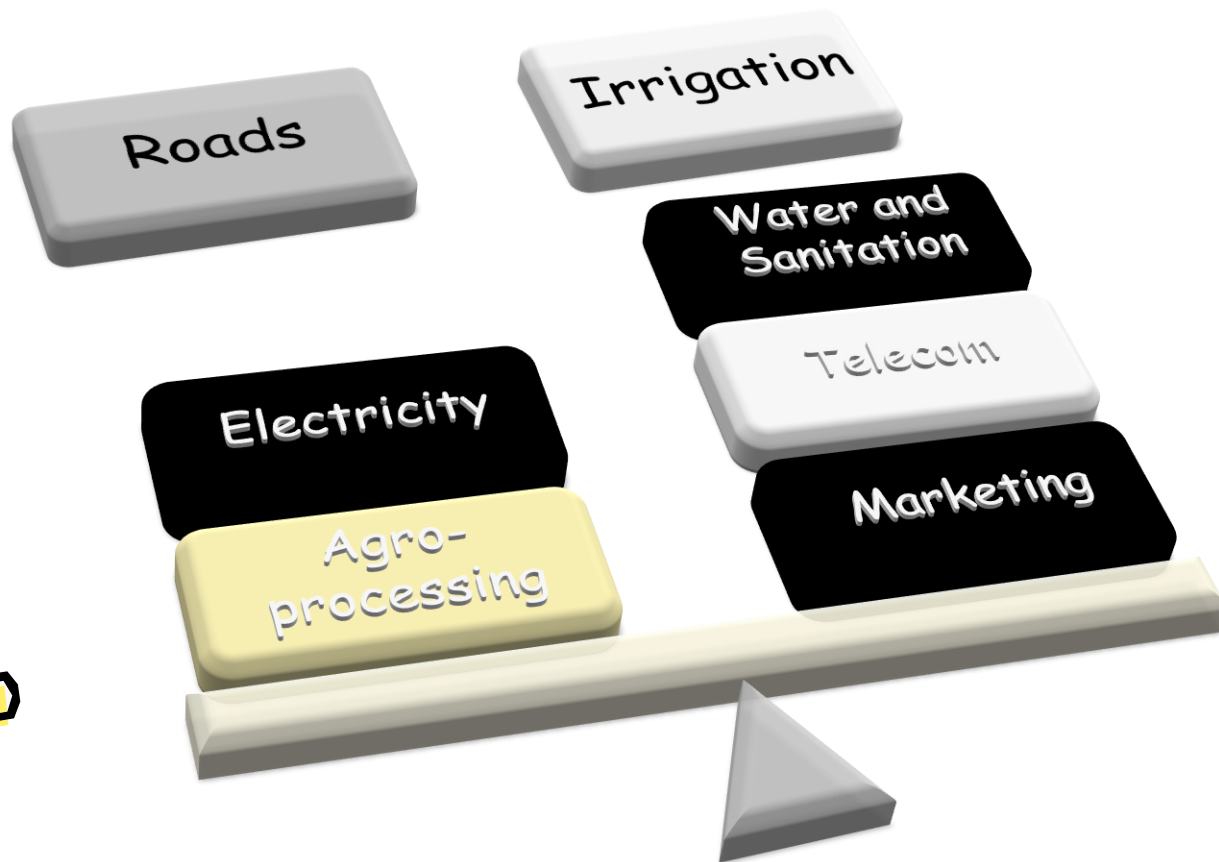


Flagship Programs of MoRD & others contd

- National Rural Livelihood Mission (NRLM): to provide all BPL families with livelihood opportunities & improve their access to financial services thro' SHGs
- Different Ministries addressing 5 critical elements of social & economic infrastructure: Health, Education, Drinking Water, Housing, Roads.
- Focus on Training by National Institute of Rural Development (NIRD) with network of 28 SIRDs and 89 Extension Training Centers
- Multi-level and multi-tool system for Monitoring and Evaluation
- Center with stronger resource base calling the shots



Funding of Rural Infrastructure





Characteristics of RI

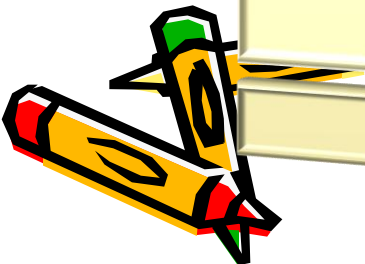
High capital
requirements

Huge sunk
costs

Long gestation
periods

Political
interferences

Public good
characteristics



Sources of Public Money (SPM) for RI



Government

- Special programs. Ex. PMGSY
- Special agencies. Ex. NABARD

Local bodies like Panchayat

- Narrow resource- and tax-base
- Heavy reliance on Govt. grants

Private investments

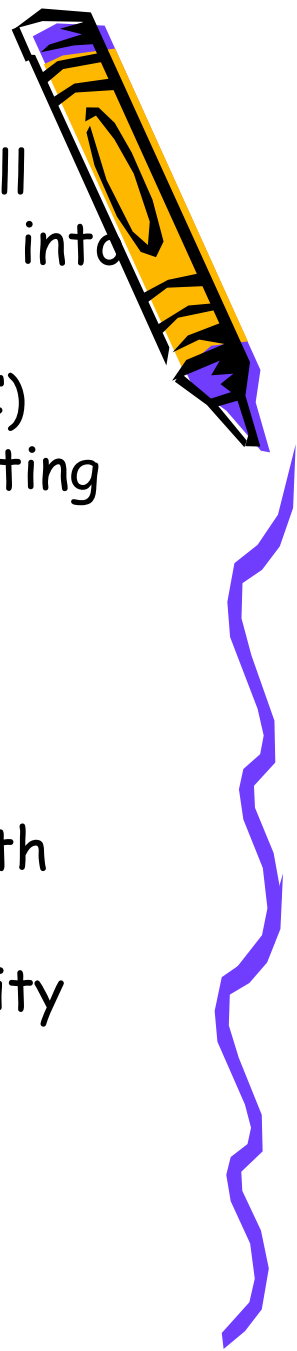
- Perception of low WTP by rural users
- Public good characteristics of RI services

Rural Infrastructure Development Fund (RIDF) under NABARD since 1995 to provide to states low-cost funds

NABARD not verifying the quality of projects	Late release of funds in the financial year	States treating RIDF as yet another cheap source of finances
Many incomplete projects shown as completed	RIDF/states not learnt lessons on risk profile of RI investments	Just repay enough to ensure future inflows

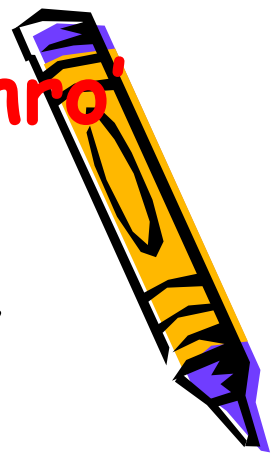
Other initiatives

- National & state SIDCOs established to promote small industries (called SSI) and disperse industrial growth into rural hinterland
- National Cooperative Development Corporation (NCDC) and National Dairy Development Board (NDDB) promoting cooperative infrastructure
- Multilateral Aid Agencies (World Bank, ADB etc.) continue to provide a major share of RI funds
- State of Gujarat providing a fairly successful case of Water Conservation Units (check dams, ponds etc) with token user funding to resolve informational problem; Water Users Associations (WUAs) and Rural Electricity Supply Cooperatives operating successfully in some states.



