

# State of India's Livelihoods Report 2014

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# List of Abbreviations

AAP	Annual Action Plan
ABF	Axis Bank Foundation
ACER	Australian Council for Educational Research
ACF	Ambuja Cement Foundation
ADB	Asian Development Bank
ADFT	Agricultural Development Finance Tamil Nadu
ADS	Access Development Services
AGM	Annual General Meeting
AIDS	acquired immune deficiency syndrome
AKRSP	Aga Khan Rural Support Programme
AMUL	Anand Milk Union Ltd
ASA	Action for Social Advancement
BAIF	Bharatia Agro-Industries Foundation
BC	Business Correspondent
BCG	Boston Consulting Group
BGREI	Bringing Green Revolution to Eastern India
BJP	Bhartiya Janata Party
BPL	Below Poverty Line
BPO	Business Process Outsourcing
BRLPS	Bihar Rural Livelihoods Promotion Society
BSBDA	Basic Savings Bank Deposit Account
BSE	Bombay Stock Exchange
BVPC	Bhangar Vegetable Producers' Company

CACP	Commission for Agricultural Costs and Prices
CAF	Charities Aid Foundation
CBO	Community-Based Organization
CCD	Centre for Collective Development
CDS	Current Daily Status
CEO	Chief Executive Officer
CMSA	Community Managed Sustainable Agriculture
CPRs	Common Pool Resources
CSO	Central Statistical Office
CSR	Corporate Social Responsibility
CWG	Commonwealth Games
DCCB	District Central Cooperative Bank
DLF	Delhi Land and Finance
DPIP	District Poverty Initiatives Project
DSC	Development Support Center
EGM	Extraordinary General Meeting
EIA	Environment Impact Assessment
EMI	Equated Monthly Instalment
EU	European Union
FIGs	Farmer Interest Groups
FMCG	fast moving consumer goods
FPC	Farmer Producer Company
FPO	Farmers' Producers Organization
FRA	Forest Rights Act, 2006
FSA	Food Security Act, 2013
FY	Financial Year
GDP	Gross Domestic Product
GEAC	Genetic Engineering Approval Committee
GER	Gross Enrolment Ratio
GIZ	Gesellschaft für Internationale Zusammenarbeit
GM	genetically modified
G&G	Godrej Good and Green
HDFC	Housing Development Finance Corporation
HDI	Human Development Index
HDR	Human Development Report
HFCs	Housing Finance Companies
HIH	Hand in Hand
HIV	Human Immunodeficiency Virus
HR	Human Resource
HSAA	Hindu Succession (Amendment) Act, 2005

## ABBREVIATIONS

IAY	Indira Awas Yojana
IBM	International Business Machines
ICA	International Cooperative Alliance
ICDS	Integrated Child Development Services
ICMR	Indian Council of Medical Research
IFAD	International Fund for Agricultural Development
IFFCO	Indian Farmers Fertiliser Cooperative Limited
IFMR	Institute for Financial Management and Research
IGA	Income Generating Activity
IGS	Indian Grameen Services
IHH	Individual Household Latrines
ILO	International Labour Organization
IMR	Infant Mortality Rate
IOF	Investor Owned Firms
IQ	Intelligence Quotient
IRDP	Integrated Rural Development Program
IRMA	Institute for Rural Management Anand
IRR	Internal Rate of Return
IT	Information Technology
ITC	Indian Tobacco Company
ITIs	Industrial Training Institutes
IVRS	Interactive Voice Response Services
JLGs	Joint Liability Groups
KCC	Kisan Credit Card
Kg	Kilogram
KGFS	Kshetriya Grameen Financial Services
KRIBHCO	Krishak Bharati Cooperative Limited
LAMP	Livelihood and Microfinance Promotion Fund
LGBT	Lesbian–Gay–Bisexual–Transgender
MACP	Maharashtra Agricultural Competitiveness Council
MDM	Midday Meal Scheme
MFI	microfinance institution
MGNREGA	Mahatma Gandhi National Rural Employment Guarantee Act
MIS	Management Information System
MKSP	Mahila Kisan Sashaktikaran Pariyojana
MMR	Maternal Mortality Ratio
MNCs	Multinational Companies
MNREGA	Mahatma Gandhi National Rural Employment Guarantee Act, 2005
MoU	Memorandum of Understanding
MT	Metric Tonnes

NABARD	National Bank for Agriculture and Rural Development
NABFINS	NABARD Financial Services Ltd.
NAC	National Advisory Council
NBFCs	non-banking financial companies
NCAER	National Council for Applied Economic Research
NDA	National Democratic Alliance
NGOs	non-governmental organizations
NREGA	National Rural Employment Guarantee Act
NREGS	National Rural Employment Guarantee Scheme
NRHM	National Rural Health Mission
NRLM	National Rural Livelihood Mission
NRLP	National Rural Livelihoods Programme
NSAP	National Social Assistance Programme
NSDA	National Skill Development Agency
NSDC	National Skill Development Corporation
NSSO	National Sample Survey Organization
NULM	National Urban Livelihood Mission
NVIUC	National Vegetable Initiative around Urban Clusters
NYP	National Youth Policy
OECD	Organization for Economic Co-operation and Development
OTC	over-the-counter
PACS	Primary Agricultural Credit Society
PACS	Poorest Areas Civil Society
PAT	profit after tax
PIs	Producer Institutions
PMGSY	Pradhan Mantri Gram Sadak Yojana
PMI	Purchasing Managers Index
POP	poorest of the poor
PPP-MSP	Pulses Procurement Programme-Minimum Support Price
PR	public relations
PRADAN	Professional Assistance for Development Action
PRC	Performance Review Committee
PS	Principal Status
PSUs	Public Sector Units
RBI	Reserve Bank of India
RE	Revised Estimates
RKVY	Rashtriya Krishi Vikas Yojana
RF	Rural Female
RM	Rural Male
RTE	Right to Education Act, 2009

## ABBREVIATIONS

RTI	Right to Information Act, 2005
SCB	State Co-operative Bank
SC/ ST	Scheduled Caste
SEDI	Skills and Entrepreneurship Development Institutes
SERP	Society for Elimination of Rural Poverty
SFAC	Small Farmers' Agri-business Consortium
SGSY	Swarnajayanti Gram Swarajgar Yojana
SHGs	self-help groups
SIA	Social Impact Assessment
SL	sustainable livelihoods
SLI	Sustainable Livelihood Initiative
SMEs	small and medium enterprises
SRAP	Smart Rural Aggregation Platform
SRLM	State Rural Livelihood Mission
SS	Subsidiary Status
SSA	Sarva Shiksha Abhiyan
ST	Scheduled Tribe
UBS	Union Bank of Switzerland
UF	Urban Female
UM	Urban Male
UNDP	United Nations Development Programme
UPA	United Progressive Alliance
UPSS	Usual Principal and Subsidiary Status
USD	United States Dollar
VAT	value added tax
XLRI	Xavier Labour Research Institute
XIMB	Xavier Institute of Management Bhubaneswar

# Preface

India's macroeconomic indicators have shown a dramatic improvement. Buoyed by a not-so-bad monsoon and a politically stable government, gross domestic product (GDP) growth in the first quarter of 2014–15 has improved to 5.7 per cent after languishing at 4.5–5 per cent for the preceding eight quarters. Falling global oil prices are likely to shrink this year's current account deficit to a manageable 1.5 per cent of GDP and put the fiscal deficit target of 4.1 per cent well within reach. A new government is also firmly in place. The conditions are right for the new government to deliver, and there is no time to be lost in taking steps to dramatically improve the ease of doing business in India and restart the cycle of job creation and economic prosperity. It is against this backdrop that we bring together the sixth edition of the annual *State of India's Livelihoods (SOIL) Report*. The *SOIL Report* assimilates current debates and developments around the poor and their plight, the potential livelihood opportunities, the role of promoters and the private sector, and policies that advance and impede the possibilities for strengthening the livelihoods of the poor. However, this has not been an easy task because of the difficulty of drawing conclusions in the space of a few months following the regime change. Despite this constraint, the contributors to the *SOIL Report* for 2014 have done an admirable job, anticipating the likely changes in scenario and extrapolating the prospects.

The 2014 *SOIL Report* has five chapters authored by some well-known sector experts: Sankar Datta, Ashok Sircar, Suryamani Roul, N. Srinivasan, Vijay Mahajan, and Manas Ratha. While a few of them have come on board for the first time, Sankar, Vijay, Ashok Sircar, and Suryamani have played a critical role in bringing out past reports. I am happy that a core group of authors seems to be coming together to bring out the *SOIL Report* every year.

The opening chapter 'Overview of Livelihoods in India' contributed by Sankar takes a look at changes that are taking place in the sectors that are generating livelihood opportunities. As the broader definition of livelihoods encompasses other aspects of life than income enhancement, the chapter looks at the status of health and education of the people; challenges to poor people's livelihoods because of climate change; their coping strategies and new initiatives that are being taken to meet the growing challenge to livelihoods of the poor by the government, the industries, and non-government bodies. It also takes a quick look at the social sector expenditures.

In the chapter on policy and programmes, Ashok Sircar picks up from where the report left off last year. In his section 'From Policy Paralysis to Policy Haste: The Pendulum Swings', he captures the gradual shift in policy direction of the new government. He also discusses policy trends in livelihoods during the last four years, analysing major

## PREFACE

patterns and shifts in policies and programmes that are impacting livelihoods of specific communities that suffer from social exclusion, marginalization, and multiple deprivations. The section on ‘Reimagining Flagship Livelihoods Programmes’ by Suryamani studies two flagship programmes—the Mahatma Gandhi National Rural Employment Guarantee Programme under the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA), 2005, and the National Rural Livelihoods Mission (Aajeevika). The chapter seeks to reimagine the scenarios in context of the ongoing restructuring and redesigning processes in order to recast the frameworks on which these two programmes are based, so as to enable better outcomes and stronger impact.

In his chapter ‘Livelihoods Finance’, N. Srinivasan examines sources of finance made available to people to pursue income-generating activities and the small and tiny enterprises that enable them to earn life-sustaining income for their households. While retaining the focus on rural livelihoods, he examines the demand-side and supply-side considerations in livelihood finance. He identifies the current gaps in livelihoods finance and the nature of this gap for individual, group, as well as value-chain financing. He dwells on several policies and measures that the government and the Reserve Bank of India (RBI) have initiated to ensure that vulnerable people get access to finance and finally points the way forward for financing of livelihoods.

Manas Ratha, in his chapter ‘Corporate Social Responsibility and Livelihoods’, makes an argument that while corporates should continue to support a wide range of important causes, a sharper focus on promoting livelihoods for the poor is better aligned with the abilities of companies. He explains how it is more likely to create a sustainable improvement in the quality of life of the poor in the long term.

In the last chapter ‘Farmers’ Producer Companies: Need for Capital and Capability to Capture the Value Added’, Vijay Mahajan dwells on the role of farmers’ producers organizations (FPOs) and looks at the record of FPOs so far through case studies and practitioners’ feedback. Through an analysis of the theoretical framework of what makes an FPO high performing, he proposes improvements in practice in line with theory, looks at the changes needed in the law, proposes improvement needed in taxation regime, and a supportive policy and steps to be taken to ensure the life blood, that is, finance at various stages in the life cycle of an FPO.

Bringing out the report is a sectoral effort. In addition to the small secretariat within ACCESS that supports the bringing out of the report, a number of stakeholders enthusiastically contributed to its successful publication. I am most thankful to the United Nations Development Programme (UNDP) and Ford Foundation for their continued support to the report. I am extremely happy that National Bank for Agriculture and Rural Development (NABARD); ICCo, a Dutch organization for International Development Co-operation; and Rabobank have come on board for supporting the report for the first time. I gratefully acknowledge the support provided by Poorest Areas Civil Society (PACS) Programme, an initiative of the UK Government’s Department for International Development (DFID) aimed at reducing the gap in wellbeing status between socially excluded groups in India and the rest of the population, for coming out with the chapter on FPOs.

I take pride in my own teams to have provided anchor support to the authors, under the supervision of Suryamani, Senior Vice President, and duly supported by Puja and Joy for managing the process for streamlining the processes for coming out with the report smoothly and on time. For a small team overwhelmed with a multitude of priorities, to remain focused and provide excellent support to all SOIL processes makes me take great pride in their professional commitments.

Oxford University Press (OUP) has come on board as the publishing partner for this sectoral initiative for the first time. I hope this new partnership would result in an ever wider circulation of the report.

I am glad that with support from all, ACCESS has been able to bring out another high quality *SOIL Report* this year. Increasingly, the *SOIL Report* has become an important document widely referred to by policymakers, promoters, as well as practitioners, helping inform and influence policy. I hope that *SOIL Report 2014* continues to serve its desired purpose and remains a worthwhile effort.

**Vipin Sharma**  
CEO, ACCESS Development Services

# Overview of Livelihoods in India

*Sankar Datta\**

## OUTLINE

The year 2013–14 has been a checkered year for the livelihoods of weaker sections of the society in India. While there have been several bright spots in the livelihoods situation, there has also been a widening gap, worsening the situation for many. After several years of slowing down, the economy has started looking up again. There has been an increase in the number of jobs created. The manufacturing sector, which had hit a low in the last quarter of 2013–14, has started posting growth again. Following a political change, the investment climate has started improving. Many of the livelihood-focused large investments made in the last few years, including those supported by the World Bank, have started picking up. However, even now, over 94 per cent of the working population works in unincorporated, unorganized enterprises ranging from farm labour and pushcart vendors to home-based diamond and gem-polishing operations,

with almost no job security, no provisions for leave, or safety net for the future. In 2000, the average per capita spending (considered a better indicator of income) of the richest group in urban areas was 12 times that of the poorest group.<sup>1</sup> In 2012, it had increased by fifteenfold. In rural areas, the disparity between the haves and the have-nots increased from seven times to nine times in these 12 years. While we have improved on the Human Development Index (HDI), in relative terms, India has slid down from the 134th position in the world to the 135th position. Forty three per cent of Indian children under five years of age are underweight, 48 per cent (that is, 61 million children) are stunted due to chronic undernutrition (as per ToI, the number was 45.9 per cent in 2007),<sup>2</sup> and 79 per cent were anaemic. In spite of a fair amount of investment being made for promoting and supporting livelihoods of the disadvantaged people, a question that remains unanswered is: why are the Indian children facing slow decline of IQ due to improper nutrition?<sup>3</sup>

\* With active research support from Arunabha Bhattacharya, Vrutti, Bengaluru.

This year was a year of political transition. After 10 years of coalition government of the United Progressive Alliance (UPA), a new political arrangement has shaped up as the National Democratic Alliance (NDA), with the Bharatiya Janata Party (BJP) alone emerging with absolute majority. Hundred days after the new government was sworn in, business sentiments seem to have perked up somewhat and factory order books are improving as reflected in the HSBC Purchasing Managers Index (PMI)<sup>4</sup> that was up to the level of 53 in July 2014 as against 51.5 in June 2014. With official data showing the gross domestic product (GDP) during April–June 2014 at 5.7 per cent—the highest in ten quarters—business confidence is likely to look up further.

A GDP growth of 5.7 per cent in the quarter ending June 2014 has bought some cheer to the Indian economy. The economy was struggling under perceived policy paralysis, resulting in lower than 5 per cent growth of GDP at factor cost at constant prices for two consecutive years, that is, 2012–13 and 2013–14. As Figure 1.1 shows, a less than 5 per cent GDP growth for two consecutive years was last witnessed a quarter of a century ago in 1986–7 and 1987–8 (Ministry of Finance, Government of India 2014).

In this chapter, we will explore the changes taking place in the sectors that are generating livelihood

opportunities. As livelihoods involve various aspects of life apart from income enhancement, we would look at:

- (i) the status of health and education of the people;
- (ii) how people are coping with increased pressure to manage their livelihoods by migrating;
- (iii) how climate change is affecting the livelihoods of many people;
- (iv) what new initiatives are being taken to meet this growing challenge by the government, the industries, and other non-government bodies; and
- (v) the social sector expenditures.

### Sectoral Changes in Livelihoods

Crisis in the European Union area and general slowdown in the global economy, compounded by domestic structural constraints, weakening industrial growth in the context of tight monetary policy followed by the Reserve Bank of India (RBI) through most of 2011–12, and inflationary pressures resulted in a reduction in livelihood opportunities for a large number of people.

As per some of the recent estimates, close to 50 per cent of the Indian population depends on

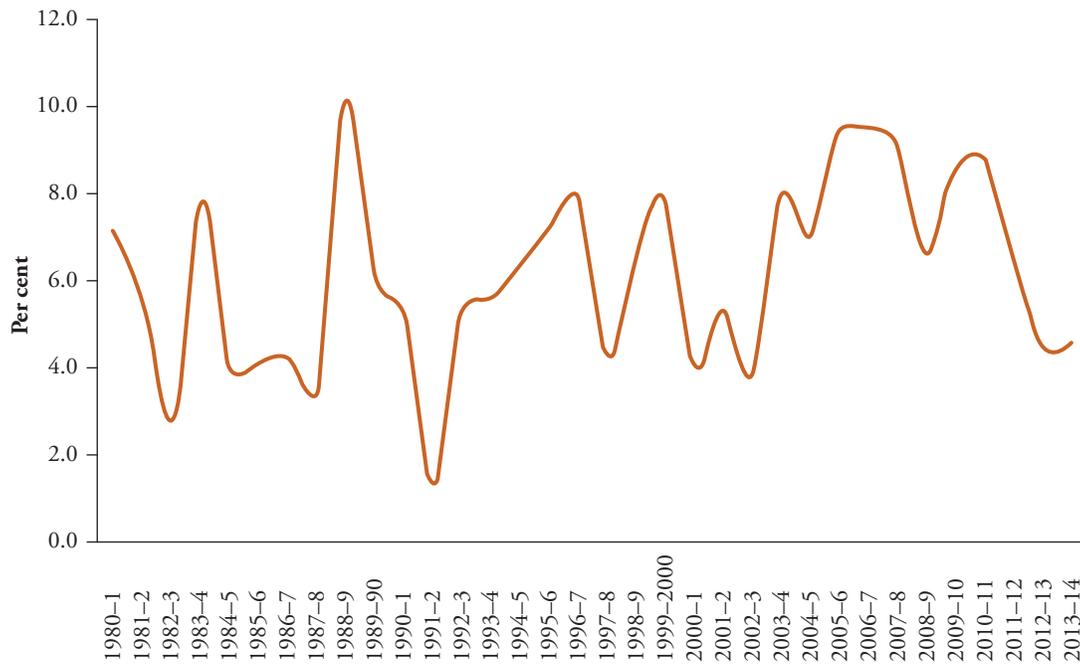


FIGURE 1.1 Growth in real GDP—an upward turn after the slump

Source: Central Statistics Office (CSO).

agriculture even now. A detailed analysis of the employment situation in India by Jayan Jose Thomas shows that the working-age population of India is growing in size, the labour force is shifting away from agriculture, and, with higher education, workers are also seeking better-quality non-agricultural jobs (Thomas 2014). However, the trends between 2004–5 and 2011–12 indicate that employment generation in the country has been inadequate to meet this challenge. Construction has virtually become the only source of incremental employment in rural India.

In India, the share of agriculture and allied activities in gross domestic product (GDP) declined from 35.1 per cent in 1983 to 14 per cent in 2011–12. The share of these sectors in the country's total employment also fell during this period, from 68.2 per cent to 47.5 per cent. An absolute fall in the size of the agricultural workforce was witnessed for the first time in India in the NSSO survey held in 2009–10. However, in this year this decline was observed only in case of females. It was in the NSSO survey in 2011–12 that the size of male agricultural workforce registered an absolute decline for the first time in the country. (Thomas 2014).

There have been strong factors that may have pushed workers out of low productivity agriculture, which in recent years has become non-remunerative in many parts of the country. At the same time, there have been

'pull' factors that caused workers to move away from agriculture. Important among the latter is the expansion of casual employment in public works, which (as per the current weekly status) rose from only 0.9 million in 2004–5 to 6.6 million in 2009–10 and 6.7 million in 2011–12. These included employment created through the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA), which accounted for 2.4 million in 2009–10 and 2.9 million in 2011–12. Notably, casual employment in public works accounted for 69 per cent (3.7 million out of 5.4 million, as per the usual principal and subsidiary status [UPSS] workers) of the incremental non-agricultural employment generated for rural females during the 2004–5 to 2011–12 period.

Between 2004–5 and 2011–12, total non-agricultural employment in India increased by 48 million. Jobs in construction, which rose by 24 million, accounted for half of this increase (Table 1.1). These construction jobs, which were overwhelmingly in the rural areas, were likely to be of poor quality. In contrast, employment in manufacturing increased by just 5.1 million in India during the seven years after 2004–5 (Table 1.1). The rate of job creation in this sector decelerated from 1.2 million jobs a year between 1993–4 and 2004–5 to 0.7 million jobs a year between 2004–5 and 2011–12. Manufacturing

**TABLE 1.1** Change in employment in India by sectors: Estimates for 2011–12 and the net change between 2004–5 and 2011–12 (in millions)

Sectors	2011–12					Net Change from 2004–5 to 2011–12				
	RM	RF	UM	UF	All	RM	RF	UM	UF	All
1. Agriculture and allied activities	139.1	76.2	6.2	3.0	224.4	-5.6	-26.7	0.6	-1.6	-33.3
2. Manufacturing	19.1	10.0	24.4	7.9	61.3	1.9	-0.4	2.9	0.7	5.1
2a. Textiles, garments, leather	4.3	3.7	8.5	4.3	20.9	-0.2	0.3	1.1	0.5	1.6
3. Construction	30.5	6.7	11.6	1.1	49.9	15.7	4.8	3.2	0.1	23.9
4. Trade, repair, hotels	20.1	3.0	29.9	3.6	56.6	2.3	0.0	4.3	0.4	7.0
5. Transport, communication	9.8	0.1	11.1	0.3	21.3	1.5	-0.1	1.2	0.0	2.6
6. Financing, insurance, real estate, business services	2.4	0.2	9.1	1.6	13.5	0.9	0.3	3.7	0.9	5.8
6a. Computer and related	0.1	0.0	2.0	0.4	2.6	0.1	0.0	1.2	0.3	1.7
7. Community, social, and personal services	11.4	5.0	14.4	9.6	40.4	0.1	0.4	1.4	1.5	3.4
7a. Public administration and defence	2.4	0.3	4.9	0.7	8.3	-0.2	0.0	-0.4	-0.1	-0.7
7b. Education	4.3	2.7	3.9	3.6	14.5	0.8	0.6	0.7	0.7	2.8
7c. Other services and private households	2.7	1.3	2.5	3.8	10.4	-0.4	-0.4	0.3	0.4	-0.2
Total non-agricultural	95.3	25.5	102.9	24.4	248.1	22.4	4.9	17.0	3.8	48.0
Total employment	234.4	101.6	109.1	27.4	472.5	16.8	-21.8	17.6	2.1	14.7

Source: Thomas (2014).

Notes: RM = Rural Male; RF = Rural Female; UM = Urban Male; UF = Urban Female.

'More than 50 million bonded labourers exist in the country, Rajasthan government's reform of labour laws are pro-employer and for easy exploitation of labour.'

—Jan Breman

(Emeritus Professor at the University of Amsterdam, and the author of *India's Unfree Workforce: Of Bondage Old and New*) in the Workshop on Bonded Labour Practices held on 23 June 2014 in Jaipur, Rajasthan

Source: <http://centreforequitystudies.org/workshop-on-bonded-labour-practices-on-june-23-in-jaipur-rajasthan>

employment had, in fact, declined in absolute numbers, by three million, between 2004–5 and 2009–10. However, staging a recovery, 8 million manufacturing jobs were added in the country during the next two years (that is, 2010–12) (Thomas 2014). The traditional service sector activities—comprising trade and repair services, hotels, transport and communication, and community, social, and personal services—together generated 13 million jobs in India between 2004–5 and 2011–12 (Table 1.1). The rate of employment generation in these sectors, combined, declined from 3.2 million a year between 1993–4 and 2004–5 to 1.9 million a year between 2004–5 and 2011–12. Other than construction, the only sector in which job creation accelerated in the country after the mid-2000s was in finance, insurance, real estate, and business services, which also include computers and related activities. This relatively high productivity sector added 5.8 million new jobs between 2004–5 and 2011–12 (Table 1.1).

Generation of non-agricultural employment in India has accelerated after the middle of the first decade of this century. At the same time, the pace of this job creation has been inadequate to absorb the rising supply of potential workers, especially females. With the movement of workers away from agriculture, with their rising education levels this challenge will grow bigger in the coming years, particularly in the rural areas. (Thomas 2014).

Table 1.1 gives an indication of people engaged in different sectors. But as it is well known by now, livelihoods of people, especially the poor, do not depend on one kind of employment only. Therefore, these can be seen as broad indicators only.

Taking a closer look at some of the sectors engaging large numbers in 2013–14 would help us focus further on the employment growth in some of these sectors.

According to the Labour Bureau report (2014), it can be seen that employment in non-farm sector at an overall level has decreased during the quarter ending March 2014 against the quarter ending December 2013. At the sectoral level, the maximum increase in employment is seen in the automobiles sector, followed by the handloom/powerloom, leather, and gems and jewellery sectors, during the reference period.

## Growth Not Translating into Livelihood Opportunities

If we use employment and unemployment as surrogates for livelihood opportunities or, at best, employment-generating activities, we find that there is a serious mismatch between the growth of the sectors and the growth generated in them. This process of 'jobless growth', which has been discussed over the last several years, has continued to dominate the situation even during this year.

During 1999–2000 to 2004–5, employment (usual status) increased by 59.9 million persons (that is, from 398 million to 457.9 million). However, the progress was slow during the 2004–5 to 2009–10 period, showing a small increase by 1.1 million persons. It picked up again during 2009–10 to 2011–12, adding 13.9 million persons to the workforce (Table 1.2).

The fall in unemployment despite marginal growth in employment in 2009–10 and 2011–12 could also be on account of changes in the aspirations of the young people. An increasing proportion of the young population opts for

**TABLE 1.2** Employment and unemployment scenario in India

Method	1999–2000	2004–5	2009–10	2011–12
Persons and persondays employed (in millions)				
PS + SS	398.0	457.9	459.0	472.9
CDS	336.9	382.8	400.8	415.7
Persons and persondays unemployed (in millions)				
PS + SS	9.2	11.3	9.8	10.8
CDS	26.6	34.3	28.0	24.7
Job creation over previous period (in millions)				
PS + SS	–	59.9	1.1	13.9
CDS	–	45.9	18.0	14.9
Unemployment rate (in per cent)				
PS + SS	2.2	2.3	2.0	2.2
CDS	7.3	8.2	6.6	5.6

**TABLE 1.3** Changes in estimated employment based on last four survey results (in thousands)

S. No.	Industry/Group	Changes in employment during				
		June 2013 over Mar 2013	Sept 2013 over June 2013	Dec 2013 over Sept 2013	Mar 2014 over Dec 2013	Mar 2014 over Mar 2013
1.	Textiles including apparels	88	66	92	-56	190
2.	Leather	18	5	13	3	39
3.	Metals	-38	12	-20	0	-46
4.	Automobiles	8	7	-11	19	23
5.	Gems and jewellery	8	-6	-6	1	-3
6.	Transport	-2	-2	-2	-3	-9
7.	IT/BPO	3	61	17	-4	77
8.	Handloom/Powerloom	0	0	0	4	4
	<b>Overall</b>	<b>86</b>	<b>143</b>	<b>83</b>	<b>-36</b>	<b>276</b>

Source: Labour Bureau (2014).

higher education, whether that ensures them a job, rather than participating in the labour market. This is reflected in the rise in growth in enrolment of students in higher education from 4.9 million in 1990–1 to 28.5 million in 2011–12. Similarly, gross enrolment ratio (GER) in classes I–VIII has also risen from 81 in 1999–2000 to 103.9 in 2010–11 (Labour Bureau 2014).

The present Quarterly Quick Employment Survey is the 21st in the series and contains information pertaining to quarter ending March 2014 over quarter ending December 2013. The present survey shows decrease in employment in the selected sectors under study at overall level. At the sectoral level, the highest employment has increased in the automobiles sector, followed by the handloom/powerloom, leather, and gems and jewellery sectors. However, in textiles including apparels, transport, and IT/BPOs sectors, a decline in employment is reported during the reference period. Sector-wise employment changes during the

India's *Economic Survey* for the year 2012–13 asks the pointed question 'where will the good jobs come from?' The fact is that not enough well-paying jobs are being created. A total of 23.33 million jobs were lost in agriculture and 4.02 million jobs in manufacturing over the period 2004–5 and 2009–10.

These losses were offset by a gain of 25.89 million jobs in non-manufacturing (primarily in the unorganized construction sector) and 2.7 million jobs in the services sector (Chandrasekhar et al. 2014).

latest four surveys starting from quarter ending March 2013 are shown in Table 1.3.

## LIVELIHOOD IS MORE THAN INCOME OR PRODUCTIVITY ENHANCEMENT

Livelihood is not just an increase in income or increase in productivity. Under the leadership of Mahbub ul Haq, scholars like Amartya Sen among others argued that people want to increase their income to achieve a better living, which is reflected in a longer, healthy life. Thus, income should be looked at along with the effect it creates on a long healthy life and education (HDR 1990).

This led to development of the concept of HDI, capturing longevity, health, and education along with income to understand the wellbeing of people. The first *Human Development Report* launched in 1990 had an explicit purpose: 'to shift the focus of development efforts from national income accounting to people-centred policies'.

Since in order to manage one's livelihoods one needs more than just income or an asset base, the HDI is often considered a better index of the status of livelihoods of a population. In this measure of livelihoods as well, it can be seen that though the value of HDI has improved slightly (from 0.554 in 2012 to 0.586 in 2014), India has slipped from 134th position, among 184 reporting countries, to 135th position in this period.

Given this understanding of livelihoods, we need to take a look at some of these dimensions to get a sense of the state of livelihoods in India.

## Income

- (a) On the income front, India is doing reasonably well. The country's per capita income, a gauge for measuring economic well-being, is estimated to have gone up by 11.7 per cent to Rs 68,748 per annum in 2012–13 at current prices, compared with Rs 61,650 p.a. in the previous fiscal. The per capita income in real terms (at 2004–5 constant prices) during 2012–13 was at a level of Rs 38,856 as compared to the first revised estimate for the year 2011–12 of Rs 38,037. For the current year, 2013–14, for which only preliminary estimates are available, per capita income (at 2004–5 prices) is being estimated to be Rs 39,961, against Rs 38,856 in the previous fiscal, according to the latest data on national income as per some estimates by the *Economic Times*<sup>5</sup> and *Business Standard*.<sup>6</sup>
- (b) According to some estimates of the World Bank, per capita income in India has been consistently growing steadily over the last decade.<sup>7</sup>
- (c) However, there is an increasing gap in income not only between the haves and have nots. Regional disparity has also gone up. As reported in *Business Today*, 'The net worth of India's billionaire community has soared 12-fold in 15 years—enough to eliminate absolute poverty twice over in the country, where income inequality is also on the rise, according to the IMF.'<sup>8</sup>

According to *Mint*, states like Delhi, Haryana and Kerala have a disproportionately large number of the richest 10 per cent (*Live Mint* 2013).

These states witnessed an increase in inequality with the Gini coefficient—a measure of inequality with 0 signifying perfect equality and 1 absolute inequality—either showing

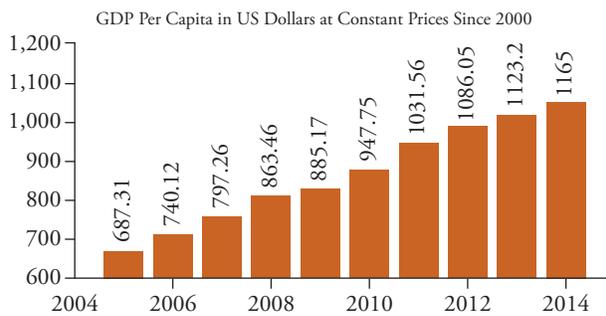


FIGURE 1.2 India's per capita GDP

Source: www.tradingeconomics.com | World Bank.

an increase over the past decade or that measure being above the all-India figures. Kerala, for example, had 34.1 per cent of persons living in rural areas being in the top 10 per cent in 2011–12. It had a Gini coefficient of 0.35 in 2011–12, higher than the all-India (rural) number of 0.28. Haryana, which saw a 6.1 percentage point increase in the richest 10 per cent people in its urban areas from 2004–5 to 2011–12, also saw an increase in urban inequality. The coefficient there rose from 0.33 in 2004–5 to 0.38 in 2011–12. The all-India figure for urban areas in 2011–12 was 0.37.

## Health

P. Sainath, while delivering the delivering the 'Dr Verghese Kurien Memorial Oration on Sustainable Development' organized by XLRI Jamshedpur, spoke of the three major crises of water, agriculture, and health that India is facing today. He mentioned how growing health expenses have forced many to avoid medical assistance. According to the third round of NSSO health survey, the number of Indians who have stopped seeking medical aid purely due to financial reasons has doubled in the recent past. The number is more than double, particularly in urban areas, because of the increase in distress peasant migration. This has a direct implication on the livelihoods of people.

Poor health can severely affect a household and the livelihood outcomes of its members. Apart from affecting individuals and their ability to work, other household members are likely to spend time devoted to caring for the ill, leaving less time available for productive activities or education. This can have long-term effects on a household, contributing to a deeper cycle of poverty. In addition, lack of assets, including education, can reduce resilience to cope with health-related and other shocks, and inhibit access to healthcare services. (Eldis n.d.)

Thus, for understanding the state of livelihoods, it is important to pay attention to what is happening to some of the health indicators in the country:

- (a) India has achieved large gains in longevity over the past decades, with life expectancy (65.5 years) moving towards the Organization for Economic Co-operation and Development (OECD) average of 80.1 years (OECD 2013). However, India ranks 150th among 193 reporting nations, and well behind our neighbours, Sri Lanka, Bangladesh, Nepal, and Pakistan.

- (b) In terms of percentage of newborns weighing less than 2,500 gm, India ranks amongst the lowest with 27.6 per cent newborns being underweight. The high proportion of low birth weight infants is mainly associated with maternal malnutrition before and during pregnancy, poor health, and limited access to proper healthcare during pregnancy (OECD 2013).
- (c) Infant Mortality Rate (IMR) has come down to 42 in 2012 from 58 per 1,000 live births in the year 2005. In India, nearly one in twenty children dies before his/her first birthday although the rates have fallen sharply over the past few decades (OECD 2013). India ranks 201st among the 223 reporting countries and a higher IMR than Pakistan and Nepal.
- (d) Maternal Mortality Ratio (MMR) has declined from 301 per 1,00,000 live births in 2001–3 to 212 in 2007–9. The pace of decline has shown an increasing trend from 4.1 per cent annual rate of decline during 2001–3 to 5.5 per cent in 2004–6 and further to 5.8 per cent in 2007–9. However, while on several of these parameters India has improved significantly in last few years, most of our neighbouring countries except Pakistan have done better on these parameters.
- (e) Thirty-eight per cent of Indian children below the age of five years were reported to be stunted, 45.9 per cent underweight, and 79 per cent anaemic. Among rural primary school children (between the ages of six to eight years), it has been seen that the relative risk of having an IQ less than or equal to 89 in severe, moderate, and mild malnutrition was 3.5, 2.7, and 1.4 times for boys and in girls it was 2.4, 1.7, and 1.4 times, respectively. Children in India are among the shortest in the world. Widespread child stunting is a human development tragedy. Children in India are shorter, on average, than even children in Sub-Saharan Africa who are poorer, on average (Spears 2013).
- (f) Only 32 per cent of rural households have their own toilets, according to the recently released results of a large-scale survey conducted by NSSO in 2012.

### Education

A large part of the education community today very strongly argues that there is a need for making

basic education more 'livelihood friendly'. It has also highlighted several important principles: to look beyond mere enrolment as a measure of educational success to assess what is actually learned; to not only focus on learning substance but also developing continuing capacities to learn; and to give priority to basic education (Lawrence and Tate n.d.). Most policies focus on the fact that education systems are expected to be able to prepare people for jobs. In that context, the following recent trends are worrisome:

- (a) Quality of education has been steadily going down (ASER Centre 2013). While we are registering a large number of students, they are neither equipped to work in the emerging sectors nor competent to work in the traditional sectors.
  - (i) India's school education success story has a flip side. More than half of the students in class V in rural India could not read the text taught in class II in 2011, even though around 97 per cent of children in the 6–14 age group are now enrolled in schools. Even after eight years of the ASER, the learning levels have been shown to decline.
  - (ii) The proportion of all children in class V who can read a class II level text has declined by almost 15 percentage points since 2005. Similarly, the proportion of students in class VIII who can do divisions has declined by almost 23 percentage points during the same period. While three out of every five students in class V were able to read the textbooks prescribed for pupils who were three years junior in 2005, only one out of two is up to the task now.
    1. The net enrolment rate at the primary level was 84.53 per cent in 2005–6, which increased to 99.89 per cent in 2010–11.
    2. The GER at the primary level was 83.8 in 1990–1 and it increased to 95.7 in 2000–1 and to 116.0 in 2010–11. For the middle/upper primary level, the GER was 66.7 in 1990–1, which declined to 58.6 in 2000–1 and then gradually increased to 85.5 in 2010–11.
    3. The gender parity index in primary education has gone up from 0.76 in 1990–1 to 1.01 in 2010–11 and in secondary education the increase is from 0.60 in 1990–1 to 0.87 in 2010–11.

- (iii) Students from lower economic and social backgrounds have been found to have far lower test scores than their wealthier counterparts. Aside from economic classification, in India, literacy among scheduled castes and scheduled tribes, which make up 24.4 per cent of India's population, is lower by a margin of 15–20 per cent than the national average.

Public expenditure on education since the late 1980s in India is around 4 per cent of the country's GDP, ranking India 81st in education spending in global country-level rankings. India has not increased spending as necessary in order to extend the existing quality of education to the large number of new enrolments. The result has been a 20 per cent reduction of expenditure per student on a per capita GDP basis over the 2003–6 period.

### Hovering Clouds: Challenges to Livelihoods due to Climate Change

Increasingly, anecdotal evidence (*Economic Times* 2014) suggests that there are changes happening to our climate that could be detrimental to the livelihoods of our people (Jha 2014, *Wall Street Journal* 2014). Floods have been a recurrent phenomenon in India and cause huge losses to lives, properties, livelihood systems, infrastructure, and public utilities. That 40 million ha of a geographical area of 3,290 lakh ha is prone to floods highlights India's high risk and vulnerability. On an average, every year 75 lakh ha are affected, 1,600 lives are lost, and the

damage caused to crops, houses, and public utilities is Rs 1,805 crore (*The New Indian Express* 2104).

India has nearly 700 million rural population directly depending on climate-sensitive sectors (agriculture, forests, and fisheries) and natural resources for their subsistence and livelihood. Further, the adaptive capacity of dryland farmers, forest dwellers, fisher folk, and nomadic shepherds is very low. Climate change is likely to impact all natural ecosystems as well as socioeconomic systems (*State of Environment Report* 2009).

According to a new report by the Asian Development Bank (ADB), assessing the Costs of Climate Change and Adaptation in South Asia, up to 9 per cent would have been stripped annually from South Asia's economy on average by 2100 if no further action is taken globally on climate change (Ahmed and Suphachalasai 2014). The report goes on to say that higher temperatures eventually reduce yields of desirable crops while encouraging weed and pest proliferation. Changes in the precipitation pattern (timing and amount) increase the likelihood of short-run crop failures and long-run production declines, posing a serious threat to food security. The impact that this would have, especially on the livelihoods of the poor and marginalized, would be devastating to say the least (Ahmed and Suphachalasai 2014).