Notable private initiatives mostly thro' fixed price contracting

- Proliferation of mobile telephones w/o subsidy
- Village hyper markets (under ITC e-choupal in Manhya Pradesh)
- Fresh Organic Vegetables - Namdhari (Bangalore)
- Potatoes - McCain India (Gujarat)
- Basmati rice - Kohinoor Foods Limited
- Cotton - bioRe India (MP)
- AGROCEL's Pro-poor Organic Cotton Value Chain in Kutch, Gujarat
- Suguna Poultry



Comments on RI financing

- Govt. needs to retract and restrict itself to policy making and regulation w.r.t RI
 - Presently, Govt. conceives, finances, promotes, implements, regulates and monitors:
Disproportionate burden
- Community to transform itself from a passive user to a more active role
- To create an enabling environment to attract private capital in RI



Comments on RI financing

- Region-specific RI-Economic Zones (EZ) may be proposed in a Special Purpose Vehicle framework (SPV) to smoothen the interface between Planning Commission and Govt.
- EZ to dovetail with industry clusters created by State and National SIDCO
- Incubation centers for all RI projects in the region
- human capital, technical expertise, raw material supplies and monitoring mechanisms under one roof
- SPV may approach the market/FI for investments in RI

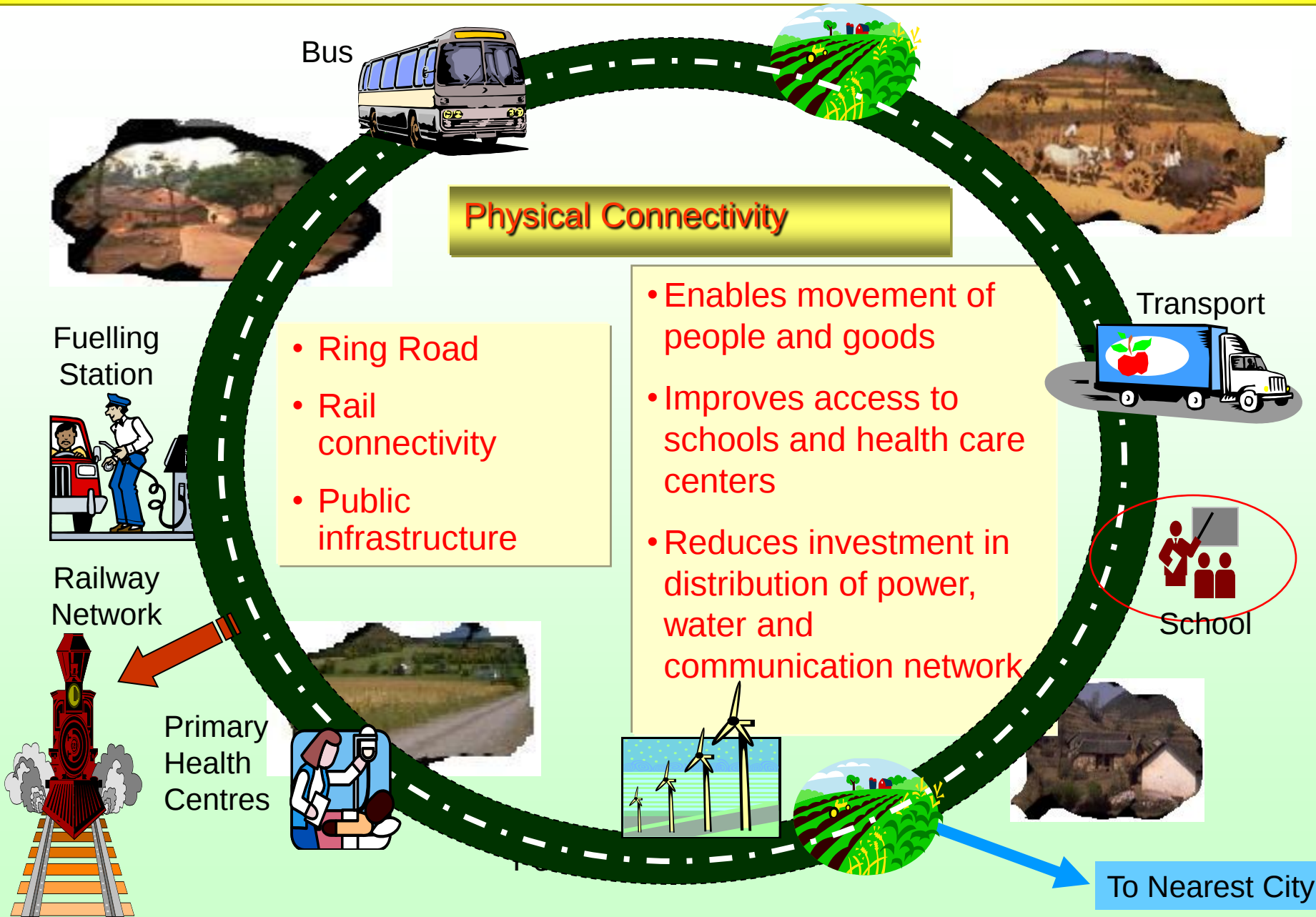


**Ex-President of
India Dr. Abdul
Kalam's Critique of
Rural Development
Programs -
Concept of PURA
(Provision of
Urban Amenities in
Rural Areas), an
area based and
entrepreneur-
centric approach**

- Comprehensive Development to generate urban income level and not just poverty alleviation
- Stem distress migration by generating a wider spectrum of jobs
- It treats infrastructure as the prerequisite and not a consequence of development
- It has to be Financially Sustainable and an attractive business proposition for an entrepreneur
- It strives for Customization to best harness the local potential and address specific needs

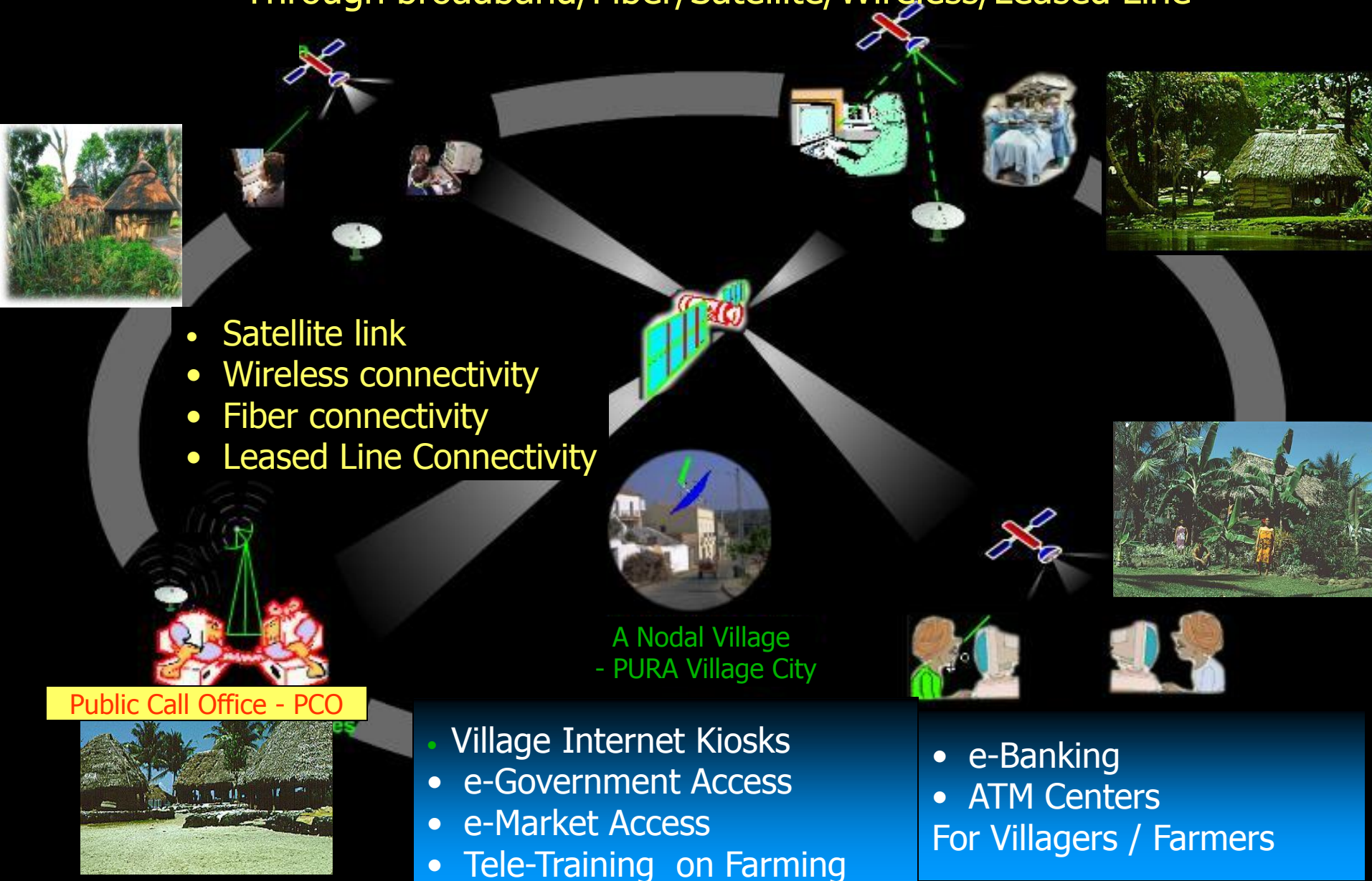


PURA (PROVIDING URBAN AMENITIES IN RURAL AREAS)



PURA– Electronic Connectivity

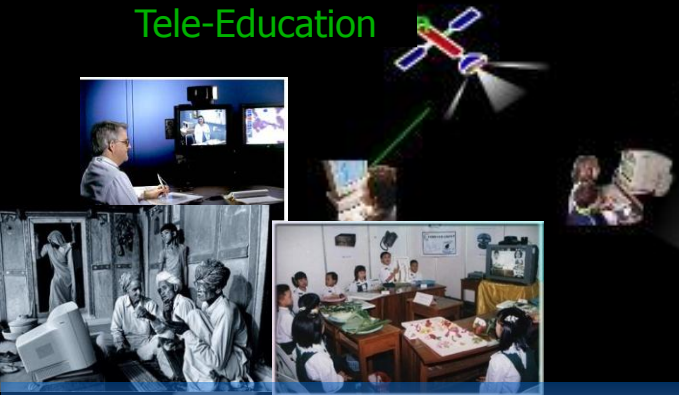
Through broadband/Fiber/Satellite/Wireless/Leased Line



PURA– Knowledge Connectivity

Knowledge oriented approach to knowledge enable Village life

Tele-Education



Tele-Medicine



Educate Students/Farmers/workers

- Vocational Training
- Knowledge Training
- IRS Imagery for
 - Land & Crop Mgmt
 - Water Mgmt
 - Forest Mgmt
 - Environment
- Proactive Health care
- Coop. Product Mktg.

IRS Imagery



Bio-Solids Recycling



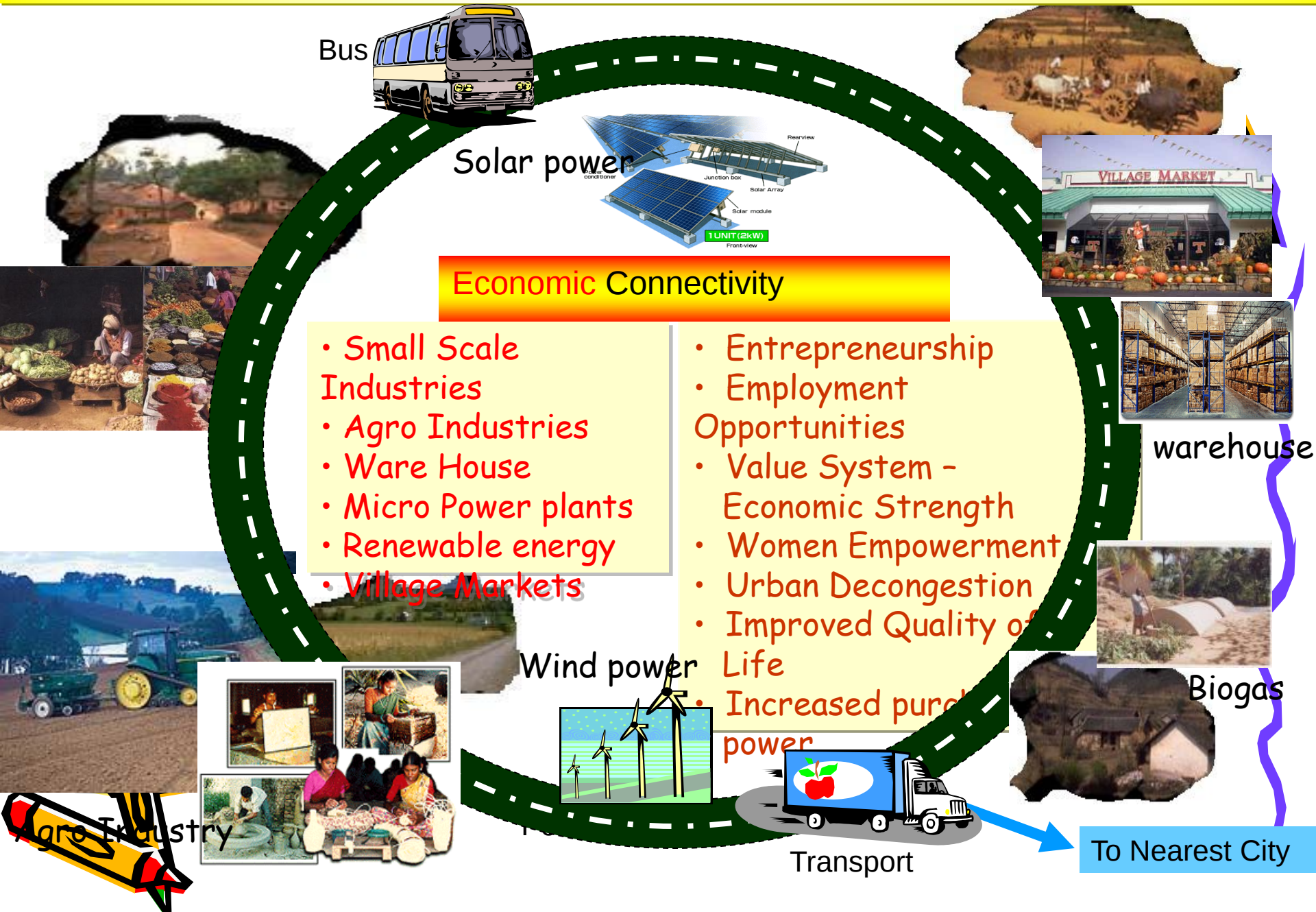
Land/Crop Management



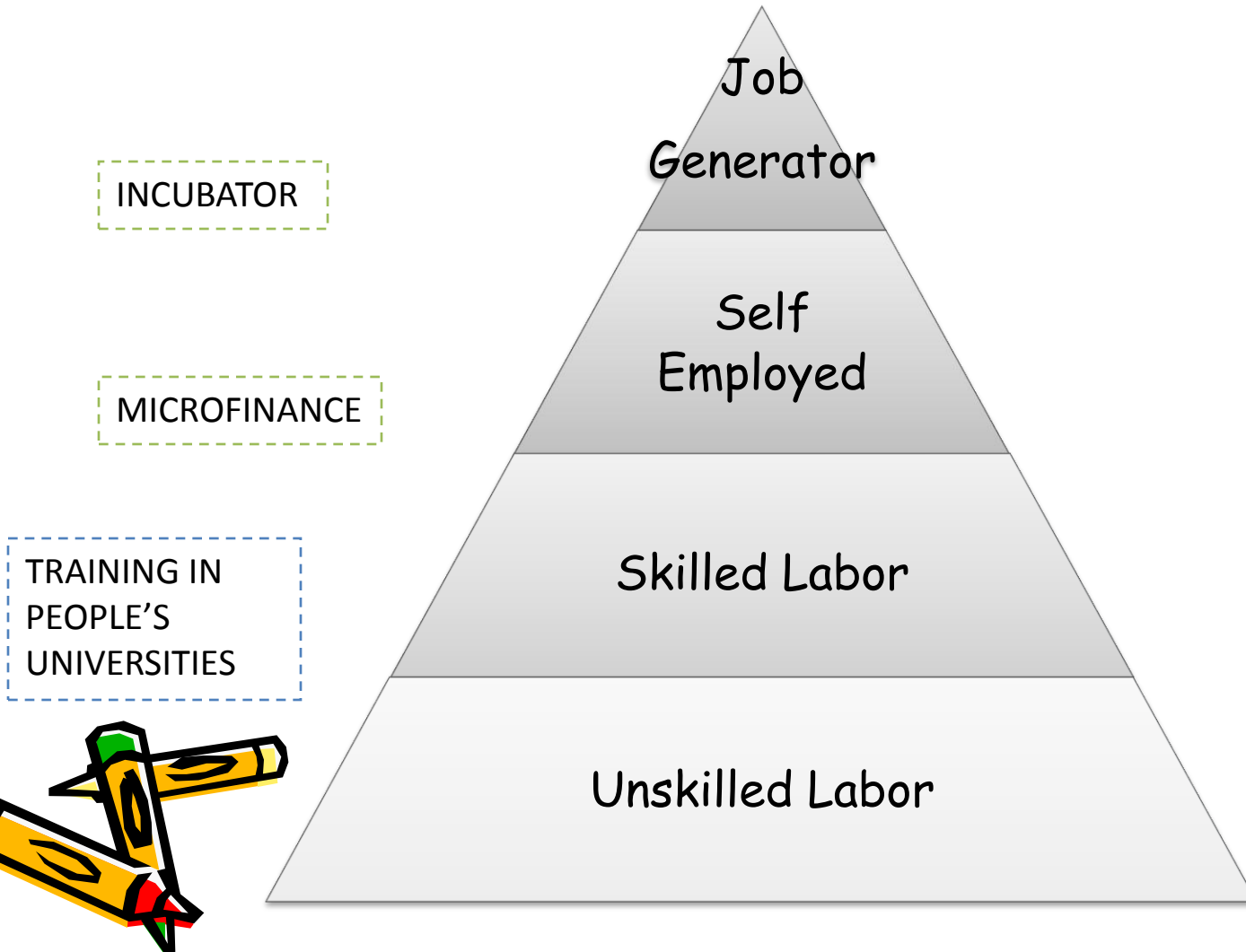
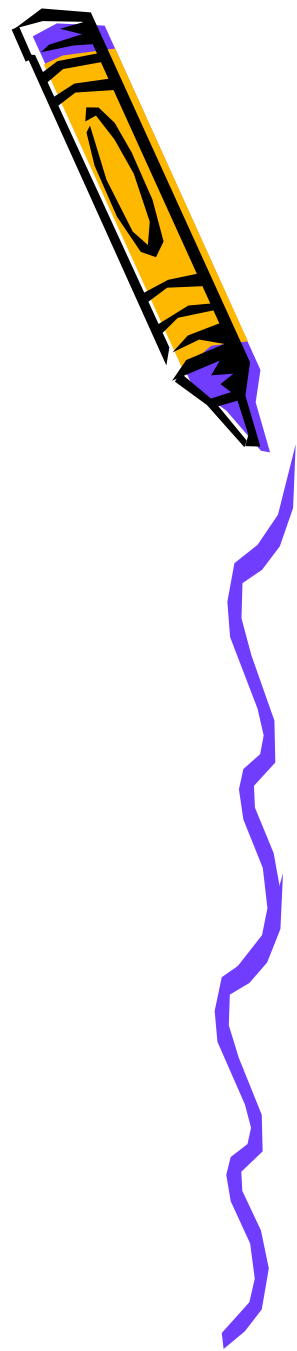
Water/Forest/Environment Management