'Food security may be at risk due to the threat of climate change leading to an increase in frequency and intensity of floods and drought, thereby affecting the production of small and marginal farms'.

—*State of Environment Report* (2009)

President Pranab Mukherjee said the focus of government policies should shift from alleviation of poverty to its elimination and stressed that the benefits of economic development must percolate down to the poorest of the poor.

He said the difference in approach is not mere semantics. 'Alleviation is a process; elimination is a time-defined objective. In the last six decades, the poverty ratio has declined from over 60 per cent to less than 30 per cent. Even then, nearly one-third of our population still lives below the poverty line. Poverty has a face, which becomes unbearable when it scars the visage of a child', he added.

Mukherjee said the poor cannot, and will not, wait for yet another generation to see the very essentials of life—food, shelter, education and employment—being denied to them.

The President noted that education was an essential part of economic development. 'A sound education system is the bedrock of an enlightened society. It is the bounden duty of our institutions to provide quality education and inculcate the core civilisational values', he added.

'By the end of the 12th Five Year Plan', he said, 'we would achieve a literacy rate of 70 per cent. But would we be able to say that we have provided quality education and skills to our children to be good citizens and successful professionals?'

—Mukherjee (n.d.)

While we write this report, news comes of how floods have devastated Jammu and Kashmir and washed away the livelihoods of the people (Sphere India 2014). Preliminary estimates suggest that 1,01,36,063 citizens were affected by floods which impacted communication, accessibility, availability of supplies, agriculture, livestock, and assets losses (*Wall Street Journal* 2014). Earlier this year, we also saw catastrophic landslides in Uttarakhand.

Unseasonal rain (*Hindustan Times* 2014) and hailstorm destroyed crops in many parts of the country, including Uttar Pradesh, Rajasthan, Madhya Pradesh, Maharashtra, Punjab, Gujarat, Uttarakhand, Haryana, and Andhra Pradesh. Standing crops on more than 20 lakh ha is feared to have been destroyed (Sphere India 2014).

History and anecdotal evidences suggest that poorer and disadvantaged groups around the world will suffer greatly from climate change, though it is worth recognizing that the rural poor have successfully faced pressures linked to climate unpredictability in the past. However, there is a need to have adequate responses in places to minimize their vulnerabilities. For one, it may not always be possible to replicate the past successfully and two hard-won gains in the fight against poverty could be lost due to livelihoods getting affected. Responses to the challenges need to be based on their livelihoods. By understanding the dynamics of poor people's livelihoods, we can begin to understand how they will be affected by climate change, how they might respond with the resources they have, and how these conditions can be reflected and built upon for successful adaptation strategies.

### Increasing Migration to Make Ends Meet

*On July 5, 2014, sixty-one workers died in Chennai, the capital city of Tamil Nadu, India, crushed under rubbles of an under-construction building. All the workers were seasonal migrants from rural Vizianagram and Srikakulum districts of Andhra Pradesh and Gajapati district of Odisha. 20 of them were young mothers. As the farms failed to provide enough food, they came to Chennai to work in the booming construction sector which promised higher wages—Rs 175 more than what they were able to earn back home. Men made Rs 400 a day while women worked at Rs 225–275. None held any employment contract, worked seven days a week for long hours, without safety equipment. None were entitled to any insurance or compensation in case of a death or injury.*

—*Indian Express* (5 July 2014)

The number of people migrating to seek livelihoods have been going up every year. Better road infrastructure, improved transportation, and enhanced mobile connectivity have all facilitated this increase. Formal financial institutions as well as the government are waking up to this changing scenario. Taking forward some of the work initiated by non-governmental organizations (NGOs) such as Ajjevika Bureau, which included attending to migrants' identity-related issues, legal aid, destination support, formation of workers' collectives, financial services, social security, and providing healthcare services, when not in their place of 'regular' residence, many new services are being offered by mainstream institutions as well. However, the challenge is large.

The 2001 Census showed us that India's rural population had grown by more than 113 million since 1991 and the urban by over 68 million. Rural India had thus added 45 million people more than urban areas. The 2011 Census threw up some amazing numbers. Urban India's increase was greater than that of rural India's by nearly half a million, a huge change—a role reversal of 45 million, as pointed by P. Sainath. The 2011 Census shows that a large majority of the growth in population in urban India has been due to migration (though there have been some arguments that it could also be because of inclusion of new areas under 'urban'). The Census indicates that the migration has been majorly for livelihood augmentation due to work/employment (Sainath 2011).

The story of economic growth in India is entwined with the story of labour migration and of migrants, who leave the increasingly impoverished villages with a decadent farm economy in search of better lives (Sharma and Khandewal n.d.; Lakshmana 2013).

This massive migration has happened almost in parallel to a deepening agrarian crisis. The 2011 Census shows that we have 95.8 million cultivators for whom farming is their main occupation. That is less than 8 per cent of the population. (The figures were 103 million in 2001 and 110 million in 1991.) This roughly works out to 1,970 odd farmers leaving agriculture a day. So where are they going?

The employment numbers quoted do not show where or how these people are eking out their livelihoods. In view of these significant numbers, there needs to be a greater focus in both policy and practice on the question of internal migration. Some authors argue that the

government gives very low priority to internal migration due to a serious knowledge gap on its extent, nature, and magnitude.

This lack of a policy stand on internal migration and poor safeguards for labour interests has given way to perverse labour market conditions thriving on abundant and unregulated access to cheap rural labour, easily recruited, circulated, and cast away at will.

In cities, migrants do not have access to reasonably priced, good quality public facilities for food, health, transportation, and financial services. They are also known for paying much more than the local population for basic services. For lack of access to subsidized ration, expenses on food account for a majority of the living costs (40 per cent). In such a scenario, migrants often have inadequate nutritional intake, which affects their ability to work and earn a livelihood in a sustainable manner.

Long working hours, poor living and working conditions, and inadequate nutrition often become breeding grounds for health problems. Migrants are highly susceptible to tuberculosis, human immunodeficiency virus (HIV), and a range of occupational health hazards arising from the risky jobs they enter into. Access to healthcare is also highly compromised and limited to the informal health service providers who are easily accessible but unqualified, thereby exacerbating the vulnerabilities of the migrants further.

Over this period the employment elasticity in agriculture and manufacturing was negative in all the major states of India. Hence, the Twelfth Five Year Plan (2012–17) was prepared against the backdrop of the phenomenon of jobless growth in the organized sector and an increase in short-term migration. Both these facts were explicitly acknowledged by the Report of the Working Group on Employment, Planning & Policy for the Twelfth Five Year Plan (Government of India 2011). In its report the Working Group notes that in the last decade workers and households did not migrate permanently but only for a short period of time, that is, temporarily. They did not sever their link to land in rural areas.

(Chandrasekhar et al. 2014)

There has been some debates and frameworks on how to address the issues highlighted. (The McKinsey Global Institute 2014) has come out with the concept of

the empowerment line to define a minimum acceptable standard of living.

### Eight Basic Conditions Necessary for a Minimum Acceptable Standard of Living

1. 2,100 (urban) or 2,400 (rural) calories, including 60 gm protein and 40 gm fat, per capita per day
2. Access to clean cooking fuel and electricity for lighting needs, based on minimum energy consumption levels
3. 215 (rural) or 275 (urban) sq. feet of acceptable housing
4. 70 (rural) or 135 (urban) litres per capita per day of piped water supply
5. Sanitary latrine in rural households, and underground sewerage with wastewater treatment in urban households
6. Access to an essential basket of primary, secondary, and tertiary healthcare services
7. Access to primary education and secondary education (substitutable with vocational training) for all children based on accepted norms
8. Insurance to cover income loss based on 2 per cent premium-to-coverage ratio.

### SIGNIFICANT NEW EFFORTS TO SUPPORT THE LIVELIHOODS OF THE PEOPLE

The Government of India is quite aware of this situation of livelihoods in the country. It has been taking up various initiatives. While the first eight Five Year Plans looked at employment as a resultant of the economic growth of the country, today we not only have a National Rural Employment Guarantee Act (NREGA), we also have several Missions directed to enhance the conditions of livelihoods of the people in India. These include National Rural Livelihood Mission (NRLM), National Urban Livelihood Mission (NULM), National Rural Health Mission (NRHM), and Sarva Shiksha Abhiyan (SSA), to name a few. The Institute for Financial Management and Research (IFMR) Trust through one of their research programmes has listed out more than 288 centrally and state-sponsored schemes for livelihood promotion. The whole approach of development by the

Government of India focuses on enhancing not only productivity and income but also health and education, which are essential pillars for supporting the livelihoods of a large number. This livelihood-centric approach does not look at itself in a programmatic manner—it attempts to build local community-led institutions for governing these programmes. Recognizing that livelihood support requires efforts of various departments to converge, these initiatives have been conceived as Missions, cutting across the boundaries of many departmental structures.

These programmes which have been in the pipeline for last few years have started shaping up in many of the states. However, many of these programmes are still struggling with ‘teething’ problems even after five to seven years of their operations. The pre-budget *Economic Survey 2014* had called for a revamp of the flagship Mahatma Gandhi National Rural Employment Guarantee Programme, to make it more development-oriented and to prevent its misuse. The Survey also said there is a need for revamp or reorganization of some of the ongoing social sector schemes, including the NRLM, NRHM, and SSA. These have been discussed in detail in Chapter 2 ‘Policy and Programme’. The government is looking to restructure these programmes to take a target- and asset-linked approach to the scheme, which will now focus on productivity and asset creation. Some of the conditions have also started

showing improvement in the last quarter of 2013–14 and the first quarter of 2014–15.

### Trends in India’s Social Sector Expenditure

Central support for social programmes has continued over the years although most social sector subjects fall within the purview of the states. Though there has been a consistent rise in social sector expenditure by the government, the adverse fiscal circumstances in the country arising from the impact of the global financial crisis of 2008–9 and the European Union crisis of 2010–12 resulted in a decline in government spending on the social sector in recent years. It has, however, picked up again in 2013–14 (Ministry of Finance, Government of India 2014). (See Table 1.4).

### Additional Investment of CSR

In February 2014, the government notified rules for Corporate Social Responsibility (CSR) based on the amendment to the Companies Act made last year, requiring all companies beyond a specified size to make mandatory investments for social interventions. These rules specify a wide range of activities, including livelihood enhancement and rural development projects, promoting preventive healthcare and sanitation, as well as making safe drinking water available, as a part of CSR activities. The Ministry

**TABLE 1.4** Central government expenditure (plan and non-plan) on social services and development

Item	2008–9	2009–10	2010–11	2011–12	2012–13 RE	2013–14 BE
1. Social service						
a. Education, sports, youth affairs	4.27	4.15	4.56	4.73	4.38	4.38
b. Health and family welfare	2.09	2.00	1.98	2.02	1.81	1.99
c. Water supply, housing, etc.	2.54	2.39	2.35	2.11	1.88	2.20
d. Information and broadcasting	0.23	0.20	0.21	0.19	0.18	0.17
e. Welfare of SCs/STs and Other Backward Class (OBCs)	0.41	0.43	0.58	0.64	0.54	0.62
f. Labour and employment	0.28	0.22	0.24	0.26	0.26	0.29
g. Social welfare and nutrition	1.15	0.87	1.01	1.28	1.13	1.21
h. North-eastern areas	0.00	0.02	0.02	0.01	1.56	1.80
i. Other social services	1.55	1.67	1.66	0.20	0.19	0.16
<b>Total</b>	<b>12.52</b>	<b>11.94</b>	<b>12.61</b>	<b>11.43</b>	<b>11.93</b>	<b>12.83</b>
2. Rural development	4.56	3.77	3.51	2.88	2.49	2.57
3. Pradhan Mantri Gram Sadak Yojana (PMGSY)	0.88	1.11	1.87	1.48	0.70	1.30
4. Social services, rural development, and PMGSY	17.95	16.82	18.00	15.79	15.12	16.70

Source: Based on budget documents.

of Corporate Affairs has notified the CSR rules and they would come into effect from 1 April 2015. Qualifying enterprises are required to invest at least 2 per cent of their three-year average annual profit towards such works.

According to the Indian Institute of Corporate Affairs, a minimum of 6,000 Indian companies will be required to undertake CSR projects in order to comply with the provisions of the Companies Act, 2013, with many companies undertaking these initiatives for the first time. Further, some estimates indicate that CSR commitments from companies can amount to as much as Rs 20,000 crore. There are certain innovative CSR initiatives emerging wherein companies have invested in enhancing community livelihood by incorporating them into their supply chain. This has benefitted communities and increased their income levels, while providing these companies with an additional and secure supply chain.

### Investments in Skill-building Programme

The Government of India has placed a renewed emphasis on skill development in the services and manufacturing sectors, due to its twin focus on jobs and growth. A new ministry has been formed to focus on skill development and entrepreneurship and has been given a budget of over Rs 25,000 crore. This estimate comes from the fact that first Budget is expected to transfer most, if not all, skill development and training initiatives under at least 21 different ministries, to the newly created ministry.<sup>9</sup>

There currently exist many dichotomies. India needs to equip its youth with greater work skills. The present the education system churns out a mostly semi-literate workforce without the requisite marketable skills in a globalized world. However, as Dipankar Gupta puts it, 'Skill shortage is a squeaking wheel that won't get greased as long as we continue to link vocational training with school dropouts' (Gupta n.d.). According to the National Sample Survey's most recent estimate, only 18 per cent of those who have passed out of these vocational schools have regular jobs. This minuscule number is bad enough, but there is more. About 60 per cent of this 18 per cent are employed as informal workers because their skills do not fit the organized sector.

The youth of the villages are not attracted to agriculture as their potential livelihood option. To them, it is a seasonal, unpredictable, physically intensive job with low remuneration. The village youth thus feel compelled to

migrate to the cities in search of employment. The major cities, overloaded with a bulk of unskilled rural youth, offer menial wage labour opportunities, with pitiable conditions of living.

#### Decent Work Parameters

1. Employment opportunity
2. Adequate earning opportunity and productive work
3. Decent hours
4. Stability and security of work
5. Combining space for work and family
6. Equal opportunity and treatment in employment
7. Safe work environment
8. Social security
9. Social dialogue and worker's participation
10. (Not engaged in) work that needs to be abolished

[http://www.ilo.org/wcmsp5/groups/public/---dgreports/---integration/documents/publication/wcms\\_229374.pdf](http://www.ilo.org/wcmsp5/groups/public/---dgreports/---integration/documents/publication/wcms_229374.pdf)

Livelihood promotion is often the most pressing priority which needs to be tackled. However, many people believe that there is no cheaper and better way of livelihood generation for the poorest people other than investing in skill training in masonry, stone dressing, wire bending, painting, and plumbing.

India's current education system places overemphasis on cognitive learning for all. Many drop out, unable to cope with this by-rote education system. This system does not recognize that everyone is not suited for cognitive education. Many will excel in a system which places a premium on vocational education. Unequipped with education that enables livelihood, the youth fall prey to poverty and crime.

It has been estimated that most of these 18 per cent people who have been through skill upgradation programme do not get into a situation where the minimum conditions of decent work laid down by the International Labour Organization (ILO) are met.

### National Multi-skill Mission

- (a) Most skill-building programmes focus on organized sector work (where the post-training placement can be shown), whereas 86 per cent of workers in India are engaged in the unorganized sector. The organized sector's ability to absorb new workforce

is less than the growth rate. What about skilling the people in the unorganized sector?

- (b) In a context like India, hard skills needs to be complemented with soft skills, including their attitude towards work, dignity of labour, accountability for quality of work, and so on. Most of the currently available programmes focus on skills such as spoken English, use of smartphones, and so on. These other elements of skills need a very different way of delivery and cannot be delivered through regular classroom or workshop sessions.
- (c) Skill-building initiatives of the government are often being used as a camouflage of sourcing labour, paying them a stipend instead of wages or salary and PF, leave benefits, insurance, etc. As the skill-builder has an incentive for placement of the trained persons, and the organized industry has a need to recruit labour (for which there are costs, in addition to cost of training the new recruits), a collusion between them works out.
- (d) The aspirations of these students are, however, going through significant change. As a livelihood means managing one's life as one aspires to, the boundaries of livelihoods are also changing very rapidly.
  - (i) They are not willing to do the same kind of hard work as their parents did.
  - (ii) Their preferences are for some of the better-looking sectors.
  - (iii) Cost of their 'conspicuous consumptions' have gone up, requiring more money to maintain the standard of life they aspire towards.

### Financial Inclusion and Livelihoods

With the hope of securing the livelihoods of the poor, there has been an added emphasis on financial inclusion and financial services as a key to the economic empowerment of the poor, especially women. With this goal in mind, Pradhan Mantri Jan Dhan Yojana, an ambitious scheme for comprehensive financial inclusion, was launched on 28 August 2014. This scheme was announced at the Independence Day speech on 15 August 2014. According to estimates published in newspapers, 1.5 crore (15 million) bank accounts were opened under this scheme on the inauguration day. Banks which in the past were unwilling to or unable to open basic bank accounts are now partnering to open these accounts under this ambitious scheme.

Persons engaged in unseen work are, in a sense, some of the most deprived and vulnerable categories of those denied access to decent work. The official labour force participation rate for men, which measures the proportion of the total male population in the labour force, stood at 55.6 per cent in 2011–12, unchanged from its level in 2004–5. For women, already scarcely represented in India's labour market, the labour market participation in the same period dropped from 29.4 per cent to 22.5 per cent.

Though a step in the right direction—the poor need more than bank accounts; they need to have income-generating activities, which will enable them to make use of these bank accounts.

### Organization of this Year's SOIL Report

The *SOIL Report* being an annual publication, we have focused on some of the significant phenomenon that affect the livelihoods of the poor in the present period. Therefore, having presented a picture of what people are doing for their livelihoods and how different aspects of their life—health, education, income, and so on—are getting affected, in this chapter, we will present some other significant areas of change in livelihood promotion, namely, the government, the corporate entities, financing of livelihoods, and some instances of progress in institutions of people.

With the increased attention of the Government of India on supporting the livelihoods of a large section of the society, it has taken various policy initiatives. But having experienced a policy paralysis over the last few years ending with a major political change, the new government is under pressure to make amends quickly. In Chapter 2, Sircar and Roul have explored the implications of these policies on the livelihoods of the people. They have also discussed the various Bills that have been passed by the Parliament based on these policies and various programmes formulated to give effect to these policy intents. The budgets in the last few years have also been analysed in this chapter to examine if the government has been 'putting their money where their mouth is' and whether there are the gaps between the stated policy intent and the actuality. In this chapter, even possible areas of programme design that need to be

reimagined have been explored for many of the flagship livelihood promotion programmes.

Another significant change that has started taking place is in the area of livelihood financing (Mahajan 2005). Many of the financial institutions have started recognizing the limitations of the formal banking system to reach the poorer sections. With the serious downturn of the micro-finance industry in the recent past, this realization has become even more prominent. But this has not diminished the need of financial services for supporting the livelihoods of the people. Financial institutions have taken up many new initiatives towards this. In Chapter 3, having laid down the role of finance in livelihoods in today's context, Srinivasan has explored different sources of finance. He then examines the role financial institutions have played and can play in this effort at inclusive growth, supporting a large number of livelihoods. Having briefly described the livelihood loans outreach, the author has identified gaps in livelihood finance including challenges in the cost of intermediation. The chapter then examines government policy and strategy in finance for livelihoods, briefly touching upon role of microfinance and livelihoods.