PURA - Economic Connectivity



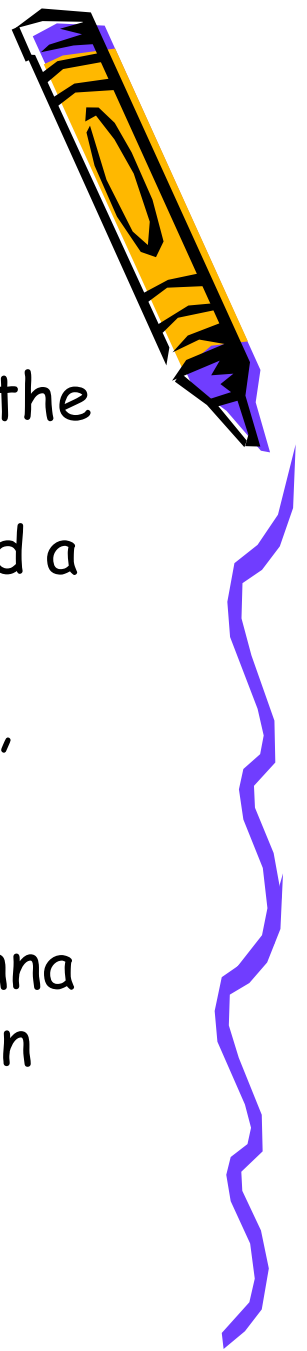
Proposed Growth Path under PURA



Several ideas to sensitize on the role & viability of small farmers

- Concept of Appropriate Management Systems for Agricultural Co-operatives (AMSAC) envisages fully integrated, production oriented cooperatives where primary producers are involved in all stages of the agricultural production from the farm to the consumer, consistent with the concept of integrated bio-mass use.
- Need to look at Domestic Resource Cost Ratio (DRCR) or Extended DRCR inclusive of environmental values - as originated from CYMIT - to judge global competitiveness rather than merely comparing domestic price with external global reference price.
- Not to insistent on production of globally tradable products from the beginning, allow for going up the ladder starting with locally tradable products & services, having strong local demand.

Different entry point approaches of coops & NGOs to rural development



- Two most outstanding cases are of sugar cooperatives and dairy cooperatives - in a sense the latter having more robust competitive strength especially under the brand name called AMUL and a three-tier structure.
- Other commodity cooperatives not so successful, though there may be small pockets with limited success
- Attempts made through water as entry point (Anna Hazare's Ralegain Siddhi & Hiware Bazar - both in Maharashtra)



Different entry point approaches

- Several multi-purpose credit cooperatives integrating credit with marketing are successful in several parts - thus, credit, in general, remaining a problem area with co-existence of formal, informal and MFI (both for-profit & non-for-profit) components.
- Multiple extension strategies being followed by Bharatiya Agro Industries Foundation (BAIF) & Lupin Rural Development Foundation (under CSR).
- Traditional knowledge being used to promote Snake Farmers' Industrial Cooperative for backward Irula community near Chennai, and a Barefoot College started in 1972 by Sanjit 'Bunker' Roy, relying on the passing on of traditional skills and knowledge to trained villagers as doctors, teachers, engineers, architects, designers, mechanics, communicators and accountants.





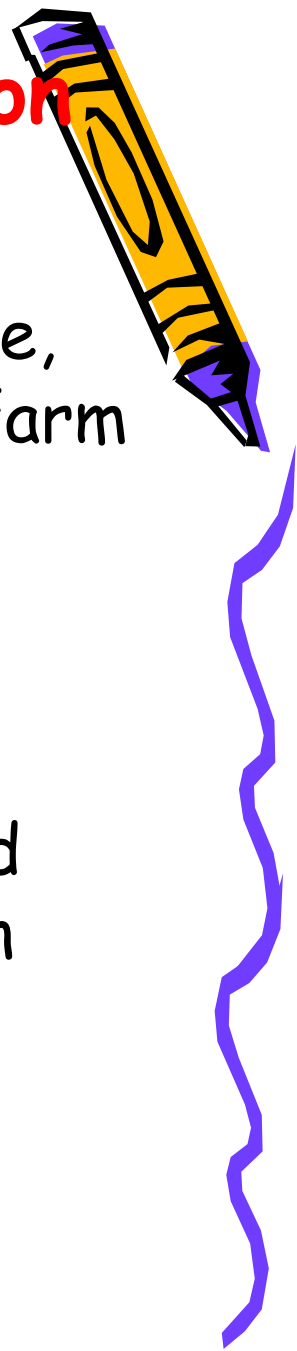
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Non-Tradable Models

25

MS Swaminathan Research Foundation using research as entry point

- A national entity set up in 1988 for pro-nature, pro-poor, pro-women and pro-sustainable on-farm and non-farm livelihoods through appropriate eco-technology and knowledge empowerment
- Five core areas identified : Coastal systems research (salinity tolerant rice), Biodiversity (conserving 80 rare plants), Biotechnology and Eco-technology, Food security (seed and grain banks), & Information, education and communication





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Fisheries Models

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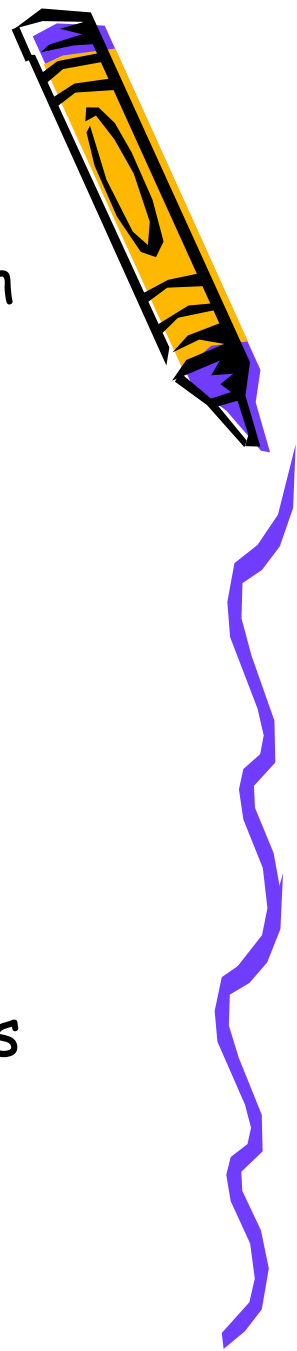


Limited success of fisheries as entry point

- South Indian Fisheries Federation Society in coastal areas of Kerala & Tamil Nadu is an exception.
- Only a handful of good inland fisheries coop in certain pockets
- Variety of government Departments at state & central levels sometimes working at cross purposes failed to promote RD thro' fisheries, in general.