The other significant change that has emerged in the space of livelihood promotion is the enhanced engagement of corporate entities in the delivery of public goods, one among them being livelihood support. An amendment in the Companies Act, 2013 (Section 135), has made it mandatory for many companies to undertake CSR. This is opening up new possibilities for promotion or support of livelihoods of the weaker sections of the society. In Chapter 4, Manas Ratha has presented the picture of this new opportunity. The chapter starts with a discussion on what is CSR and illustrates various approaches of CSR with several case studies towards the end of the chapter. It looks at different forms of corporate philanthropy and strategic philanthropy. Having presented a picture of the State of Indian CSR and Companies Act, 2013, Ratha has identified how companies can benefit by focusing their CSR on livelihoods and how to go about developing a strategic corporate philanthropy program. Having looked at opportunities for CSR in supporting livelihoods, the chapter also highlights some of the key challenges.

It has been recognized that the small and dispersed producers need to come together to effectively engage in the market. There has been various efforts of building producer collectives, starting from promulgation of the Co-operative Act in 1904. This was also followed by various types of specialized producer organizations: such as Draught Prone Area Groups, the Large Area Multi-purpose Societies, Land Development Banks, Multi-state Cooperatives, Mutually Aided Cooperatives, and Rayatu Mitra Groups. Recognizing the limitations of the earlier cooperative society Acts, the Government of India amended the Companies Act, 1956, introducing Chapter IX A in the Act, coming into force on 6 February 2003. This allowed the primary producers to form a company, following principles of mutual help. This has opened new vistas for supporting the livelihoods of the primary producers, especially farmers. Mahajan in Chapter 5 has extensively dealt with the potential of these forms of producer collectives, both from a strong theoretical perspective and experiences on the ground. In his attempt to explore how producer companies can become high-performing, Mahajan has suggested changes needed in the law, especially focusing on member voting provisions and improvement in the taxation regime and supportive policy. He has also explored how the new emergent possibilities of enhanced CSR can be steered towards building a symbiotic relationship with producer companies.

Thus, this year's *SOIL Report* presents to the reader, not only the present state of the livelihoods of the people but also some of the emerging possibilities.

## NOTES

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2. *UNICEF Report on Nutrition*, <http://www.unicef.org/india/nutrition.html> (last accessed on 23 October 2014).
3. See discussion in Anatoly Karlin, 'The Puzzles of Indian IQ: A Country of Gypsies and Jews', <http://akarlin.com/2012/08/the-puzzle-of-indian-iq-a-country-of-gypsies-and-jews/> (last accessed on 23 October 2014).

4. The HSBC PMI is an indicator of the economic health of the manufacturing sector based on five major indicators: new orders, inventory levels, production, supplier deliveries, and the employment environment.
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# Policy and Programme

*Ashok K. Sircar and Suryamani Roul*

## FROM POLICY PARALYSIS TO POLICY HASTE: THE PENDULUM SWINGS

### Introduction

The new government at the centre has come with a spectacular popular mandate and brought in its wake new expectations for the poor, the vulnerable, and the marginalized. However, just because it has arrived from the other end of the political spectrum, riding on a huge anti-incumbency wave, does not necessarily mean that the prevailing policies and programmes on livelihoods will be abandoned altogether. It could prove to be yet another exercise in continuity and change.

Last year, the *State of India's Livelihoods (SOIL) Report* captured the policy paralysis on a number of major livelihoods issues, as well as a major debate on foreign direct investment in retail and its livelihood impact. Keeping the periodicity of the *SOIL Report* in mind, this chapter picks up from where the report left off last year and captures the gradual shift in the policy direction of the new government. It discusses policy trends in livelihoods during last year, delineating major patterns and shifts in

policies and programmes that are impacting livelihoods of specific communities that suffer from social exclusion, marginalization, and multiple deprivations.

The union budget of the last year has been studied from a livelihoods perspective to examine trends in allocation and direction of government resources. Since the mind of the new government was first revealed in its maiden budget, it is imperative for this chapter to look at the latest budget and see where it substantially deviates from the past.

Under United Progressive Alliance (UPA) II, the government dragged its feet on several major policies such as the Manual Scavengers Bill, the Land Acquisition Bill, the Street Vendors Bill, and the Companies Act Bill—all of which had significant implications for livelihoods for the poor. Fortunately, before the last Parliament was dissolved, most of these Bills were passed to become Acts, thus ending at least one major phase of uncertainty. In this context, this chapter also discusses the status of these policies at the implementation phase. Two other Bills which could not make it as Acts were the Mining Amendment Bill and the Agricultural Biosecurity Bill; these too have been discussed in the chapter.

The Apprentice Amendment Act, 2014, is the only new legal instrument of the new government so far in the domain of livelihoods, passed within a week of its introduction in the Parliament. Since the Act clearly refers to livelihoods of the young people in the organized sector, it is particularly relevant for inclusion in this chapter.

A recent development of significance has been the announcement made by the Genetic Engineering Approval Committee allowing GM trials (field trial of genetically modified seeds) in five major crops including the BT Brinjal. Since this announcement has far-reaching implications, it is taken up for discussion here.

In the meanwhile, between the last report and this one, the committee headed by C. Rangarajan has recommended a method of determining a new poverty line for India. Since the previous *SOIL Report* spoke of the formation of the Rangarajan Committee and its report is now in public domain, the chapter dwells on it briefly.

A new addition to the basket of policies that impact livelihoods is the National Youth Policy (NYP) 2014 adopted by Government of India at the end of 2013. The NYP aims at preparing the youth (15–29 years) for a productive and meaningful working life through skill development, community orientation, and decent work. Given that amongst the marginalized, deprived, and excluded communities, persons of this age group are significant contributors to household income streams, the NYP merits space in this chapter.

Before an analysis of livelihoods policy is embarked upon, it is important to reiterate that livelihood continues to be an elusive domain many aspects of which are stridently debated with no wider consensus emerging. However, for the purpose of this report, we will focus on any policy intervention that impacts the capacity of the poor to earn a living with dignity and has an implication for the wider economic well-being of individuals and families. Well-being is here defined in terms of not only income and assets but also capabilities and voice, that is, the ability to make claims and assert rights.

To begin with, we continue with the practice of identifying and expanding the list of people whose livelihoods concern us. In previous issues of this report, we made lists of such populations, as shown in Table 2.1. In this year, we would like to add one important category—‘transgender’.

There is increasing recognition in India today that the LGBT (Lesbian–Gay–Bisexual–Transgender) community deserves a dignified livelihood free of social stigma and marginalization. The Honourable Supreme Court in its judgement on 14 April 2014 has recognized transgender as the third gender and has asked the central government to notify it as economically and socially backward.<sup>1</sup> This must be regarded as a landmark step towards their social integration.

## Budget Analysis

The new government had only 45 days to prepare the annual budget for the year 2014–15. Having critiqued the successive budgets of the UPA, the new government led by Bharatiya Janata Party (BJP) had raised very high expectations in all quarters of substantive policy shifts through the budget. Therefore, the obvious question is: Has the budget fulfilled the expectations? Our take on the budget is determined by its thrust (or the lack thereof) on livelihoods of the poor, vulnerable, and the marginalized. This in budget terms would mean budget allocation to existing programmes, announcement of new programmes, and shift in priorities on programmes/missions that would have a direct impact on livelihoods. Table 2.2 shows the trends in budget allocation on major livelihoods programmes.

The budget allocation to major existing programmes clearly reflects continuity from the past. Almost all of the major programmes received the same level of allocation this year, the difference accounting for inflation being marginal indeed if not negative in some cases. It is in fact surprising that some key programmes of the government like the Sarva Siskha Abhiyan (SSA), Midday Meal Scheme (MDM), National Rural Livelihood Mission (NRLM), and Rashtriya Krishi Vikas Yojana (RKVY) have received exactly the same allocation as the previous year. To understand this, we looked at the revised estimate of 2013–14 for these programmes and we found that the Revised Estimates (RE) 2013–4 for RKVY, SSA, NRLM, and MDM are Rs 7,089 crore, Rs 26,058 crore, Rs 2,641 crore, and Rs 12,189 crore, respectively.<sup>2</sup> Except NRLM, the REs are typically 80–85 per cent of the original estimates. However, this could not possibly be the reason not to receive an enhanced allocation. It is difficult to understand the rationale for such static allocation. The budget utilization under NRLM is in fact the lowest among all major programmes meant for the poor. Our

TABLE 2.1 Categories of people facing livelihood challenges

S. No.	Description	Per cent of population and numbers
1.	Persons below poverty line	25.7 per cent of rural population (Rural) (Planning Commission) (a)
2.	Forest dwellers of India	93 million (Ministry of Tribal Affairs) (b)
3.	Absolutely landless families	18–20 million (Rawal 2008) (c)
4.	Street vendors	10–12 million (Bhowmick) (d)
5.	Manual scavengers	1.0 million (Report of the Sub Group on Safai Karamcharis 2007) (e)
6.	Single women	25.9 million (f)
7.	Women farmers	90 million (g)
8.	Disabled persons	21 million (h)
9.	Seasonal and casual workers in informal sector or informal jobs in the formal sector	140 million (29 per cent of total workforce)
10.	Vulnerable workers (as per ILO definition)	80 million (17 per cent of total work force)
11.	Transgender	2.5–3.0 million

*Sources:*

- Planning Commission 2013, available at [http://planningcommission.nic.in/news/pre\\_pov2307.pdf](http://planningcommission.nic.in/news/pre_pov2307.pdf) (accessed on 10 August 2013)
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*Note:* The ILO defines 'vulnerable workers' as own account workers as well as those who contribute to family enterprises. This now forms part of the sub-Millennium Development Goal, 'Achieve full and productive employment and decent work for all, including women and young people', which itself forms part of Goal 1, 'Eradicate extreme poverty and hunger'. See <http://mdgs.un.org/unsd/mdg/Metadata.aspx?IndicatorId=0&SeriesId=760>

section on NRLM later in this chapter would seek to understand this gap. Suffice it to say here that the most hyped rural development programme in the last couple of years still appears to be taxiing; it is yet to take off!

Did the budget spring new initiatives for the poor? There seem to be several; for example, a new irrigation scheme called, Pradhanmantri Krishi Sinchay Yojana (Prime Minister's Agricultural Irrigation Scheme) was launched with a budgetary allocation of Rs 1,000 crore. There are a few more. Box 2.1 gives a list of these new initiatives.

Among these new initiatives, the most far-reaching is probably the announcement that landless agricultural labourers' groups will now be receiving agricultural credit through National Bank for Agricultural and Rural Development (NABARD). This hopefully would include the large number of women's groups as well, almost all

of which are working in agriculture and or some kind of agro-processing activity.

At the outset it may be pointed out that apart from the watershed programme, namely, Neerachal and the Pradhan Mantri Krishi Sinchay Yojana, allocations in all other programmes are clearly to start an initiative on a pilot scale and not for reaching out to a large constituency. An allocation of Rs 100–500 crore cannot be meant for a national-level programme. It is unfortunate though that the fact that these allocations are only meant for pilot or pre-pilot initiatives is not explicitly stated anywhere. With these small new initiatives, the earlier attempts to consolidate a large number of small programmes into a few well-knit large programmes seem to have been given a go by. Furthermore, there does not appear to be any urgency to move away from quota- and allocation-based programming towards

**TABLE 2.2** Budget allocation for existing programmes, 2011–15 (Rs crore)

Key areas	2014–15	2013–14	2012–13	2011–12	Impacting population
Agricultural credit*	8,00,000	7,00,000	5,75,000	4,75,000	Farmers
Drinking water and sanitation	15,520	15,260	14,000	11,000	Mostly rural population
Rastriya Krishi Vikas Yojana (RKVY)	9,954	9,954	9,217	7,860	Farmers, associated people
Bringing Green Revolution to Eastern India (BGREI)	1,000	1,000	1,000	400	No clarity
Integrated Child Development Services (ICDS)	18,691	17,700	15,850	10,032	Children in the 0–6 age group, pregnant and lactating mothers
National Rural Livelihoods Mission (NRLM)	4,000	4,000	3,914	2,921	70 per cent of rural women
National Midday Meal Scheme (MDM)	13,215	13,215	11,937	10,564	All children in the 6–14 age group attending school
National Social Assistance Programme (NSAP)	10,635	9,541	8,447	6,165	Old age, disabled people
Right to Education/Sarva Siksha Abhiyan (SSA)	27,758	27,258	25,555	20,998	All public schools
National Health Mission (previously NRHM)	23,854	21,239	20,822	18,115	Everyone dependent on public healthcare
National Rural Employment Guarantee Scheme (NREGS)	34,000	33,000	33,000	31,000	125 million job card holders
Food security subsidy	1,15,000	90,000	75,000	72,823	75 per cent of rural and 50 per cent of urban population

Note: \*agricultural credit is provided by the banks, union government sets the target

Source: Compiled by the authors from budget highlights of 2014–15.

rights/entitlement-based programmes. The government still seems to favour a patron–client approach over a rights-centric approach.

The budget is completely silent on sustainable development, wildlife, forests, biodiversity, and ecology

that impact livelihoods of nearly 500 million people almost on a daily basis. The budget's silence on these aspects is astonishing because the *Economic Survey 2013–14* published just prior to the budget carried a statement as profound as: 'While 2015 will be a landmark year for

#### BOX 2.1 New initiatives proposed in the 2014–15 budget

S.No.	Initiative	Budget allocated	Focus area
1.	PM Krishi Sinchay Yojana	Rs 1,000 crore	To bring irrigation to rain-fed areas
2.	S.P. Mukherjee Rurban Mission	Not declared	To provide urban facilities in rural areas
3.	D. D. Upadhyay Gram Jyoti Yojana	Rs 500 crore	To bring power supply to rural areas
4.	Village Entrepreneurship Programme	Rs 200 crore	To support village youth towards entrepreneurship
5.	Neeranchal (Watershed Dev)	Rs 2,142 crore	Watershed development
6.	Van Bandhu Kalyan Yojana	Rs. 100 crore	Welfare scheme for tribals under Tribal Sub Plan
7.	Varishtha Beema Yojana	Not declared	To revive the insurance plan for pensioners
8.	Beti Bachao Beti Padhao Yojana	Rs 100 crore	To support girl child education
9.	Kisan TV	Rs 100 crore	A TV channel for farmers' education
10.	Credit for Bhumi Heen Kisan joint farming groups		To provide credit to landless farmers' groups

Source: Compiled by the authors from budget highlights of 2014–15.

sustainable development and climate change policy, 2014 is the last chance for all stakeholders to introspect to be able to wisely choose the world they want post 2015.<sup>3</sup>

It is not clear if the budget's indifference to the challenges of sustainable development and climate change is a deliberate manifestation of the policy orientation of this government or simply an oversight. It seems to be the former than the latter, if the easy mood for environmental clearances to large infrastructural projects by the Ministry of Environment and Forest and the proposed dilution of the judicial powers of the National Green Tribunal are signals to go by. Such a radical growth-driven approach at the cost of environmental sustainability could spell disaster for the very survival of millions of people within a very short period of time.

The budget had two important observations to make on NRLM and MNREGA which will be discussed later in this chapter.

### **Bills Passed in Parliament that Have a Livelihood Impact**

As mentioned earlier, a number of bills affecting the livelihoods of the poor were pending in Parliament for a long time. During the course of the last 10 months or so, many of these were passed as Acts.

#### ***Prohibition of Employment as Manual Scavengers and Their Rehabilitation Bill, 2012***

This Bill was introduced in September 2012 and, a year later, in September 2013, it was passed by the Lok Sabha and the Rajya Sabha. The Act totally prohibits manual scavenging under all circumstances and makes the authorities and people who use insanitary latrines, and therefore use manual scavengers to clear their toilets, completely responsible for changing to the modern sanitary toilets. The Act also seeks to rehabilitate the manual scavengers. To ensure strict enforcement of law, a central monitoring committee and state- and district-level vigilance committees have to be formed. The Act has declared that use of insanitary latrines and manual scavengers is a non-bailable offence with penalty and imprisonment. However, the Act does not categorize the direct discharge toilets installed in the trains of Indian Railways which keeps the manual cleaning of

the railway tracks outside the purview of the law, while it is well-known that the Indian Railways is the single-largest institutional employer of manual scavengers in the country. Also, the Act does not promise any financial assistance, central or state, towards converting insanitary latrines to modern sanitary toilets. This may actually impede implementation.

Both the central and state governments have to make rules for implementation within 90 days of the Act. Although the central government has notified that the Act has come into force from 6 December 2013, there is no progress yet on rules of implementation.

#### ***Street Vendors (Protection of Livelihoods and Regulation of Street Vending) Bill, 2012***

The Street Vendors Bill was introduced in Parliament in September 2012 and had a similar trajectory as that of the Manual Scavengers Bill. After the usual round of standing committee recommendations and departmental revisions, the Bill was finally passed in the Lok Sabha in September 2013 and in the Rajya Sabha in February 2014. The Act seeks to legalize street vending in towns and cities under certain conditions with the major exception of railway land and in trains. The Act asks the state governments to create norms of vending zones for the municipalities, and also create a scheme for street vendors. A person engaged in street vending has to register with his/her Town Vending Committee of the city municipality and then get a vending certificate for legally pursuing the trade.

Needless to say, this Act has opened a new chapter in the lives of the street vendors as the profession now has legal legitimacy over and above the social legitimacy it already enjoyed. However, the road ahead is still difficult. The biggest weakness in the Act is that it does not specify any norm for creating vending zones, restrictions, issuing vending certificates, renewal, etc. The state governments are empowered to create their own norms for the towns and cities. This will lead to wide variation in the schemes across states, and will possibly lead to further conflicts between the street vendors and local bodies. Another weakness of the Act is that it does not require the state governments to consult any stakeholder in formulating the street vending plans. It is therefore likely that the plans may not be prepared in a fair and transparent manner.

### *The Right to Fair Compensation and Transparency in Land Acquisition, Rehabilitation and Resettlement Bill, 2013*

This is probably one of the longest pending bills that was finally passed in September 2013 by the Lok Sabha and the Rajya Sabha. The Bill's journey started in 2007 as two separate policies: one on land acquisition and the other on fair compensation, rehabilitation, and resettlement. Finally, after many deliberations both inside and outside the Parliament, the Bill got passed as one law incorporating both land acquisition as well as compensation, resettlement, and rehabilitation.

Many features of the new law deserve attention. Last year's *SOIL Report* had a detailed discussion on the various clauses of the Bill. Box 2.2 provides a glimpse of the main features of the Act. The Act has tried to address multiple issues related to fairness, transparency, limits, and accountability. For example, there is a section on food security which is aimed at restricting acquisition of agricultural land, especially multi-crop land. The Act does this in two ways—one, by restricting the acquisition of multi-crop land to last resort and, two, in case land acquisition is unavoidable in such

a case, by providing an equivalent amount of land to be brought under agriculture. Further, the Act asks the state governments to determine the limit to which agricultural land can be acquired for non-agricultural purposes.

Another section has elaborated upon the typology of losers that includes the land losers and those would lose their livelihoods. The latter includes petty shop owners, vendors, tenants, agricultural labourers, agro processors, and the like. Linked with this categorization is the attempt to clearly articulate the nature of compensation and rehabilitation package as well, including money, housing, land, livestock, credit, and others as applicable in the two schedules attached to the Act.

Several sections have dealt with the transparency and fairness of the intent and process of acquisition that has always remained opaque and mysterious in the past, to say the least. This can be seen in articulating an SIA, publication of it, review of the SIA by an expert group, two layers of checks to determine the public purpose, transparency measures in the acquisition processes by conducting public hearing, consent of land losers, use of acquired land only for the purpose stated during acquisition, establishing a national monitoring body, and others. These measures, if implemented, would certainly herald in a new era in land acquisition.

There are, however, serious concerns about the implementability of the Act. First, the Act has become extremely techno-bureaucratic in its composition. Although, many of the processes are well-intended, the entire process of land acquisition, from the start to the finish, complying with all the features, may take years and this can be a disincentive to the government officials as well as businesses. Second, the SIA can go the way of Environment Impact Assessment (EIA), where the outcomes become too technical, expert-driven, insular, and can easily be manipulated to suit the business establishment. And even if the SIA is done well, the expert group, usually hand-picked by government, would still have the final say, and they could override the findings of the SIA. That apart, much of the processes are still district collector driven, and there is no local oversight mechanism on the district collector.

Rules for implementation of the Act have already been framed and finalized after public consultations, and therefore the ball is now set to roll. However, there are new

#### **BOX 2.2** Main features of the RFCTLARR Act, 2013

1. Social Impact Assessment (SIA) is mandatory for all land acquisition. Public hearing a must as part of the SIA.
2. All acquisition to accompany compensation and rehabilitation to affected persons.
3. A separate category of livelihood losers and land losers created.
4. Compensation to be four times the market price of land to the land losers.
5. In case of land acquisition for private companies, consent of 80 per cent of land owners mandatory; no consent required for public sector units (PSUs).
6. The government may temporarily acquire land for three years without any provision for resettlement or rehabilitation.
7. When multi-crop land is acquired, an equivalent amount of land is to be dedicated to food security.
8. A detailed rehabilitation award for livelihood losers.

*Source:* Compiled by the authors from the Right to Fair Compensation and Transparency in Land Acquisition, Rehabilitation and Resettlement Act, 2013.

pressures being brought upon by industrial and business lobbies as well as some state governments to change some of the key clauses of the Act. Bloomberg TV in its programme named 'Political Capital' on 27 July 2014 has captured these concerns very well. The government seems to be in a listening mode as it has promised huge investments in infrastructure projects where this Act in its present form can present some obstacles. Some of these demands from the industries and state governments are shown in Box 2.3.

These voices from the industry gained amplitude after the Rajasthan Government drafted its own Land Acquisition Bill, 2014, and published it for public comments and review. The Bill does not have any provision of SIA. In addition, the consent clause has been inserted only for acquisition by private companies and public-private partnership ventures (to the extent of 80 per cent and 60 per cent of landowners, respectively), and there is no provision of the consent for government-owned infrastructure projects. The provision for public hearing also does not exist in the Rajasthan Bill. The Bill also provides a timeline of two years for the payment of compensation. While Rajasthan Bill will go through the legislature soon, the legal difficulty will remain as the central law will override the state law in case of a legal conflict. Therefore, from a business perspective, the central law would have to be diluted and hence these pressures.

**BOX 2.3** Demands from industries and state governments

1. Lower the consent clause to 50 per cent of land of landowners from the present 70 and 80 per cent.
2. Remove the rehabilitation clause for privately driven land purchase deals.
3. Remove the retrospective clause. (According to the present law, where land has been already acquired, but compensation not given should be given in the new rate.)
4. Tamil Nadu, UP, and West Bengal governments want that state government be empowered to determine what is public purpose in their state.
5. Karnataka wants SIA to be done only for large industrial projects and not for all projects.
6. Kerala government wants consent clause before preliminary notification to be removed.

*Source:* Compiled by the authors from various newspaper reports.

### *The Corporate Social Responsibility Clause in the Companies Act, 2013*

The Companies Act Amendment Bill, 2011, was finally passed in August 2013. Our interest in the Companies Act is confined to the section on what is commonly called Corporate Social Responsibility (CSR). The section on CSR was designed to promote corporate funding to human development and social welfare projects, much of which are focused on livelihoods. As it stands today, the rules have been framed and notified by the government, meaning that the Act is already in force. The Act makes CSR a statutory obligation of companies having a net worth of Rs 500 crore or more or having a turnover of Rs 1,000 crore or more or Rs 5 crore of net profit of a three-year average, and the board of the company is liable to comply with the obligation. The company is required to undertake four key actions in this regard: a) to set up a CSR committee at the board level, b) to come up with a CSR policy declaring the works to be undertaken following Schedule VII, c) to spend at least 2 per cent of its net profit average of last three years on CSR, and d) to report back to the board and file a return to the Registrar of Companies to that effect, and provide explanations if these compliances have not occurred.

There are a few grey areas in the Act in this regard as pointed out by industry advisors. First, it is not clear whether an explanation would suffice or is a penalty involved in case of non-compliance. Second, the list of activities as defined in Schedule VII mentions broad domains and is not a list of exhaustive activities, thereby leaving space for subjective interpretation. Third, there may be a reluctance to spend on CSR on the part of companies that are not making profit, but have a net worth or turnover as specified in the Act. There was one other contentious issue that was subsequently clarified. It is now understood that the clause of an independent director in the CSR committee does not apply to private limited companies.

There have been a number of representations to the government from the companies falling under the purview of the Section 135 as a result of which the Ministry of Corporate Affairs issued a helpful clarification notification on 18 June 2014. The content of the notification is worth mentioning here as it reflects

the concerns of the industry, the main stakeholder in this case.

- The topics mentioned in Schedule VII should be interpreted liberally; these are broad themes and not activities in itself.
- CSR activities must be in a project or programme mode; one-off events or sponsorships cannot be counted as CSR.
- Expenses incurred in fulfilment of any other Act (for example, labour laws, Land Acquisition Act) cannot be treated as CSR.
- Foreign-holding companies can direct their CSR expenditures through their Indian subsidiaries.
- Contribution to a corpus of a Trust/Society/Section 8 company can qualify for CSR expenditure if the said entity is created for CSR activity, and if the corpus is created for activities falling under Schedule VII of the Companies Act, 2013.

Addressing these concerns emanate from much of the existing practices of the corporate sector. It may be noted here that previous experience of corporate engagement with social welfare activities included welfare of employees' families in terms of education and healthcare, donations to charities as a one-off engagement, one-off financial support/sponsorship to educational, cultural, or sports organizations, or a sustained engagement with specific communities linked with the company's business as a supplier or consumers. None of these activities would qualify for CSR under the present law. This leaves a large vacuum in terms of understanding what would now be considered as a CSR activity, how to formulate CSR policy, and how to ensure that the money is well spent. This requires new skills to be built in the sector. We are happy to note that a separate chapter on CSR is part of this report that goes into details of many of these questions and seeks answers from existing good practices.

### *SCs–STs (Prevention of Atrocities Amendment) Bill, 2013*

This Bill intending to enlarge and tighten the provisions of the Scheduled Castes and Scheduled Tribes (SCs–STs) Atrocities Prevention Act, 1989, was introduced in Parliament in December 2013, and since the Parliament could not take it up for consideration, the same Bill

was rather hastily promulgated as an ordinance in March 2014. This came as amendment to the SCs–STs Atrocities Prevention Act, 1989.

The SCs–STs Atrocities Prevention Act, 1989, came into being to protect members of SCs and STs from social and economic discrimination and physical abuse by any other person or community or organization. These discriminations could be in the form of depriving them of access, dispossessing them of their assets by illegal or immoral means, social stigma, violence against the SCs–STs by higher castes, sexual misconduct with SC–ST women, and the like.

However, the Act of 1989 could not prevent such social evils nor could it reduce such crimes substantively. The complex legal remedial processes largely remained out of the reach of the SCs–STs. Several reports, for example, by the National Alliance for Strengthening SCs–STs (Prevention of Atrocities) Act, 1989, reports of the National Commission of SCs–STs in 1996–7 and then again in 2006–7, the recommendations of the National Advisory Council (NAC)—all point to several legal and institutional shortcomings that have prevented the Act becoming truly protective of the SCs–STs. The NAC, while giving its recommendations, noted the following about the efficacy of the existing Act of 1989:

Despite the deterrence assured by the Act, atrocities against these groups continue unabated and legal justice remains out of reach for a majority of victims largely because of poor implementation of the Act. Victims and witnesses confront hurdles at every stage of the legal process—from registration, investigation and charge sheeting, to the trial stage. The conviction rates under the Act remain low.<sup>4</sup>

Key areas of concerns as expressed by the NAC were:

- Certain forms of atrocities, though well-documented, are not covered by the Act.
- Several offences under the Indian Penal Code are also committed frequently against SCs and STs by non-SCs and non-STs, on the ground that the victim was SC or ST. Such offences need to be brought into the ambit of the Act.
- Public accountability provisions under the Act need to be outlined in greater detail and strengthened.
- Implementation of the Act suffers from the following problems, which need to be addressed:
  - Procedural hurdles such as non-registration of cases
  - Procedural delays in investigation, arrests and filing charge-sheets, delays in trial, and low conviction rate

- Procedural delays in providing relief and rehabilitation to victims
- Inadequate rates of compensation

Recognizing the concerns raised by various reports, the UPA government introduced an amendment Bill to this Act in December 2013. As the national elections were drawing nearer, it became clear that the Parliament might not have the time to discuss and pass the Bill before its term expired. The government realized this, and decided to promulgate an ordinance that came into being in March 2014.<sup>5</sup> We may note here that the Bill and the amendments cover a whole range of issues impacting SCs–STs. There are a few provisions in the ordinance that deserve attention from a livelihoods perspective. We have culled out such provisions and shown in Box 2.4. The amendment also seeks a number of measures for quicker remedy through the tribunal and court system.

As in many other cases, the laws are only as good as their implementation in letter and spirit. Therefore, while a stronger law creates a stronger potential, it remains to be seen if this stronger law creates a substantive difference on the ground for the SCs–STs.

### Pending Bills

From a livelihoods perspective, at least two other Bills could not complete their journey to becoming Acts. We

#### **BOX 2.4** Provisions related to livelihoods in the SC–ST Ordinance 2014

1. Stronger clause on wrongful occupation and or cultivation of SC–ST land by a non-SC–ST person.
2. Stronger clause on wrongful dispossession of an SC–ST person from his land including forest land, water body, irrigation facility, and also from his crops.
3. Clearer clause on compelling an SC–ST person to begging or other forms of bonded labour.
4. Stronger and clearer clause on preventing an SC–ST person from using any kind of common property resources.
5. A newly introduced clause on economic boycott against SC–ST.
6. A newly introduced clause on compelling any SC–ST to remove human or animal carcass or do manual scavenging.

*Source:* Compiled by author from SC–ST ordinance 2014.

will briefly discuss the other two Bills, namely, the Mining Amendment Bill and the Agricultural Biosecurity Bill.

### *The Mining Amendment Bill*

*SOIL Report 2013* had a detailed discussion on the Mining Amendment Bill in the context of tribal livelihoods. The Amendment to the Mining Act of 1957 was introduced in the Parliament in 2011 in the wake of the mining scam that surfaced in several parts of the country. The intent was noble: to make mining licensing and operation more transparent and sustainable, taking into account the needs of tribal livelihoods. The Bill was referred to the standing committee of the Parliament in January 2012, and the committee submitted its recommendations a year and a half later in May 2013. The bill was again introduced in the Lok Sabha and has been waiting ever since for consideration by the Lok Sabha for more than a year now. At the time of writing of this report, the status of the Bill was the same as it was a year ago.

The Bill had a few radical propositions from the perspective of tribal livelihood. One is that the affected persons shall receive a non-transferable share in the mining company; the second is that the affected persons will receive an annual compensation, which the lease holders shall pay into the proposed District Mining Fund. The flip side of it though is that mining leases can be given to non-tribals. This is hugely controversial as there are a number of Supreme Court judgements against such provisions. Further, there is no provision in the Companies Act for non-transferable shares, and the bill is weak in that respect as well. However, the silence of the Parliament on such an issue that affects the livelihoods of the most excluded such as the tribals is baffling

### *Agricultural Biosecurity Bill*

As globalization deepens, one key economic activity that gets widely affected is agriculture. Plant and seed varieties, pest control, fertilizer production and use, and disease surveillance have become global phenomena. Trade in crops, fruits, vegetables, flowers, and animals has become global too. Governance of agriculture now needs a new organizational arrangement in which trade, disease surveillance and control, and protection of plant variety and diversity assumes national and global importance. The Agricultural Biosecurity Bill was conceived to do that.

The Bill proposes formation of an Agricultural Bio Security Authority of India. It is going to be mandated to regulate import and export of plants and animals as well as their interstate trade. The same authority will also establish a mechanism of pests and disease surveillance over the country. The authority will have the power to declare an area a 'controlled area' if it is convinced that the area is infested with a pest. And the authority will have the power to recommend the declaration of a 'pest emergency' to the central government.

The Bill was introduced in Parliament in March 2013, and thereafter referred to the Standing Committee. The Standing Committee, which has already submitted its report, has recommended more representation of the state governments in the national body. It has also recommended deletion of the clause of reimbursement of costs of the national body by the state governments for the services rendered by the national body. The Bill has to be reintroduced to the Lok Sabha, which is awaited.

What difference does this Bill make to the livelihoods of the farmers? As we see it, the farmers will eventually have to deal with another bureaucracy in their production and exchange of crops. With globalization, the value chain in agriculture also has turned national and global in many cases. Seeds, pesticides, herbicides, fertilizers, plants, animals, and crops travel long distances within and beyond the country to reach the users. With that travel the risks for the farmers as well. The new authority is supposed to make it safer for the farmers and the users as well, but the farmers would need exposure and training to handle this bureaucracy.

## New Policy Push

### *National Apprentices Amendment Act, 2014*

As of September 2014, this is the only legal instrument on livelihoods that the new government has pushed through. The Apprentices Amendment Bill was introduced in the Lok Sabha on 7 August 2014, and it was passed on 14 August 2014. Despite the opposition's demand that the Bill be sent to a parliamentary standing committee for review, the majoritarian action by the treasury bench, with the support from the Speaker of the Lok Sabha, ensured that it was passed within seven days of its introduction.

Apprentices are a part of the formal industrial sector, which engages trade apprentices to assist in production,

maintenance, services, and other parts of the value chain. Apprenticeship is an important way to help a person graduate from being an unskilled to a semi-skilled or a skilled worker. For a young aspirant who is educated in any branch of engineering or management or other technical subjects in a degree or diploma college, an apprenticeship is the beginning of his/her lifelong livelihood. This is why the amendment in the Apprenticeship Act warrants a discussion in this chapter. For the record, it may be noted that the government acts as a regulatory and promotional body in this regard. The existing Apprentices Act, 1961, is the legal instrument for government's regulatory and promotional action.

The new Act has amended a number of sections in the existing Act, and these have far-reaching consequences. Box 2.5 captures the changes in the Act. The amendments clearly point towards more freedom for the employers and limit or reduce the control of government bureaucracy. More importantly, the amendments also expand the scope of engaging an apprentice by enlarging the list of trades and other clauses. This is expected to enlarge the

#### **BOX 2.5** Amendments to the Apprentices Act, 1961

1. Change in definition of appropriate government to include any agency operating in four states under regulation of the central government
2. Definitions of designated trade, graduate, or technician apprentice, trade apprentice, industry, and worker broadened to include almost any kind of industry, trade, and even persons from non-engineering backgrounds. Also introduced a new 'optional trade'.
3. The minimum age of an apprentice earlier was 14; now the amendment adds that in hazardous trades, the apprentice cannot be less than 18 years old.
4. The number of apprentices now to be exclusively decided by the central government; no role of the Central Apprentices Council; no ratio of trade apprentice to workers to be determined any more.
5. The employers would now be solely deciding on the practical training of the apprentice once he/she is taken in; approval of the Apprentices Advisor is no longer necessary.
6. The amendment also clearly gives the decision of hours of work and number of leaves to the employers.
7. The amendment removes the provision of imprisonment to employers in case of certain offences; only limits to fine.

*Source:* Compiled by the authors from the Apprentices Amendment Act, 2014.

pool of apprentices substantially, as they can be engaged in larger number of sectors and trades.

Many of these changes are well-intended in terms of creating a larger pool of apprentices, widening the scope to engage them in a larger number of trades, greater employer freedom to use the apprentices, and less bureaucratic control. However, there are two specific areas of concern. Given the poor record of Indian industries in terms of maintaining labour standards, certain clauses can easily be misused by the employer, which can go against the apprentice. In particular, it relates to the clause of hours of work and leaves to be decided solely by the employer. This may result in the use of an apprentice in exactly the same way as a regular worker, while paying the person much less under the ruse that he/she is only an apprentice.

The second is the definition of 'designated trade' and 'optional trade' created under this amendment. In particular, it is 'optional trade' that can be decided by the employer without recourse to a higher review and public notification. Both can be used to have the apprentices work at the main shop floor and in many other major operations. This would signal a way of reducing labour cost for the company by having a trained apprentice do the same work of a skilled experienced and usually a permanent worker while paying the person only a fraction of the remuneration. The safeguard against such unethical labour practices are still weak in India. We will only know of these malpractices in coming days.

### *Trial of GM Seeds*

While some policies go through the parliamentary process, others simply come out of an administrative order. The Genetic Engineering Approval Committee's (GEAC's) approval to commence trial of GM seeds is a case in point. Before we deal with the issue, a little about why we think this forms part of the livelihoods policy discourse.

Seeds are one of the key inputs in agriculture-horticulture. Historically, seeds were produced in peasant homes through home-based technical processes. As modern varieties of seeds appeared through scientific research to increase productivity, control of seed production and trade slowly shifted hands from the peasants to seed companies. However, for non-GM seeds, farmers have found ways to reproduce the seeds at home plots, since these seeds were of the naturally reproducing type.

The GM seeds are new generation seeds that are of high productivity, strong pest resistivity, and require less fertilizer inputs. Prima facie, these qualities make the seeds attractive to the farmers. There are, however, serious concerns including:

- the unknown and unpredictable consequences of genetic modification of seeds;
- the loss of the huge diversity of germplasm that have evolved through natural selection processes and that are suitable for relevant agro-climatic zones and soil conditions; and
- the transfer of control of seed supply entirely to the seed companies from the farmer and the state; GM seeds cannot be reproduced at home at all; farmers have to buy these seeds from the big companies every season.

Use of GM seeds was introduced in India via Bt cotton, unannounced before any policy on GM seeds was formulated. The Government of India as well as the inventor of the Bt cotton seeds, Monsanto, were surprised at this development. The journalists and social movements brought this into the public domain and initiated debates on the challenges mentioned earlier. But the use of Bt cotton continued unabated.

The debate took a national character in the case of Bt brinjal. This time, brinjal being a food crop, the questions of safety became supreme and the voice of people became louder and sharper. The nature of the debate also rose to a new level of national engagement involving grass-roots activists, scientists, non-governmental organizations (NGOs), farmers, and the like. Not only were questions raised on the issues of plant diversity, risks in the food chain, control of seeds by multinationals, etc., but also, more fundamentally, on whether the farmers and ordinary citizens would always be passive recipients of expert-driven technologies, or would they ever be able to exercise the right to engage in the enterprise of scientific and technological change with their wisdom, agency, and choice. Thanks to a sympathetic Minister, Jairam Ramesh, the discourse truly became national with wide consultations in many state capitals, which saw very rich debates on the issue. Finally, a moratorium was announced on the trial of Bt brinjal.

On 18 July 2014, the GEAC gave approval to the trial of rice, mustard, brinjal, chickpeas, and cotton. It also allowed the import of GM-based soya oil. This has again revived

the debate not only about the three key challenges but also about the nature and process of policymaking. Questions are being raised on stakeholder participation, objectivity of the GEAC, role of public debate behind policymaking, demystification of technical knowledge as integral to public policy, and the like.<sup>6</sup> We will return to the process and nature of policymaking at the end of this chapter.

### New Poverty Line

Policy discussion on livelihoods typically centres on those impacting the livelihoods of the poor. Although the discourse on the poor and poverty has, over the years, moved away from income poverty to the multidimensional nature of deprivations, in India, official policies and policy-related thought processes continue to focus on the number of poor who do not have a threshold income to meet certain expenditures. Since 1979, when Y.K. Alagh first introduced the idea of a poverty line, the official policy has most often used the poverty line as its benchmark to determine the state engagement with livelihoods of the poor.

The concept of poverty line meanwhile has gone through a few critical changes, the most critical of which was the shift from a per capita calorie norm based poverty line to consumer expenditure based poverty line. And then, in 2009, the Tendulkar Committee made another significant departure by anchoring rural and urban poverty lines based on the figures of urban poverty. In September 2011, the Supreme Court in dealing with a public interest litigation on the public distribution system took a strong view of the central government's sworn-in affidavit claiming only 27 per cent are poor; it asked the government to clarify how it was defining the poor, when nearly 45 per cent of population suffers from malnutrition. That led to formation of a new Committee headed by C. Rangarajan, to examine the methodology of determining poor in this country. This committee has submitted its report in July 2014 which is now under public scrutiny.