General discussion on Indian Coop Movement

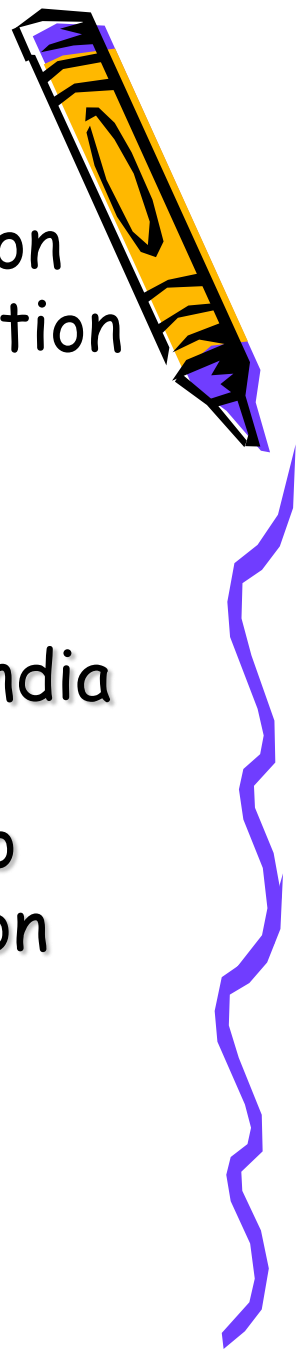


- Cooperative movement in modern form began with Rochdale Pioneers in 1844
- Coops started as formal organizational format in 1904 in British India with the sole objective of helping the Indian Farmer
- Huge proliferation of coops, especially in Independent India, apparently gaining in quantity rather than in quality
- Cooperation as a higher calling of man, and hence not an universal phenomenon
- * Cooperative, a specific organizational format, less common



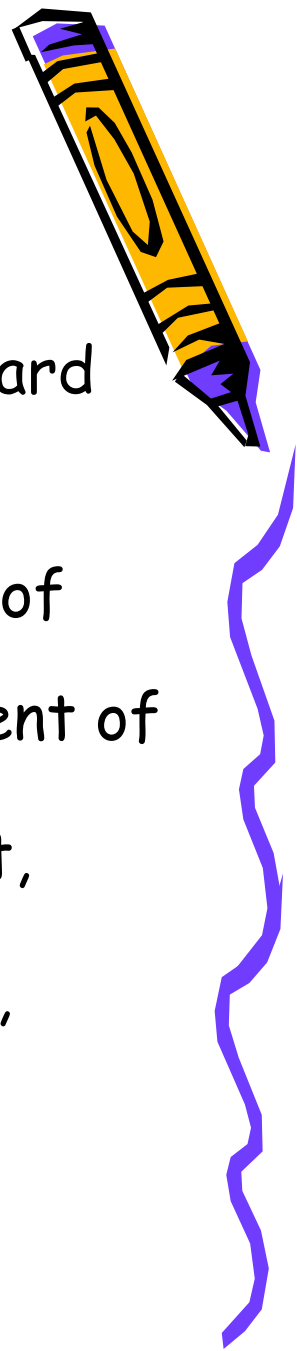
Indian Coop Movement contd.

- Complexity of cooperative form of organization flowing from three broad types of interpretation of its goals - a safety net perspective, an alternative mode of econ. Organization & a broader form of socio-economic organization
- Controversy over effectiveness of coops in India traced to complexity of the organizational format and the movement's failure to undergo timely changes from first to fourth generation forms in developed countries.



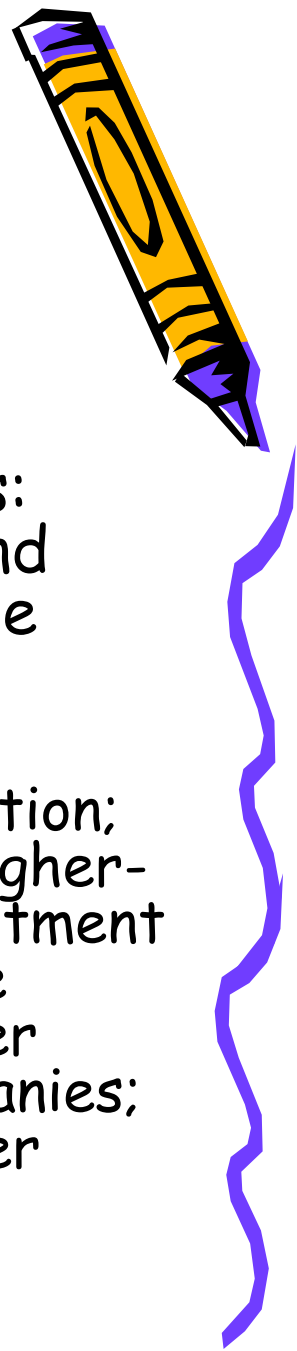
SWOT analysis

- Strengths in minimizing transaction costs in information gathering, negotiation, and implementation of contracts, especially in backward linkages, but only in an imperfect market setting
- Incentive compatible patronage dividend system
- Since farmer's labor, the most important factor of production, is not in vendor relationship to the organization, longer-term planning and development of farmers & their villages possible
- Can take care of social concerns like environment, rural development, etc.
- Hedge against monopoly power at home & abroad, unwanted imports
- Can correct the misleading approach to global competitiveness



Realization of strengths subject to several pre-conditions

- Enabling legal provisions
- Solution of horizon, non-transferability & control problems
- Availability of enough financial & human resources: problems of socio-economic divide, Autonomous and competent leadership, Member stake thro' suitable governance structure, and Enterprise focus
- Generic constraints: Discriminatory economic policy framework, subjecting them to unfavorable discrimination; Parastatal & monopoly character of promotional and higher-tier bodies with high cost of operation (e.g, over-investment in people); Failure to appreciate and operationalize the principle of 'cooperation among cooperatives' to counter threats of national and multinational joint-stock companies; Poor management of quality and inadequate control over marketing/distribution channel



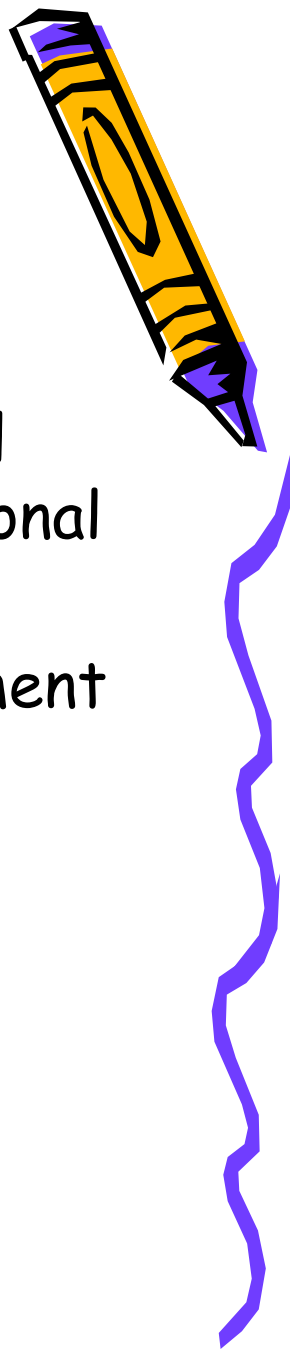
POTENTIALS & OPPORTUNITIES

- * Strengthening cooperative identity among members, employees and leaders thro' education & training (e.g., in F-connections & stakeholder cooperation called *keiretsu*)
- * Promoting e-commerce thro' '.coop' suffix
- * Promoting innovative member services
- * Use women, a huge untapped resource, in different capacities - as producers, consumers, activists, managers & leaders

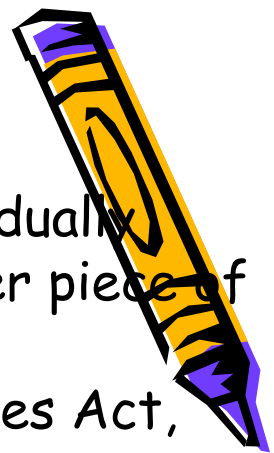


Potentials & opportunities

- * Use natural allies - trade unions, employers' organizations, NGOs, environmentalists, peoples' organizations, PRIs, women's movements, national corporations (thro' contracting) & even multinational coops
- * Design & lobby for land, labor, capital & environment market reforms



Cooperative legislation in india

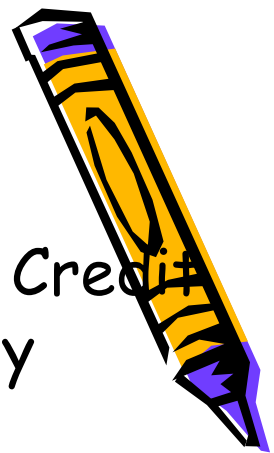


- * Beginning with simpler central laws in 1904 & 1912, but gradually coop law turning into a state subject with RCS as the center piece of all legislation and the farmer an object of the periphery
- * New beginning with AP MACS Act, Multi-state Coop Societies Act, Producer Companies' Act
 - More flexibilities will be called for as these Acts are implemented
 - To resolve contradiction between why a large # of farmers are committing suicides & a reported 40% wants to leave agriculture, while almost all corporates turning to agri-business.
 - Price realization by farmer of consumer rupee varies within 24-58% for vegetables.
 - Unconventional approaches including credibility, reputation needed to meet fund needs.
 - Statutory provision for minimum annual contribution to reserve in proportion to patronage is an important step.