The Rangarajan Committee made a few changes in the measurement framework (Table 2.3). First, it did not discard the calorie norm based line entirely, but it used the latest computation by the Indian Council of Medical Research (ICMR) to arrive at the norms of 2,155 Kcal per person per day for rural areas and 2090 Kcal per person per day for urban areas as the minimum energy intake for an average rural and urban person to stay fit.

**TABLE 2.3** The Rangarajan Committee poverty line

Expense type	Expense per head per month (in Rs)	
	Rural areas	Urban areas
Food: energy + protein + fat	554	656
Basic non-food expense	141	407
All other non-food expense	277	344
Total	972	1407

Second, the committee added protein and fat requirement into the poverty line norm and computed 48 gm of protein and 28 gm of fat for rural areas and 50 gm of protein and 26 gm of fat in urban areas as the acceptable norm. To arrive at the monthly expenditure, a person has to make to get this amount of energy, protein, and fat in a month, the committee used 68th Round data of NSS and computed Rs 554 per person per month and Rs 656 per month per person in rural and urban areas, respectively, as the threshold expenditure to be non-poor. Third, the committee considered clothes, rent, conveyance, and education as the norm for essential non-food expenses for being concerned non-poor. This works out to be Rs 141 per head per month in rural areas and Rs 407 per head per month for urban areas. The committee also considered all other non-food expenses. That worked out to be Rs 277 and Rs 344 per head per month for rural and urban areas, respectively. Thus, for a person to be just at the poverty line he/she should be earning at least Rs 972 per month in rural areas and Rs 1407 per month in urban areas.

On the basis of these threshold values, the committee used a modified mixed recall method to determine that 30.9 per cent of the rural population and 26.4 per cent of urban population were poor in 2011–12. This means 260.5 million and 102.5 million persons were poor in rural and urban India, respectively, in 2011–12.

The committee therefore concludes that, 'The poverty ratio has declined from 39.6 per cent in 2009–10 to 30.9 per cent in 2011–12 in rural India and from 35.1 per cent to 26.4 per cent in urban India. The decline was thus a uniform 8.7 percentage points over the two years. The all-India poverty ratio fell from 38.2 per cent to 29.5 per cent. Totally, 91.6 million individuals were lifted out of poverty line during this period.'<sup>7</sup>

From the livelihoods perspective, this line indicates how many people will prospectively be declared poor in a state,

resulting in the centre's and state's welfare benefits reaching to them through various programmes. These benefits are usually not adequate to lift these people out of poverty line, but are like a life support system to the poor. The committee has made two recommendations with regard to the use of this poverty line. It has recommended a state-centric poverty line to reflect interstate variations, and it has also recommended delinking state benefits to the poor from this line and the use of this line only for the purposes of budgetary allocation of central grants to states. The second is unlikely to happen as the states do not have any other alternative credible means to determine the beneficiaries of state benefits, and it may be expected that the states would continue using such a line to extend some of its benefits.

Jean Drèze and Angus Deaton have critiqued the report on several counts. First, they have questioned why ICMR reduced the calorie norms for the same set of people doing the same kind of work, from the earlier 2,400 Kcal and 2,100 Kcal per person per day, and why the Committee adopted new norms without any explanation. Drèze and Deaton have also asked why the expert group has considered a particular fractile of the NSS consumption expenditure that meets the norm for food and some non-food items, while for another set of non-food items another fractile that the expert group thinks meets the norm has been selected. The expert group has not explained this either. Drèze and Deaton have further raised doubts on the claim of the expert group that urban poverty is much larger than rural, a claim not usually supported by other studies. Finally, they called for abandoning the idea of accurate measurement of poverty line as a failed idea. That apart, their most critical comment is:

The poverty debate has always remained too technical and foggy. It does not lend itself to serious public debate and in particular in a debate where the poor can participate. In our view this is one key issue in policy making which can be expressed as a question: do the people impacted by a policy have a chance in participating in the conversation leading to the policy?<sup>8</sup>

However, one aspect that has never been considered as part of the discussion is that of determining who is poor. While the percentages determined by various expert groups tell us how many are poor, it does not tell us how to search and find the poor. Usually, that is done by state governments using questionnaire formats and surveys conducted by school teachers/Anganwadi workers and/or others. These surveys do not follow the same principles and formats followed by

the NSS or the expert groups. Also, the survey is done by non-professionals. As a result, the below poverty line (BPL) list that appears out of the survey is usually full of inclusion and exclusion errors, often of very large proportions. This lends the entire exercise futile from the perspective of the real poor. It is unfortunate that Indian scholarship does not engage in discussing this aspect of the poverty line.

### *National Youth Policy*

The youth, typically understood as persons of 15–29 years of age, form 27.5 per cent of the Indian population. By its own admission, the Government of India annually spends more than Rs 90,000 crore on programmes for the youth of this country. The bulk of this spending is incurred in providing high school, college, and university education; the rest goes into sports, cultural events, and various skill-building programmes. It is a fact that these expenditures are not made within a comprehensive national youth policy. Over and above the central government, the state governments spend significant resources on youth every year. About 10–12 central ministries and their counterparts in the states are involved in these programmes related to a wide range of activities such as degree education, vocational education, skill development, apprenticeship, sports, travel–tourism, culture, and entrepreneurship. A national policy on youth which provides clarity, focus, and direction, therefore, was the need of the hour. The NYP 2014 is a welcome step in this context.

Since most of the initiatives targeting the youth are meant to prepare them for dignified and productive livelihoods, the NYP 2014 warrants a discussion in this chapter. It has set five broad objectives:

- Create a productive workforce that can make sustainable contribution to India's economic development
- Develop a strong and healthy generation equipped to take on future challenges
- Instil social values and promote community service to build national ownership
- Facilitate participation and civic engagement at levels of governance
- Support youth at risk and create equitable opportunity for all disadvantaged and marginalized youth

The policy then goes on to focus on 11 thematic areas of intervention to achieve these objectives. These areas are

education, employment and skill development, health, entrepreneurship, sports, promotion of social values, community engagement, participation in politics and governance, inclusion, and social justice. In each of these thematic priority areas, the policy locates 'existing status' of the interventions and adds what it calls 'future imperatives'. A couple of examples will illustrate the point.

The second priority area mentioned in the policy document refers to employment and skill development. The relevant section in the policy document captures all the different programmes that the Government of India implements in capacity-building and mentions some of the state government programmes as well, including the recent large-scale efforts in skill development and the government's own efforts in guaranteeing employment through schemes such as that under the National Rural Employment Guarantee Act (NREGA). This is followed by the section 'Future Imperatives' that has three action points: a) Targeted youth outreach and awareness programmes b) Building linkages among system and stakeholders c) Defining roles of governments and other stakeholders.

Similarly, the sixth priority area is related to promoting social values in which the document captures the existing programmes of various ministries, and then goes on to identify 'future imperatives' as: a) formalizing value education, b) strengthening engagement programmes on youth, and c) supporting the work of the NGOs in promoting social values and harmony.

All the 11 priority areas are discussed in the NYP 2014 in this manner, and at the end, it creates a set of indicators which are given in Boxes 2.6 and 2.7. It may be mentioned that the NYP has defined two kinds of indicators, 'leading' and 'lagging'. Leading indicators are those indicators that can be monitored for tracking policy

#### BOX 2.6 Leading monitoring Indicators of NYP 2014

1. Number of states that create a youth policy
2. Number of times NYP 2014 is referred to in state policy documents and reports
3. Number of times NYP is referred to in stakeholders documents of media, civil society, and private sector
4. Number of initiatives taken up to close the gap mentioned in NYP 2014

*Source:* Compiled by the authors from NYP 2014.

#### BOX 2.7 Lagging monitoring indicators of NYP 2014

- Obj-1: Creating a productive workforce
  - Youth unemployment rate
  - Completion rate in higher education
- Obj-2: Creating a healthy generation
  - Maternal mortality rate
  - Number of gold medals per capita in Commonwealth Games (CWG)
- Obj-3: Instil Social Values and promote community service
  - Number of delinquent youths as per IPC, SLL
- Obj-4: Promote civic engagement
  - Elected PRI representatives under 35
  - Youth voter turnout
- Obj-5: Inclusion and social justice
  - Number of unemployed youth from different social groups

*Source:* Compiled by the authors from NYP 2014.

implementation, and the lagging indicators are meant to observe longer-term impact.

Does this policy make sense? It apparently does, but on a closer look, several comments can be made.

- The structure of the policy
  - It does not analyse how the resources are spent.
  - What impact has it generated so far?
  - What are the main lacunae in implementation?
  - What synergies exist among the existing programmes?
  - What are the challenges?
  - Whether the existing programmes are indeed in tune with the intent of the policy.
- Further, while the policy identifies broad objectives, it does not define quantifiable or measurable indicators to evaluate the progress on any of the objectives.
- In fact, even the period for which this policy will be in force is not specified.
- In addition, though 'future imperatives' have been outlined, many of these strategies are not the prerogatives of the Ministry of Youth Affairs, the author of the policy document; there are no suggestions on how other ministries will be expected to pursue strategies set out by the Youth Ministry.
- The policy does not comment on the financial resources required in its implementation. It starts by saying that the Government of India spends more than Rs 90,000 crore. Does it imply that resources are not a matter of concern?

Reading through the policy document, one gets the impression that the intent of the policy is to provide a thematic structure to all the multifaceted programmes of the Government of India and the states, to capture them under a few umbrella goals thus providing more clarity and focus to the thought processes of the bureaucracy that formulates and runs these programmes. And in doing so, it accepts what is presently being done by various ministries, rather than critically analysing them. And without critical analysis, the document looks self-congratulatory and full of pious wishes.

### Policy in the Making—Change in Labour Laws

While some policies are made by the government without recourse to parliamentary approval, there are many others for which the government has to come to the Parliament with a proposal usually in the form of a new Bill or an amendment to an existing law. One such endeavour in the making has an important bearing on labour laws in the organized sector. With the Cabinet nod received on 30 July 2014, the government proposes to change some aspects of the labour laws as enshrined in the Factories Act, 1948, and Labour Laws (Exemptions) Act, 1988.<sup>9</sup> The proposals approved by the union cabinet are as follows:

- Increase in provision for overtime of 50 hours in a quarter to 100 hours in a quarter
- Increase in provision of overtime of 75 hours in a quarter to 125 hours in a quarter for public utilities
- Decrease in provisions of 240 hours of work before being eligible for leave to 90 hours
- Relaxation of norm of women's work presently restricted from 6 pm to 6 am for certain industry segments
- Removal of prosecution clause that implies that the employer may be prosecuted for petty offences like not having a toilet on the premises
- For small-scale industries the government will pay 50 per cent of the apprentice's salary
- Exemption from furnishing annual return for companies that employ less than 40 employees as opposed to 25 employees.

The first two measures will help the industry to use more overtime to achieve the desired output instead of

hiring more labour. In industries where labour cost is a relatively smaller proportion of the cost of output, this measure will be welcomed by the industry. As such, there is a convention in many industries to have the labourers do overtime almost on a regular compulsory basis. The measure would certainly boost the employers of such industries.

The third is a pro-worker measure. Presently, employees are not entitled to leave except a limited number of casual leaves, until the end of first year of employment. This is certainly not desirable and the cabinet decision would be welcomed by the organized labour community.

The proposal to relax the norm that disallows women from being employed on night shifts in certain industries has been hotly debated. With the increased number of women in the organized labour force and their presence in many new industries, it has been felt in many quarters of the industry that to mandate that women cannot be asked to do night shifts in certain industries is a needlessly crippling and limiting clause which should be done away with. This comes from the pressures of globalization and technological advances, where monetized 'work' in a society is no longer confined to a limited number of hours during the day (leaving other hours for equally important non-monetized works), except certain sectors where the societal value of the 'work' demand 24 × 7 presence of workers. The logic of globalization is deliberately pushing non-monetized work in a society to its minimum, so that more labour power is available in the labour market. Whereas the societal goal should be to reduce all work in the night shift except where it is absolutely needed for greater societal good, there is increasing pressure to have men and now even women to work in as many sectors of the economy as globalization requires.

### Concluding Remarks

The union government will be about six months old when this report goes to press. Six months is certainly not enough to take a firm call on the policy directions of the new government, even though certain trends can be discerned from what is already on the plate for the country. Based on what has been reported and discussed, we will try to make sense of what the government may be thinking.

First, the annual budget did not really indicate a dramatic change in policy direction; it, in fact, reinforced the continuity of the existing programmes meant for livelihoods of the poor. The allocations for the existing programmes have remained the same, and the new initiatives declared are purely on an ad hoc and token basis. This may be due to the fact that the new government had very little time to prepare the budget, as also the fact that it was presented in the middle of the financial year, making it rather difficult for the government to initiate any substantive change. One major change being discussed is on the MNREGA, which we will take up later in this chapter.

Moving beyond the budget, however, a major policy shift that became apparent within the first month of the new regime was in the form of approvals to trials on GM seeds; this demonstrated a clear intent to transform agriculture and food policy. In particular, the permission for Bt brinjal trials, lifting the embargo imposed as a result of the huge country-wide protests against its introduction marks a clear move towards what can be called corporatizing Indian agriculture. Further, the policy shift favouring businesses and industries is seen in the amendment to the Apprentice Act, 2014, and cabinet decision on labour reform. The measures being adopted in the Apprentice Act and labour reforms are clearly biased in favour of freeing the industry from some of the labour restrictions that evolved during the 'socialist' past. One may expect more legislation on these lines in the coming years.

The discussion towards amending the RFCTLARR Act, particularly on demands from the industry and some state governments hungry to attract capital, also point to the same pro-industry policy thinking of the government. Notwithstanding the hugely complex techno-bureaucratic character of the existing RFCTLARR legislation which is indeed difficult to implement, the present conversation is clearly veering towards diluting the restrictive clauses that are intended to protect the livelihoods of the potentially impacted families. The haste with which all these measures are being discussed and pushed for speaks of the government's mind to show its political and economic dynamism. What we are beginning to see here is a swinging pendulum from policy inertia to policy haste.

The previous year also saw hasty efforts by the previous government to pass some of the pending resolutions clearly in order to claim credit in the context of the general election. The Manual Scavengers Act, the Street Vendors Act, the RFCTLARR Act, the Companies' Act, 2013, and the SC-ST Ordinance are cases in point. That it did not show up in election results is understandable. Legislations do not help win elections unless they unfold on the ground for the benefit of the intended. Nevertheless, these legislations were long overdue and therefore were welcome, though the 'last minute haste' in pushing through these policies was deplorable. It may be noted that the two exceptions were the Mining Bill and Agricultural Biosecurity Bill which would have to wait for the next session of Parliament.

In light of the overall policymaking experience over the last few years, a few general comments can be made. First, policymaking over the last few years has become much more of a consultative process compared to the past. Technology and communications have certainly played their part in the form of interactive websites, web-based discussion forums, electronic conferencing, and electronic campaigns. Increasingly, civil society organizations, issue-based networks, grass-roots social movements outside the control of political parties, media, and public intellectuals have become major influencers of policymaking. This has indeed widened the democratic space for dialogue and debate; widened citizen participation in policy discourse has thus lifted the policy discourse from techno-bureaucratic exercise. While this is a welcome development, the parliamentary process to make policies has become longer and more cumbersome. To take one example, all the different parliamentary standing committees have taken more than a year to submit their reports. For a parliamentary term of five years, one year to review a draft legislation seems too long, given the available parliamentary resources. Disruptions in Parliament also took its toll for nearly four years, thus delaying most of the legislations. Further, a law is not implemented unless rules are framed and notified. The rule-making often takes too long a time.

There are, however, policies that have come into force without due consultative process. Decontrol of sugar, GEAC's approval to initiate trial of GM seeds, and determination of the poverty line are some examples of

this. Many governmental missions and programmes too are still developed and implemented in the old-fashioned bureaucratic way. Every annual budget announces some new programmes with a few more added during the prime minister's Independence Day speech; these too come about without the pretence of participative process. This government has been no exception. For example, the Prime Minister in his Independence Day speech announced a number of programmes that do not have budgetary provisions. These programmes do not follow from wider public discussions; at best, the discussions are limited to a set of 'experts' and bureaucrats. With respect to budgetary allocations, the policies/programmes decided in a pure bureaucratic way continue to hold significant levels.

Third, the emphasis on law making has assumed new significance. In addition to the politicians, bureaucrats, and lawyers, a new constituency has evolved over the years now that loves law making. This constituency can be called development activists or at least a section of them. A large number of laws for the poor have come up in the last decade essentially from the efforts of these development activists. Mahatma Gandhi National Rural Employment Guarantee Act, 2005 (MNREGA); Right to Information Act, 2005 (RTI); Forest Rights Act, 2006 (FRA); Hindu Succession (Amendment) Act, 2005 (HSAA); Food Security Act, 2013 (FSA); and Right to Education Act, 2009 (RTE) are a few of them. A number of assumptions underlined these legislations—laws make governments accountable; existing institutions have the resources and readiness to deliver; the provisions of law will make them do it; and that citizens become empowered if a law clearly favours them. The actual experience on ground, however, shows that nearly all these assumptions are sadly misplaced. MNREGA, RTI, FSA, RTE, and FRA are cases in point, where successive governments across tiers have had little to show in terms of additional accountability, capacity, or intent to honour the law in letter and spirit.

Irrespective of how a policy is made—whether through wider consultations or by technical experts (economists in particular) or purely by bureaucrats of the ministry—the vocabulary of law, economics, and public administration still remains the forte of those few who are engaged in the essentially techno-legal exercise of policy formulation. A policy document often pays scant attention to the implications of the policy, its costs, institutional

requirements, benefits, challenges, and impacts. The NYP 2014, as discussed earlier, is a classic case in point. The socialization of the policy among all the stakeholders, particularly among executors of the policy, is usually not part of policy planning. All these factors eventually influence policy implementation, usually in the negative way. A few years or a decade down the road, some tinkering takes place in the policy, and the 'show just goes on'.

Time has come now to set some standards in Indian policymaking. These must include:

- Policy process: How should a policy be made?
- Policy structure: What should go into a policy in terms of analysis, quantification, institutional requirements, costs and resource implications, and the like?
- Socialization and implementation plan: What should the specific timelines be for meeting clearly enunciated policy objectives?
- Clear policy monitoring and review structure: Normative standards would help in transparency, participation, debate, and critical analysis in the public sphere, as well as improve the overall quality of policy and its making in India.

## REIMAGINING FLAGSHIP LIVELIHOODS PROGRAMMES

Over the last few months, the *aam aadmi* (common man) of India has been buffeted by several bouts of socio-economic and political upheaval with ten years of UPA governance coming to an end, the flux of the interim general election period, and the advent of the NDA at the centre. The large-scale flagship programmes of the Government of India, their budgetary allocations, as well as their outcomes have been widely debated throughout this period of change as also in the context of the attempts of the new government to rejig, restructure, reboot, and revamp these programmes.

This section studies two flagship programmes in this context: the Mahatma Gandhi National Rural Employment Guarantee Programme under the MGNREGA, 2005, and the National Rural Livelihoods Mission (Aajeevika). It strives to reimagine, redesign, and recast the frameworks on which these two programmes are based, so as to enable better outcomes and stronger impact.