Flexibilities called for

- Federated structure of Rabobank (Netherlands), Credit Agricole (France), OKO (Finland), ICPL (floated by IFFCO in India) provide examples.
- Multi-state Coops can use special purpose vehicles (SPV) to issue Trust Preferred Securities (TPS) to raise long term stable funds.
- Coop companies in India are in a nascent first stage of providing technical services/inputs or doing pooled marketing. They must move to second stage, where corporates must share prosperity with farmer coops through partnership (as in Fab India), or even to third stage through owning own processing facility, brands & marketing channels.



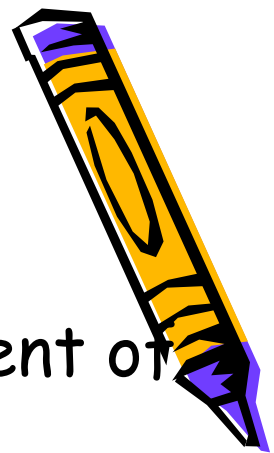
Use of BDP as a tool



- * Reasons of failure of training & education on BDP:
 - artificial govt. programs, making coops as mere instruments of govt. policy
 - lack of marriage between demand & supply sides: absence of leader as creator of effective demand for coop services, linking members' activities to the market needs
- * Constraints on financing of coops:
 - too much of reliance on govt. share capital, with expected consequences
 - legal discouragement of retained earnings
 - misuse of grants & excessive use of borrowed fund



Management of funding, taxation & finance



- * Ambiguous and even discriminatory treatment of coops under income & other taxes
- * Archaic system of financial management with absence of 'standards' and handling of audit by non-professional govt. administrative machinery, where detection of fraud and error becomes the sole objective
- * Subsidization or net taxation of coops?
- * Absent or inadequate capital market reforms for funding or rehabilitation of coops



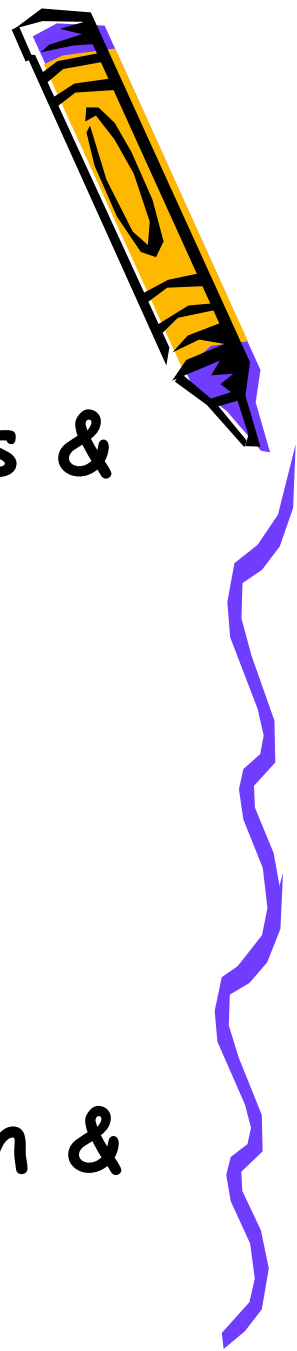
Coop education & training

- * Need for education & training as owner to participate in decision making, choice of leader, resolution of conflicts, and owning decisions (mainly on principles & values of education)
- * *Also need for education & training as user to increase member income (mainly, extension education to build up skill)*
- * Weaknesses observed in the mammoth structure:
 - supply rather than demand driven
 - low capacity utilization
 - little content on value addition activities
 - serious property rights problem in funding & discharge of both education & training



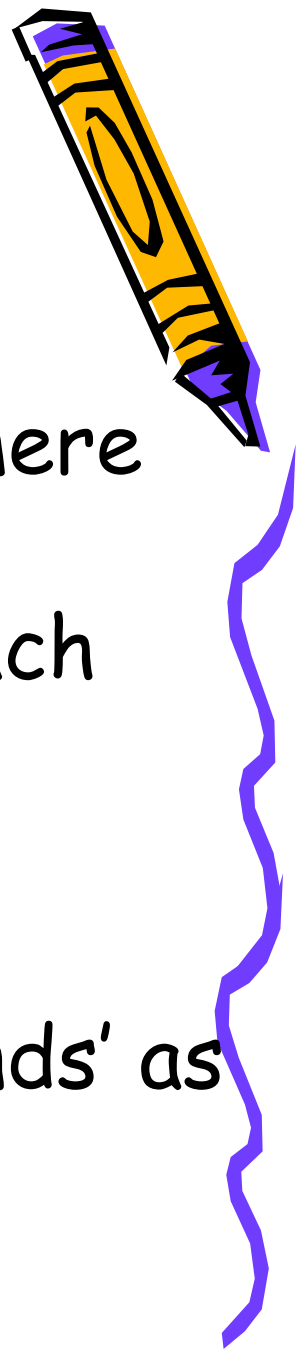
LESSONS LEARNT

- * Emphasis on value-adding activities & hence required change in structure
- * Multiple legal options
- * Non-discriminatory econ. policy
- * Right training with emphasis on leadership development
- * Importance of informal cooperation & lobbying
- * Emphasis on strategic alliances



Lessons learnt

- Importance of cooperation (thus approaching stakeholder cooperation through hybrid forms) rather than mere coops
- Accommodate self-help group approach
- Broad-based economic & lobbying organization
- Winning over dedicated friends & researchers to attract 'beautiful minds' as employees, experts and patrons.