Since the last year has been marked by both the general legislative sluggishness before the elections with the hyper-expectations from the newly elected government and the uncertainty prevailing in the first part of the year, this section begins by examining the official data presented in the *Economic Survey 2014–15*.<sup>10</sup>

### What the *Economic Survey 2014–15* has to Say about MGNREGA and NRLM

The *Economic Survey 2014–15* has strongly argued in favour of an immediate revamp of prominent ongoing social-sector schemes including the National Rural Livelihoods Mission (known as Aajeevika) launched in 2011 and the Mahatma Gandhi National Rural Employment Guarantee Programme enacted through an Act in Parliament in 2005 (MGNREGA). The report highlights the fact that despite huge outlays, social schemes often fail to translate fully into desired outcomes both in terms of scale and quality owing to poor delivery mechanisms.

The *Survey* identifies various limitations and loopholes in the MGNREGA, 2005, particularly the lack of participation of Panchayati Raj Institutions (PRIs) in planning, execution, and monitoring of the programme although the Act is panchayat-centric and community-demand led. The survey also adds that 'the awareness level in the Gram Sabha/PRIs is very low, also resulting in lack of ownership, ill-conceived planning and shelf of projects, and weak or even no social audit'. The survey further says that in some places only female workers were interested in availing of work as market wage for males is much higher, resulting in only small works of lesser utility being undertaken instead of big and tangible projects. It reports that the need for community projects is becoming less important as probably such works have already been completed or are on the brink of saturation or on account of lack of common interest in public works. The *Survey* strongly advocates in favour of avoiding projects with single or a small number of beneficiaries and the use of MGNREGA funds in a supply-driven mode. It recommends a more development-oriented approach with safeguards against fund misuse.

Regarding NRLM or Aajeevika, the *Economic Survey 2014–15* highlights the mismatch between the scope of activities and the massive investment made in infrastructure that the programme is supposed to create.

### MGNREGA Performance Report— Question of Legacy

The MGNREGA had a budget outlay of Rs 33,000 crore in 2013–14 as compared to Rs 29,387 crore a year before, although it was still less than Rs 35,841 crore in 2010–11. Ever since 2006 when it first started, the MGNREGA has come under all-round criticism though its positive impact on livelihoods security became evident fairly early with the guaranteed 100 days of employment to the poor.

#### MGNREGA: What It Has Got Right

A joint research on the MGNREGA was conducted by the National Council for Applied Economic Research (NCAER), New Delhi, and University Maryland, USA, comparing the socio-economic condition of about 7,000 rural households in 2004–5 (before the Act) with their status in 2011–12, when the programme had been implemented in all districts. The report unequivocally states that the MGNREGA has indeed emerged as a unique attempt to provide a social safety net via massive public works programme.<sup>11</sup> Titled the 'India Human Development Survey', it examines the reach and targeting of the programme, the experiences of households participating in the MGNREGS, and the broader changes in the rural labour market during the period. The survey reveals that regardless of the discrepancies reported between the administrative statistics and actual usage, the programme is remarkably well-targeted. The uptake in villages with low levels of infrastructure is higher (28 per cent) than in the villages with better infrastructure (21 per cent). Households from the marginalized communities (Dalits and adivasis) are far more likely to participate in MGNREGS (36 per cent and 30 per cent, respectively) than other households (20 per cent). Women, too, have higher participation rates; although only 29 per cent of all non-agricultural wage workers are women, 44 per cent of all MGNREGS workers are women. For those households that participate in MGNREGS, the income from MGNREGS forms about 14 per cent of their total income.

The report also examines changes in the labour market as a consequence of the programme. Among workers, non-farm work has grown substantially while an exclusive agricultural focus has declined. The proportion of individuals who focus solely on

agricultural activities has gone down from 51 per cent of men aged 15–59 years to 35 per cent and for women, the drop is from 84 per cent to 66 per cent. Much of the drop has been attributed to changes in agricultural wage work. While the report asserts that the programme has undeniably helped Dalits, adivasis, and women to find work, it also advocates the need for its substantial improvement.

While one will not deny the positive impact of the MGNREGS on rural jobs and employment, the claim that the MGNREGS has led to a sharp increase in rural wages is debatable. A study by the former Chairman of the Commission for Agricultural Costs and Prices (CACPC), Ashok Gulati, showed that real farm wages rose almost 6.8 per cent per annum from 2006–7, but the impact of the growth of the GDP, agriculture, and construction was almost four to six times higher than that of the MGNREGS. Figures show 2008–9 and 2009–10 were perhaps the best years for the scheme, when employment and incomes surged. Its fillip to financial inclusion is also considerable. In 2011–12, almost 78 per cent of MGNREGS card holders reported having savings accounts.

### *MGNREGA under Fire*

Notwithstanding interstate variations in the operational minutiae and implementation success of the MGNREGA, several studies have made scathing attacks on the programme not being able to address the needs of the poorest of the poor which was ostensibly its primary target group. This corroborates with the ‘People’s Report Card’ prepared by Wada Na Todo Abhiyan, a coalition of 4,000 rights-based groups, that advocates for greater political will to make the required financial allocations for flagship schemes in the area of food security, healthcare, and education. Released in February 2013, the report reviewed the implementation of flagship schemes in major states and published some rather disturbing findings. In some panchayats in Tamil Nadu, it was found that the actual wages offered for work under MGNREGA were lower than the state’s prescribed wages. There were instances where job card holders were being made to sign on cheques in Karnataka and Rs 100 was handed over to each card holder without any work being assigned to them.

The CAG Report 2013 says ‘the poorest of the poor were not fully able to exercise their rights under the MGNREGA’. MGNREGS has moved away from its core objectives of providing employment opportunities, creating sustainable livelihoods, and rural governance. Only 20 per cent of the funds allocated between 2009–10 and 2011–12 had been released for Bihar, Maharashtra, and Uttar Pradesh, which account for 46 per cent of the rural poor in India. It also says that Rs 2,252 crore of inadmissible work was undertaken under the rechristened MGNREGS, including roads, ghats, and cattle platforms. The report finds that Rs 4,070 crore of work was incomplete, while Rs 2,374.86 crore extra was released by the Ministry of Rural Development to six states by an error in calculation. Official data shows that average employment under the scheme per household has dropped to a three-year low of just 41 days in 2012–13.

In reply to a question raised in Parliament, the Union State Minister for Rural Development has reported that as of end-June 2014, 3,641 complaints have been received regarding irregularities in NREGS and about half have been addressed. The government has reportedly taken several bold steps in strengthening the monitoring and review systems, introduction of e-muster rolls, electronic fund management system, and appointment of Ombudsman at the district level by the state governments in order to check the irregularities.

### *Renewed Approach to MGNREGA under the New Government*

There was a wide perception that the new NDA government would scrap the MGNREGS, but in the 2014 budget, the strategies on its continuity, albeit remodelled, have been made clear. The budget allocates almost the same amount as last year (Rs 33,364 crore) with express commitment to continue with the scheme despite suggestions from both inside and outside the party to scrap it. In his budget speech, the Union Finance Minister said, ‘The government is committed to providing wage and self-employment opportunities in rural areas’. However, he also said that wage employment would be provided under MGNREGA through works that are more productive, asset-creating, and substantially linked to agriculture and allied activities. The continuance of the programme has been echoed by

the Minister of Rural Development on completion of 100 days of the government.

In view of the shortcomings in its design, nature of assistance, delay in payment of wages, fictitious management information system (MIS), fabrication of job cards, corrupt practices, and subordination of the asset creation/afforestation objective in choice of earthwork (despite its strong connect with environmental sustainability and livelihoods generation), the arguments in favour of remodelling the NREGS are compelling. Among the many steps being taken in this direction, in the first week of September 2014, an order was passed mandating that 50 per cent of all MGNREGS works taken up at the district level be towards creating assets for water conservation so as to prioritize mitigation of drought and drought-like situations. The centre expects to focus more closely on the 2,500 backward blocks identified by the Planning Commission in the execution of MGNREGA. In addition, there is an instruction to reverse the earlier decisions taken by the UPA government in 2011 which allowed states to seek MGNREGS allocated funds for construction of Individual Household Latrines (IHH) under the guidelines of Nirmal Bharat Abhiyan.

The decision to create works for water conservation through MGNREGS has been debated on the ground that this takes the decision on nature of the works away from the gram sabha, which is against the spirit of the Act. Focus on only backward blocks has been criticized for limiting scope. Ideally, in a drought-like situation, it would have been better to broaden the scope of activities by increasing the fund allocation for addressing the needs.

Some recent steps taken towards recasting MGNREGA in a new form include the following:

1. Defining eligibility under MGNREGS: There is big move towards sharply defining the eligibility for work under MGNREGS which targets marginalized communities, nomadic communities, scheduled and unscheduled tribes, BPL families, women-headed families, the families headed by disabled persons, and those who have got their dwelling through the Indira Awas Yojana. The panchayats are expected to perform a higher role of certifying those eligible and encouraging anyone in economic distress outside of the eligibility criteria to apply for work under MGNREGS.
2. Targeted approach: Contrary to the current universal approach of MGNREGS which covers all blocks without differentiating between blocks or states on poverty parameters, the renewed thrust is on a 'targeted MGNREGS' which essentially means that the government will identify and zero in on 2,500 blocks characterized by high levels of economic distress. However, in November beginning, the new rural development minister has announced that the job guarantee scheme had touched the rural poor like no scheme before and it would continue undiluted in terms of coverage.
3. Fund for agriculture-related infrastructure: The remodelled approach lays emphasis on building more agri-related infrastructure like irrigation-linked dams, check dams, canals that bring water to drier areas, building main arterial roads, and planting trees along such roads.
4. Quality of work: The Ministry of Rural Development has recently written to all states placing a special emphasis on quality of assets in terms of their design, utility, and durability. In order to create durable assets, the Rural Development Ministry wants the convergence of MGNREGS with the schemes of other departments. It has also suggested maintenance of assets, evaluation, and impact study by a third-party agency to make it leakage free.
5. Speeding up wage payment: The Ministry of Rural Development aims to create a cadre of barefoot engineers to boost the effectiveness of MGNREGS by helping to speed up wage payments. This measure aims at overcoming the perpetual problem of delayed wage payment.
6. Reversal of the wage-material ratio: The centre has recently ordered the reversal of the wage-material ratio from the existing 60:40 to 41:59. It is argued that works like check dam construction, desilting of traditional water bodies, and minor irrigation tanks and canals require a combination of wage labour and machinery. The final decision to change the ratio has been left to the discretion of the states.
7. Linking with other schemes of the Ministry of Rural Development: In a significant move, the Union Government has recently decided to give Rs 12,000 per household to the poor to build their homes under the IAY. They can provide their own labour to build homes

and get paid under the MGNREGS. This is expected to have a greater convergent impact in building about 25 lakh households and in generating demand for work under MGNREGS.

There have been several new developments at the state level as well. As a bold step, in July 2014, the central government set up a number of indicators against which the performance of state-level MGNREGA implementation starting from the panchayat will be measured. The states are now required to report on performance indicators which include the rate of work completion, percentage of wage paid within 15 days, percentage person days generated, and percentage of households completing 100 days of work. This set of indicators aims to enable states to analyse their relative performance and take corrective measures to improve implementation and in keeping close tab on the states down to the panchayat. The centre has also asked the states to use ICT-based solutions like IVRS, call centres, and internet to capture the demand for work across the country. All these are signs of a big makeover to bring infrastructure-led growth with transparency and public accountability.

Recently, the Rajasthan Chief Minister wrote a letter to the Union Rural Development Minister suggesting that the MGNREGA be converted into a scheme. Political parties and civil society organizations alike have registered strong protests against any dilution of the MGNREGA which is considered as the world's largest social security programme. It is argued that if the scheme is not backed by an Act, the state cannot be held culpable in the eyes of the law for not being able to provide the 100 days of work that the Act mandates.

The year 2014–15 is expected to be a watershed year for MGNREGS as many changes are in the offing. One of the latest initiatives of the Rural Development Ministry is to digitally monitor the durable assets built under the government's social sector programmes. The buzz is '*Photo Kheench-Mantralaya Bhej*' (click a picture and send it to the ministry) to geotag photographs of the assets (to begin with IAY) and post them on the ministry's website to provide the evidence of the schemes which include MGNREGS. The idea is to crack the whip if progress is tardy, given the huge investment being made the government. Having done well in pushing Aadhaar-based cash transfers for schemes to curb leakages, this kind of digital solution aims at facilitating timely implementation.

## NRLM: Where Does It Stand?

Conceptualized and designed to bring a paradigm shift in the approach towards community empowerment, drawing lessons from different ongoing programmes of the Government of India and the states and civil society organizations, the National Rural Livelihood Mission (NRLM) as a creation of UPA II was launched, transitioning from the Swarnajayanti Gram Swarajgar Yojana (SGSY) coterminous with the beginning of the 12th Five Year Plan to implement the new strategy of poverty alleviation woven around community-based institutions. The NRLM has been tackling many teething issues since it was launched in June 2011. The mission's primary objective is to reduce poverty by promoting diversified and gainful self-employment and wage employment opportunities for sustainable increase in incomes. Designed to function in conjunction with MGNREGS, NRLM primarily focuses on creating self-employment and wage/job employment opportunities for the rural poor enabling them to cross the threshold of poverty and become productive agents. The NRLM provides a combination of financial resources and technical assistance to states for them to take the comprehensive livelihoods approach encompassing four inter-related tasks, namely:

- Mobilizing all rural, poor households into effective self-help groups (SHGs) and their federations
- Enhancing access of the rural poor to credit and other financial, technical, and marketing services
- Building capacities and skills of the poor for gainful and sustainable livelihoods
- Improving the delivery of social and economic support services to the poor

## NRLM: What Seems to Be Progressing Well

The agenda notes of the recent NRLM Performance Review Committee (PRC) meeting held on 5 June 2014 provide ample information on how the NRLM has transitioned towards its goals from the SGSY in the last three years across various states.

- Till the beginning of June 2014, 27 states (barring Goa) have transitioned to NRLM and their Annual

Action Plans for FY 2014–15 have been approved by the Rural Development Ministry.

- States, particularly those come under the World Bank supported National Rural Livelihoods Programme (NRLP), have made significant progress in terms of setting up implementation architecture.
- While most of the states have completed state-level recruitments, there are major gaps in recruitment at the field-team level. As of March 2014, only 62 per cent of the approved positions were filled.
- Social mobilization and institution-building are much slower processes at the state level with interplay of many factors at the state level. It is being taken up through a threefold strategy:
  - Resource blocks: This strategy aims to generate enough social capital in one block (the resource block) for scaling up project activities in other blocks. Each State Rural Livelihood Mission (SRLM) is expected to implement this strategy in at least 5 per cent of the total blocks in each state. It is envisaged that each resource block will help scale up social mobilization in 20 new blocks in a phased manner. As of June 2014, 10 states are implementing this strategy and 13 states (Chhattisgarh, Maharashtra, Jharkhand, Madhya Pradesh, Rajasthan, Haryana, Gujarat, Assam, Uttar Pradesh, J&K, Karnataka, Nagaland, and Mizoram) have entered into memoranda of understanding (MoUs) with the Society for Elimination of Rural Poverty (SERP) of the Government of Andhra Pradesh and the Bihar Rural Livelihoods Promotion Society (BRLPS) under the Bihar government for implementing the resource block strategy. Northeast states and other states with difficult terrain are expected to follow the 'Resource Cluster Strategy' following a model adopted in Nagaland.
  - Intensive blocks: The intensive block strategy aims at providing enough social capital support (internal community resource persons or CRPs and professional resource persons or PRPs) to serve new blocks within a period of 24–30 months. The intensive blocks are expected to start working in four to five villages of their cluster by engaging the available social capital/community cadres till

that block can be supported by internal CRPs from the resource blocks. About 400 blocks are categorized as intensive. Existing SHGs are being strengthened and provided access to financial assistance from banks under the non-intensive block strategy.

- Partnership blocks: Partnership blocks strategy aims to build either 'no-cost based' or 'cost-based' partnerships with NGOs and community-based organizations (CBOs) that have done significant mobilization. Some SRLMs have signed partnership MOUs under this arrangement, for instance, the partnership between Jharkhand SRLM and PRADAN for the implementation of NRLM in 14 blocks and that between the Maharashtra SRLM and the IFAD-funded Mahila Arthik Vikas Mahamandal project. Partnerships are being forged in Odisha, Uttar Pradesh, Karnataka, and Gujarat.

The new government has allocated nearly the same amount of money to the mission as its predecessor did last year. The target of each of the states is articulated through the Annual Action Plan (AAP). As per the plan of 2013–14, it is reported that all most all the states (except Assam and UP) have started implementation in all approved blocks. About 22.2 lakh SHGs were promoted in these intensive blocks. In the form of community investment funds, Rs 204 crore was disbursed during the year as compared to Rs 60 crore in the previous year.

### *NRLM: Fronts on which Progress Is Tardy*

#### **Credit Targets**

Even though the credit linkage strategy has been approved by the Ministry of Rural Development for each state for the year 2013–14, progress on this front has been rather poor. Data updation through web link portals meant to track credit linkages of SHGs is slow. Data received from 28 private sector banks and 17 major regional rural banks till 31 March 2014 reveals that 8,99,000 lakh SHGs have been sanctioned fresh loans to the tune of Rs 17,387.47 crore (state-wise credit target achievement is given in the table following).

## SHG–bank credit linkage achievements

S. No.	State	Credit linkage 2012–13*	Credit linkage target 2013–14*	Achievement till March 2014		*Amount in crores disbursement (Bank-wise)			Achievement (per cent of target for FY 2013–14)
				No. of SHGs	Amount	PSBs	RRBs	Coop.	
1.	AP	11,164	12,000	4,15,700	11,677	7,885	3,792		97.3
2.	Tamil Nadu	2,916	6,000	56,058	1,302	1,302			21.7
3.	Karnataka	2,299	4,125	1,36,627	2,026	941	515	570	49.1
4.	Kerala	899	1,000	23,361	543	463	80		54.3
5.	Maharashtra	578	1,000	14,650	222	198	25		22.2
6.	Orissa	473	1,000	10,434	127	127			12.7
7.	West Bengal	514	1,100	193,090	1,017	220	348	450	92.5
8.	Bihar	222	500	7,075	52	52			10.4
9.	UP	451	750	8,523	95	88	8		12.7
10.	Rajasthan	211	300	1,857	23	23			7.8
11.	Gujarat	120	220	4,901	43	43			19.4
12.	Assam	138	315	3,618	37	36	1		11.7
13.	MP	138	395	9,967	76	70	6		19.2
14.	Chhattisgarh	70	224	5,156	47	42	6		21.2
15.	Jharkhand	75	214	1,235	24	24			11.1
16.	Haryana	52	104	797	14	14			13.0
17.	Punjab	23	40	447	5	5			13.1
18.	Himachal	42	89	731	11	11			12.6
19.	J&K	8	14	197	1	1			10.1
20.	Uttarakhand	41	128	1,612	14	7	7		10.6
21.	Tripura	13	388	141	1	1			0.2
22.	Mizoram	8	12	5	0	0			1.4
23.	Nagaland	10	10	778	12	3	1	7	110.6
24.	Manipur	4	14	105	1	1			5.2
25.	Arunachal Pradesh	1	3	237	1	1			30.7
26.	Meghalaya	5	8	1,924	15	1	1	13	182.9
27.	Sikkim	2	7	105	1	1			14.6
	Total	20,476	29,960	899,331	17,387	11,557	4,790	1,040	58.0

As the table demonstrates, only in four states has the achievement been above the 90 per cent mark. The performance record of the rest is rather bleak.

The PRC agenda notes also report that the state missions with dedicated human resources have effectively been able to contribute to the SHG credit linkage primarily in the intensive blocks. This is correlated to the fact the recruitment process is completed only up to 62 per cent of the approved positions as reported earlier.

#### Livelihoods Promotion through the Mahila Kisan Sashaktikaran Pariyojana

Since inception of the Mahila Kisan Sashaktikaran Pariyojana (MKSP), 65 projects in 14 states have been sanctioned with a total project outlay of Rs 796.77 crore, covering more than 26.9 lakh women farmers (FY 2013–14); of these, about 41 per cent belong to SC/ST categories (ST 13 per cent, SC 28 per cent). There is a plan to launch a similar intervention for rural artisans.