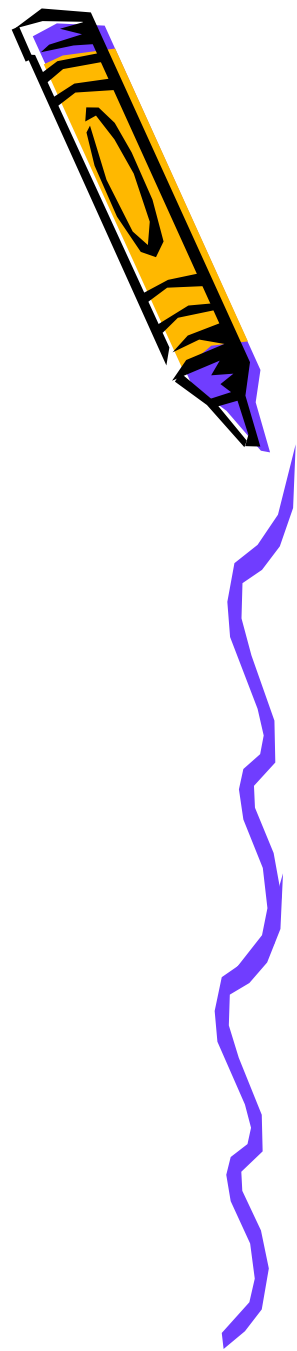


Warana - sugar factory as entry point in late 1950s

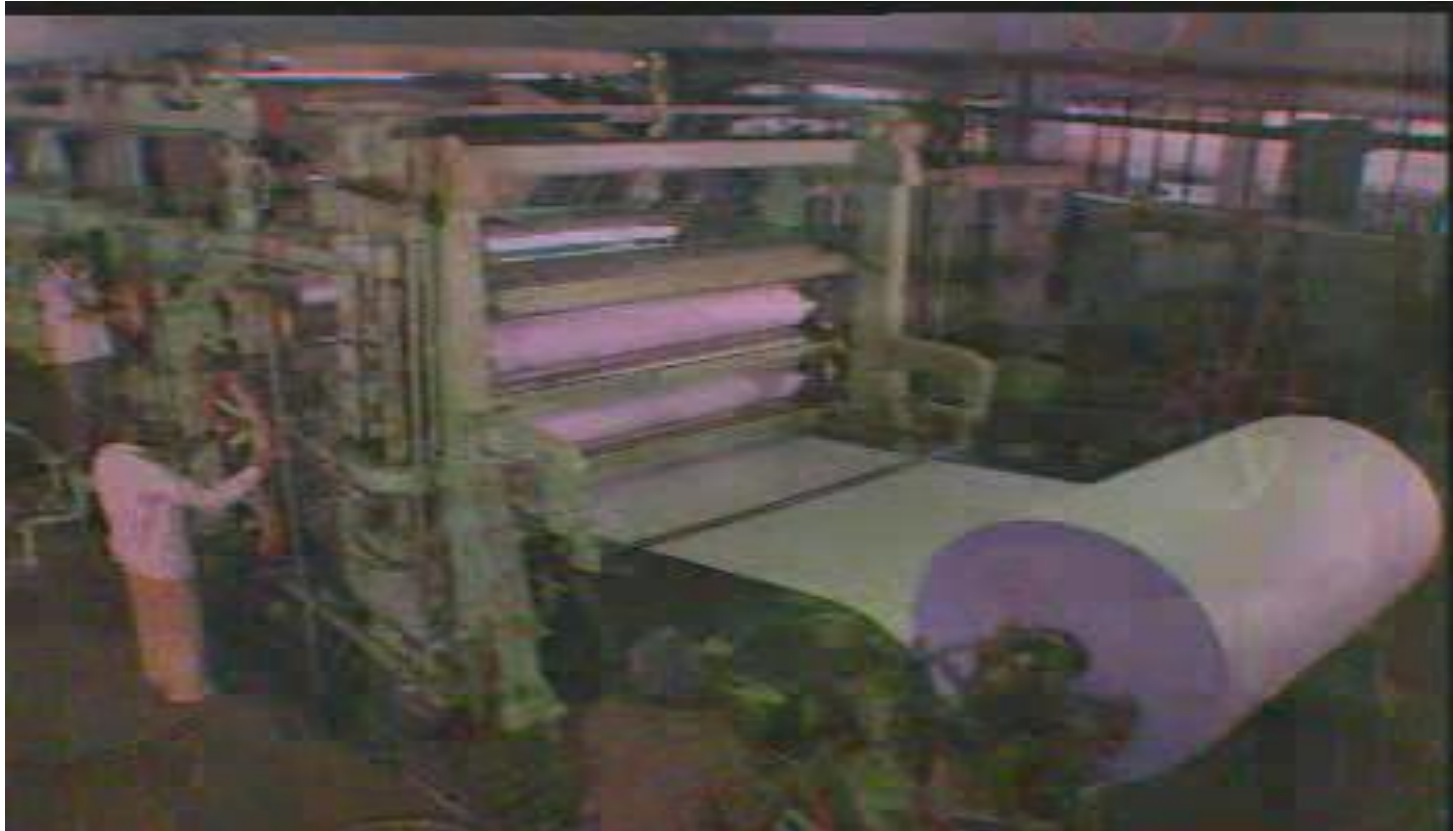




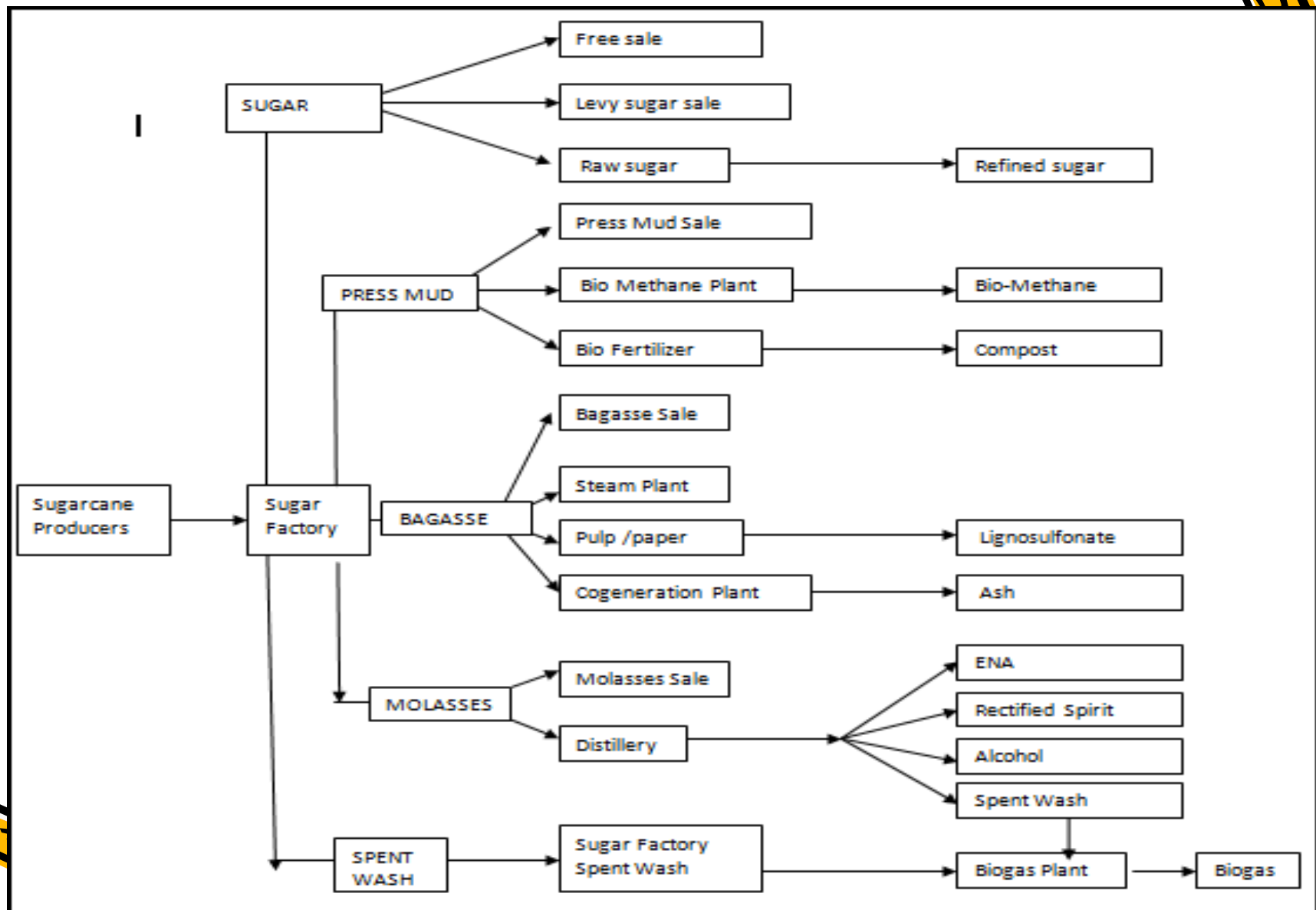
Promoting use of byproduct -baggasse



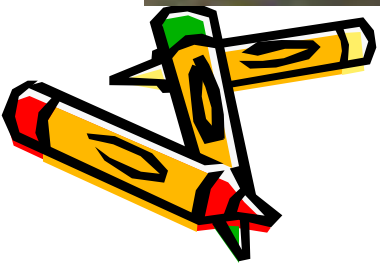
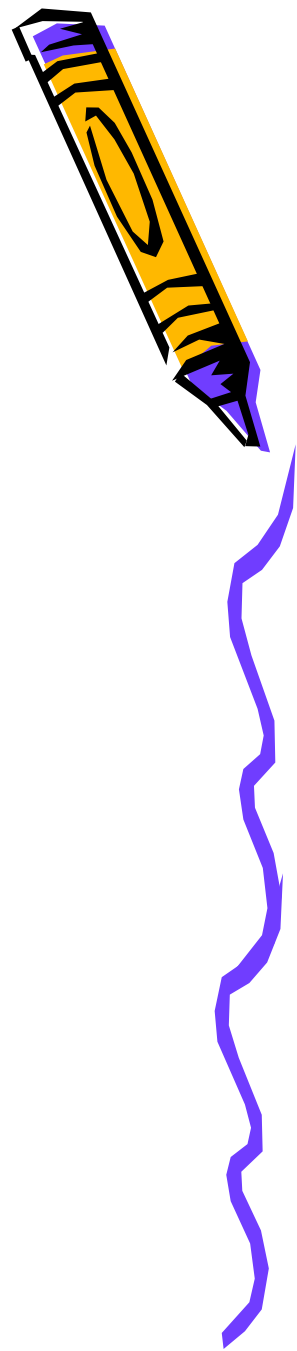
Use of bagasse for paper production



Process Chain of Sugar Production Unit at Warana



Warana Distillery Unit



Warana Poultry



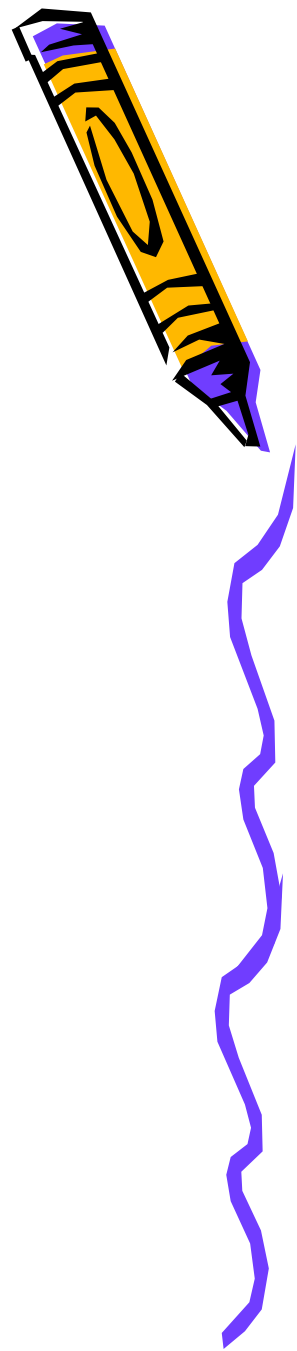
Warana Milk Union



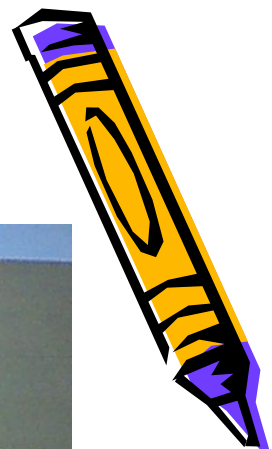
Tetra-packed juices recently marketed by Warana Agro



Warana Irrigation Project



Warana Cooperative Bank



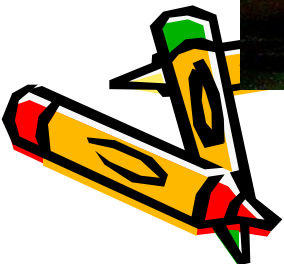
Warana Women's Federation



Warana Bazar - first coop departmental store developed using ILO expertise



Warana Bazar mechanistically cleansing wheat before packaging



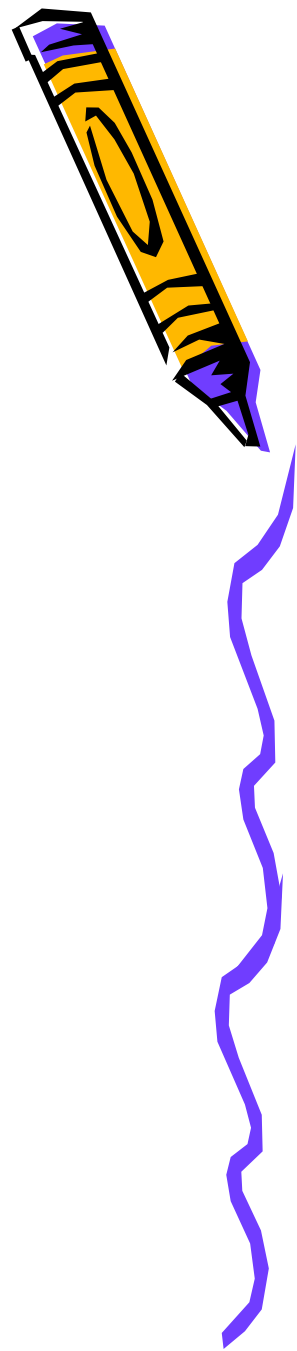
Warana Bazar selling Warana Sugar in consumer packs using its own brand name



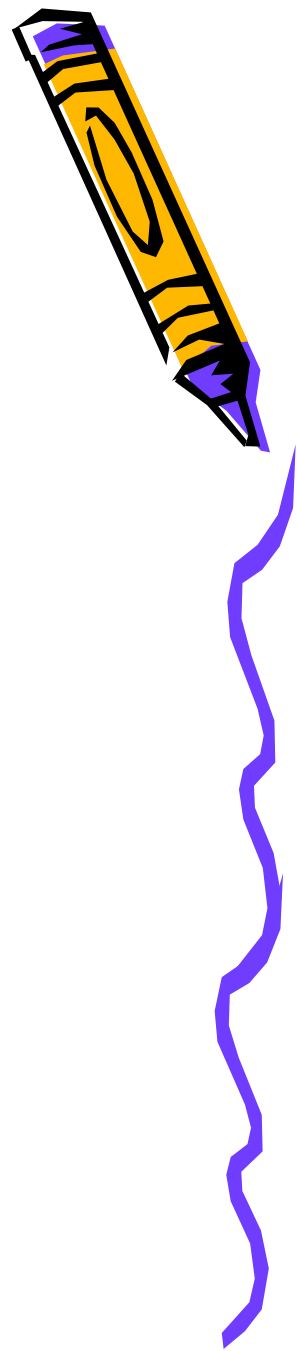
Warana Bazar providing training to potential employees in its backyard



Warana Horticulture Cooperative Society



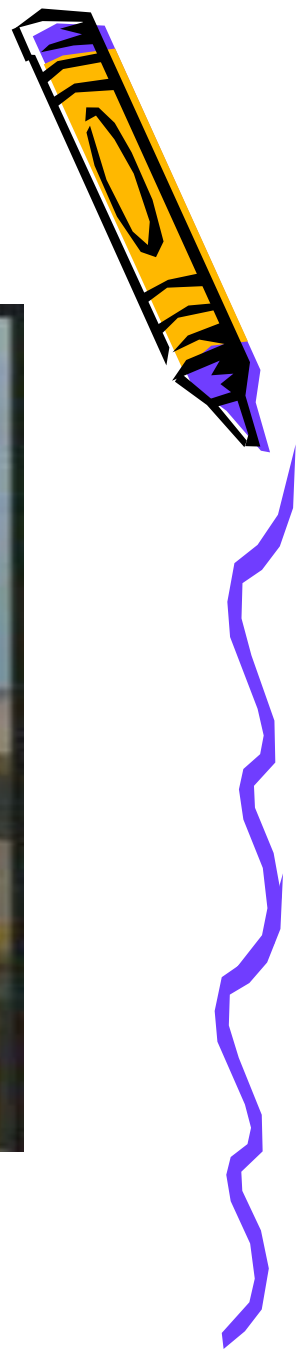
Warana Children Orchestra



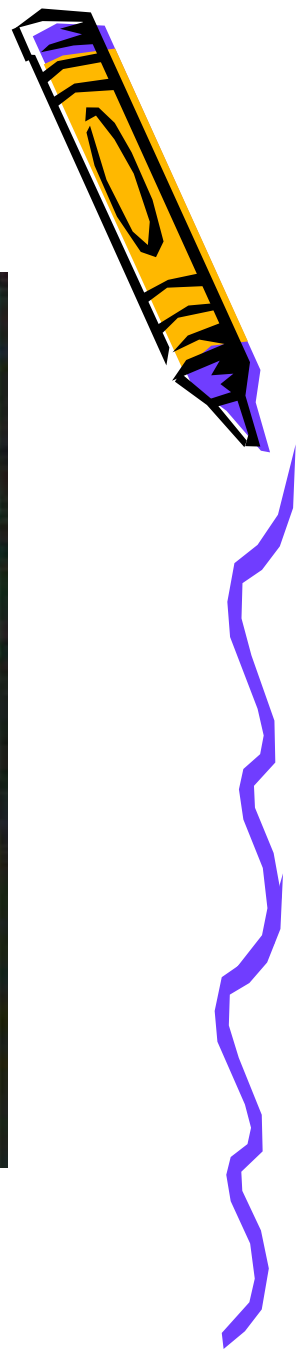
Warana Primary School



Warana Engineering College



Warana Medical & Dental College and Hospital



Warana Military Academy



Warana Wired Village Project



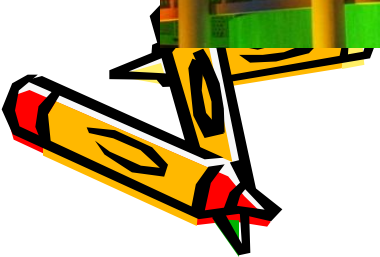
Demonstration of modern agricultural tools



Warana people gather before Farmers' Parliament on Death Anniversary day of their leader



Illuminated picture of Warana Farmers' Parliament



Thank You