### Human Resource Development and Institutional Building

The institutional architecture is not yet ready to support an ambitious pace of mission implementation. Furthermore, our academic system is not yet geared towards creating the right cadre of people to serve the large and emerging demand from the mission. As a result, the mission is yet to move anywhere close to its stated objective of *building capacities and skills of the poor for gainful and sustainable livelihoods*. It is high time that institutional transformation is brought about in all states irrespective of World Bank support through NRPL so cogent outcomes in the league of the much-acclaimed Kudumbashree in Kerala become visible pan-India.

Under the aegis of the Kudumbashree programme of the Government of Kerala, a 41 lakh strong all-women group is fuelling micro enterprises to improve the economic conditions of its members. The programme has a large coverage reaching 50 per cent of Kerala's total households with groups. Kudumbashree runs about 35,000 micro enterprises in fields as diverse as food processing, handicrafts, cosmetics, herbal products, goatery, and travel services.

### Imagining the Changes

The FY 2014–15 has been designated as a consolidation year for NRLM. Across all the SRLMs, deployment of the right kind of human resources is one of prerequisites for the mission to make headway. There is a big demand–supply gap in the human resource pool at present. While reviewing the performance, the PRC has stressed on the role of the SRLMs and state governments in catalysing progress and in particular through the deployment of human resources.

Recently the government has laid a lot of stress on building and investing in rural infrastructure. The Prime Minister has asked the Secretary Planning to prepare a road map for convergence of ministries involved in such schemes. This initiative is based on the review of the various programmes and is a move towards setting targets for providing all houses with piped water, toilets, power and fuel, etc., by 2022.

Similarly, the government has set an ambitious target of 'Skill India by 2022'. The Prime Minister unveiled the Skill India Programme on Independence Day 2014, creating a new ministry to set the mission in motion and unify the efforts of about 21 ministries. The government has amended business allocation rules to put the Skills Ministry in charge of 'making broad policies for all other Ministries to develop training programmes in tune with market requirements for the largest youth workforce in India'. Both the National Skill Development Agency (NSDA) and National Skill Development Corporation (NSDC) have been subsumed to come under the ambit of the newly created ministry. With the ministry in place, many of NSDA's core businesses look redundant. However, the ministry is expected to establish better coordination in achieving the targets of skilling youth and making them employable. The government is reaching out to the US, South Korea, and Australia for securing their cooperation in skilling the youth for enhancing employment opportunities. These changes will certainly impact the functioning of the Aajeevika Skill programme and its approach which had taken a shape in late 2013.

In agriculture, big changes with implications for NRLM are underway. These include the Agriculture Produce Market Committee Act, Rastriya Krishi Vikash Yojana, and the recently unveiled Jan Dhan Yojana which has reached a record enrolment.

As is true of many other flagship programmes, there is a strong possibility that the NRLM will sooner or later be revamped to target the poorest the poor (POP) more rigorously. This POP strategy has made a beginning in four States (Rajasthan, Jharkhand, Chhattisgarh, and MP) on Community Managed Sustainable Agriculture (CMSA) practices, with a specific focus on the poorest farmers in two resource blocks covering 20 villages each where sufficient levels of social mobilization have been completed.

With changing times, a lot is expected to change with respect to targeting and service delivery systems to get the best return on investments being made. Let us hope that the *achhe din* (good days) in 2014 will bring right human resources, strong state-level leadership to manage the mission, and convergent action for addressing multidimensional poverty issues of the large masses in the country, whichever definition of poverty, growth, inflation, infrastructure, FDI, etc., are taken into account.

## NOTES

1. Supreme Court Judgement on Writ Petition Number 400 of 2012 and 604 of 2013 dated 15 April 2014.
2. Budget analysis PRS.
3. *Economic Survey 2013–14*, quoted in Ashish Kothari, 'Budget's Ecological Bankruptcy', *The Hindu*, 21 July 2014.
4. 'Recommendations on Strengthening the SC–ST (Prevention of Atrocities) Act 1989 and Rules 1995' by NAC, [nac.nic.in/pdf/scst\\_recom.pdf](http://nac.nic.in/pdf/scst_recom.pdf), accessed on 26 August 2014.
5. The SC–ST (Prevention of Atrocities) Amendment Ordinance, 2014, dated 4 March 2014.
6. For the debate, please read articles of Shiv Biswanathan, Jairam Ramesh, and Meena Menon in *The Hindu* of 29 July and 1 August 2014.
7. Rangarajan, et al., 'Report of the Expert Group to Review the Methodology of Measurement of Poverty', pp. 3–5.
8. Jean Drèze and Angus Deaton, 'Squaring the Poverty Circle', *The Hindu*, 25 July 2014, P-06.
9. 'Cabinet Approves Change in Labour Laws', *Live Mint*, dated 31 July 2014.
10. *Economic Survey 2014–15*, Planning Commission, Ministry of Finance, Government of India, New Delhi.
11. Report published in March 2014.



# Livelihood Finance

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## INTRODUCTION

The term livelihood means various things in varied contexts and to different people. The term is understood and interpreted from a wide variety of perspectives in terms of size, location, skillsets, and income. For the purpose of this section, we define livelihoods as an activity or set of activities carried out by an individual or a household to earn an income necessary to ensure his/her survival and existence. Livelihoods could thus mean enterprises, income-generating activities (IGA), self-employment, wage employment, and the like. To limit the scope of discussion in this section, we would examine finance made available to people to pursue income-generating activities or small and tiny enterprises that enable them earn a life-sustaining income for their households.

Livelihoods basically fall into two broad categories: one of farm-based activities and the other which falls outside the farm. There are differing requirements of finance in both these categories of livelihoods; also, there are significant differences within these categories across different types of livelihoods. To a large extent, this chapter will focus on rural livelihoods. There is a distinction made between farm-based livelihoods and non-farm livelihoods.

The difference is significant on account of the differences in availability of funding as also markets for the outputs. Non-farm sector has a substantial services sub-sector in which job skills play an important part. Livelihood activities are also differentiated in terms of size and scale. Household-based activities are usually termed as income-generating activities where the individual and, at times, members of the household carry out the activity aimed at earning income. Where the activity is carried on with hired labour and involves some investment, it is termed as an enterprise. Apart from these, wage employment sustains livelihoods. However, wage employment is not the focus of this chapter except to the extent of finance required for building skills necessary for gainful employment.

## ROLE OF FINANCE IN LIVELIHOODS

Most livelihoods require funding to start up and run. Depending on the nature and size of the activity, the type of funding required will vary. The variations can relate to duration, seasonality, size, moratorium periods, repayment intervals, and collateral availability. From

the demand side, there are several inhibitors to funding access such as lack of owner's equity, small ticket size, unpredictable cashflows, lack of collateral, absence of records of income and expenditure, and a weak linkage to inputs and markets. Most IGA tend to start up with the owner's funds and are subsequently able to access external funds. Financial institutions like to see investment in the IGA/enterprise by the owners in the form of equity. Even where owner's equity is visible in the form of sunk investments (such as land in case of farm-based activities), banks require margin money to be brought in. The margin money requirement is typically about 25 per cent if the loan is sought for the IGA. This is brought from own sources such as savings or informal borrowings. While margin money is normally a proportion of the loan applied for, the owner's stake in business is more of a long-term investment that does not relate to the loan amount or duration. Banks take into account the owner's stake in the activity while deciding on the loan terms. If the owner's stake is high, banks are comfortable in financing such IGAs/enterprises.

## EXTERNAL SOURCES OF FINANCE

Banks, financial institutions, and non-institutional sources are relied upon for funding livelihoods. Public sector banks, private sector banks, cooperative banks, cooperative societies, microfinance institutions, non-banking financial companies (NBFCs), some credit projects of governments, and donors form the formal institutional base for livelihoods finance. Informal borrowing for funding livelihood activities from friends, relatives, moneylenders, pawn brokers, traders, input suppliers, produce buyers, and others is also usual. While formal institutions have structured products with defined features and clear processes for assessing loan proposals as also servicing loans, the informal lenders operate in an opaque environment with unclear loan features and terms. The nominal cost of loans to the borrower can be high in the case of informal channels, but effective costs (that include, apart from interest, cost, time, and effort spent on getting a loan processed) of the formal sector can be high according to a few studies carried out in recent years. Borrowers have invariably found informal loans very easy to access, though high in costs. Formal loans carry difficult documentation requirements, take time, and

entail repeated visits to the branches. However, the interest rates of banks are considerably lower than most informal loans. For a borrower requiring a small amount, a bank loan might be prohibitive in terms of effective costs. The sanction of the loan is not predictable and hence small borrowers tend to seek alternative channels such as self-help group (SHG) loans or microfinance institution (MFI) loans, which are easier to access and serviced at the doorstep.

Cost of credit and its affordability have a critical bearing on the demand. Higher interest loans applied in rapid turnover trading businesses seem serviceable. A loan of, say, Rs 20,000, turned over every fortnight will enable the borrower earn incomes on a trading volume of about Rs 2.4 lakhs. The trade margins from such a large base will facilitate servicing of the loan, even if the interest rate is higher. The high interest rates prevailing in day loans (5 to 10 per cent per day, typically availed by vegetable, fruit, and fish hawkers) becomes affordable on account of the high margin in these trades, but these also carry high risks. But recovering from these high risks can be a tall task for those with small means. Agricultural loans, on the other hand, do not generate a rapid and frequent turnover of stocks in trade. Investments in agriculture are even more long term, with returns accruing over years rather than days or months. The structure of loans and pricing thereof should not be compared with what is prevailing elsewhere.

A differentiation between the interest charged on loans and the cost of credit should be made. While there can be opinions on whether a particular interest rate is high or low, whether it is affordable for the intended use is determined by the rates of return in the enterprise to which the credit is applied. A further aspect for consideration is whether the bank/credit institution is making profits out of its lending portfolio. Evidence from the field suggests that most farm loans (especially the smaller ones) are not profitable for the banks and they seem to be subsidizing the losses from other revenue streams. The interest subvention scheme seems to have a debilitating effect on banks, especially on cooperative banking system (this is explained later).

Typically, a farmer undertakes cultivation as the physical outputs are much more than inputs and as a result of cultivation efforts, the farmer is able to get a net return on his investment. The farmer requires credit to finance the inputs and cultivation costs. As long as the value of outputs is much higher than inputs and

the profits cover interest costs, the farmer will find the cost of credit affordable. Commission for Agricultural Costs and Prices (CACP) has calculated the profitability of various crops in its annual reports.<sup>1</sup> The returns over all costs including the rental value of land in case of owner-cultivators (C2 costs) were significantly lower. Ragi had a negative return of 17.6 per cent, while jowar and maize had a return of 2.1 per cent and 9.7 per cent, respectively. The highest return was on tobacco at 53 per cent, followed by tur at 33.1 per cent. When cost of credit at borrower level rises beyond a threshold and where the farming is credit intensive, the farmer gets an unattractive net return. Continuing low returns will adversely affect loan repayments.

At times, the unlimited demand for credit is mistaken as proof of affordability and appropriate pricing. Scarcity of financial resources leads people to borrowing on any terms in desperation. Under such circumstances people do not take an informed choice on the loan terms. In a quest for survival, loans are taken regardless of the price and consequences.

The nature of demand for credit in livelihoods has to be understood. The livelihood activities, with the variety discussed earlier, require a number of different product features. Investment in livelihood assets such as a cow or a shop requires loans that will be repaid over a period of time. Long-term loans are appropriate where the investment produces a stream of income over a long period and is available to repay the loan. The time taken for the investment to commence producing income is a material factor in deciding on when to start the repayment installments. A coffee plantation might take more than five years to yield fruits and an auto rickshaw might start yielding an income from the first day. A long-term loan given for coffee should have a repayment moratorium for about five years if marketable production starts after five years. On the other hand, the auto rickshaw loan can have repayment installments starting immediately without any moratorium.

Short-term loans are required to finance production, marketing, and trading operations where incomes are produced within a short period of the activity being taken up. Here too the nature of short-term loan will have to be determined in accordance with the cash flows produced by the activity. A shop can produce daily cash flows and a loan for stock in trade in the shop can be repaid in

daily, weekly, or monthly installments as long the sales are made in cash. A dairy usually gets paid for his milk in weekly, fortnightly, or monthly intervals. Monthly repayment installment for a dairy loan is a feasible proposition. However, the installments should factor in the dry period during which there will be no milk flow available for sale. A crop loan for paddy or gram cannot have installments of repayment, and during the cropping season no income is generated. While all the costs are incurred during the crop season, income is realized after harvest. Crop loans, therefore, need to be designed as lumpsum repayments of the entire loan with interest after harvest. Depending on the crop maturity duration, crop loans can be six months to eighteen months long. For activities such as petty trade, shops, and hawking, a credit line that can be operated like a checking account (cash credit) is most suitable. Such businesses depend on having adequate stock in trade to generate sales and incomes. A loan that is repaid in installments reduces the stock in trade towards end of the loan period and does not produce adequate sales and incomes to the owner. Hence the loan should permit drawals and repayments depending the requirements of the business.

Vulnerable livelihoods do not have significant equity invested and the owners are not in a position to bring in such equity. The loans should be sufficient to fund the total requirements of the activity and build a small buffer towards unforeseen expenses. Very often, unforeseen consumption requirements force people to take resources out of the livelihood activity and meet the emergencies. If the loan size anticipates such needs and provides for the same, livelihood activity and income earning will continue without disruption, reducing of default risks.

Thus, from the demand side, a number of features have to be considered in designing a suitable credit response. When the product and process respond well to the demand, risks are reduced for both the borrower and the lender.

## FINANCIAL INSTITUTIONS AND LIVELIHOODS

Table 3.1 indicates the number and amount of loans provided by financial institutions to people for financing their livelihoods. There are about 178 million loan accounts reported by banks, cooperative societies, and MFIs.<sup>2</sup> As

TABLE 3.1 Livelihood loans outreach

Type of institution/purpose	No. of accounts (in million)	Amount of loans (Rs billion)	Average loan per account (Rs)
Commercial banks (March 2012)			
Agriculture	42.9	4,407.58	1,02,740
Small enterprises	9.9	5,276.84	5,33,000
Coops and Societies (March 2012) – mostly agriculture	44.8	912.43	20,370
SHGs (March 2013)	Groups 4.5	393.75	88,500
– different activities	Members 58.5		6,810
MFIs (March 2013) – different activities	27.5	223.38	8,120

Sources: Data from Reserve Bank of India (RBI) and National Bank for Agriculture and Rural Development (NABARD) for bank loans; NABARD for SHGs; and Sadhan for MFIs.

against this, the adult population (18 years of age and more) according to the 2011 census was 762 million. About one of four adults had access to some form of credit. It is difficult to assume that each loan account is for a unique individual. In case of MFIs, a large number of customers have two loans and in case of SHGs too in southern states, women have been members in more than one group. In case of loans from banks, several farmers have more than one loan, typically a Kisan Credit Card for short-term needs and another for long-term investments. The point is that the reported 178 million accounts might actually relate to a much lesser number of individual customers, thus reducing the effective outreach.

The agricultural census estimated that there were 137.75 million farm holdings in the country in 2011. The number of agricultural loan accounts of both commercial banks and cooperatives put together amounted to 87.7 million, leaving about 50 million uncovered. Almost all the uncovered farms were that of small and marginal farmers. In case of small enterprises, the Ministry of Medium Small and Micro Enterprises estimated that 44.76 million working enterprises were functional in 2011–12.<sup>3</sup> The number of small enterprises financed by banks were at 9.9 million in 2011–12, constituting about 22 per cent of working enterprises. In case of SHGs, the number of groups having credit access was about 4.5 million, which was about 60 per cent of SHGs that were linked to banks. The national-level programme of livelihoods, National Rural Livelihood Mission (NRLM) reported that it had disbursed Rs 8.7 billion as community investment fund (equity type funding) to about 1.9 million SHGs and facilitated 34.3 billion in bank loans during 2013–14. In the backdrop

of 762 million adults and 250 million households,<sup>4</sup> the number of loan accounts for livelihoods stands dwarfed. The different pieces of data confirm the widely held belief that the coverage of livelihood activities with bank finance is not satisfactory. The ongoing financial inclusion efforts do not target livelihoods, but opening of savings accounts and small overdrafts. There is a long way to go in terms of outreach in livelihoods finance.

Finance from banks and others for livelihood activities has been less than adequate for a large number of borrowers. As for agricultural loans, the national average conceals the small-sized loans made in several states and to small farmers.

Three indicators taken (Table 3.2) for comparison of financing agricultural livelihoods across states are the credit to gross domestic product (GDP) ratio in the state, per hectare agriculture credit outstanding, and the average credit limit sanctioned per KCC. The comparison of credit to GDP ratio shows wide variation, with Tamil Nadu enjoying credit almost to the entire extent of output produced (94.7 per cent), while at the other extreme Sikkim is finding credit support to an extent of 3.4 per cent of GDP from agriculture. Per hectare loans outstanding reflect credit intensity, which was the highest in Kerala at Rs 1.27 lakh (on account of multiple crops and plantation crops). Sikkim farmers with an average loan outstanding of Rs 2,669 per hectare might be finding it extremely difficult to meet production expenses. Similar is the case in Kisan Credit Cards. Punjab farmers having an average sanction of Rs 3,13,000 per card seemed to have excessive access to credit, while Tripura and Orissa farmers with Rs 14,400 and Rs 17,750, respectively, per KCC are likely to face scarcity of resources. Field studies show a mix of plentiful credit in some geographies and

**TABLE 3.2** Finance for farm livelihoods: Comparison across states

State	2011		2012
	Agri credit as % of GDP	Outstanding loans (Rs/ha)	Average limit sanctioned (Rs/KCC)
Punjab	51.90	82,876	3,13,588
Tamil Nadu	94.70	1,22,892	1,35,461
West Bengal	22.90	40,828	36,300
Goa	16.90	22,361	96,768
Uttarakhand	46.80	67,841	77,728
Haryana	54.00	76,330	1,75,588
Gujarat	44.40	29,119	94,500
India	47.70	39,983	77,967
Himachal Pradesh	32.40	70,512	1,16,239
Kerala	81.30	1,27,699	1,03,650
Maharashtra	42.10	10,000	76,943
Bihar	29.30	25,174	63,513
Uttar Pradesh	32.90	31,414	77,257
Sikkim	3.40	2,669	71,012
Andhra Pradesh	60.40	76,461	62,830
Karnataka	53.90	35,586	95,023
Orissa	42.10	28,704	17,753
Mizoram	13.50	13,459	55,820
Jammu & Kashmir	18.50	26,281	70,811
Arunachal Pradesh	4.70	4,009	34,425
Meghalaya	3.50	3,463	31,958
Assam	12.20	13,109	31,072
Tripura	18.80	20,490	14,450
Rajasthan	40.90	18,620	1,22,953
Madhya Pradesh	58.80	23,017	1,00,265
Chhattisgarh	43.90	20,353	41,953
Jharkhand	25.80	27,385	28,117

Source: Author's calculations based on data from RBI and NABARD.

crops and scarcity of credit in others. While there will be variations across states depending on the local agro climatic conditions and also the crops grown, for the same crops across neighbouring states, one does not envisage huge differences. However, the data shows that such huge differences exist. The inevitable conclusion is that the banks' credit decisions do not really depend on crop prospects or farm viability, but on other extraneous considerations relating to the individuals financed and their risk perception relating to the geographical area or the state. Credit for farm livelihoods is not equitably distributed and it does not support all farms adequately. Similar is the situation in the case of non-farm livelihoods,

with credit deprivation even more severe in the case of unregistered and tiny enterprises.

The supply side of finance has fallen into a routine of scheme-based financing of activities. When potential customers apply for loans, bank staff verifies whether the proposal fits within the schemes of the bank concerned. In case of proposals that have new elements, banks deny loans except where the loan requirement is large. For instance, a farm with three different crops and other farm-based activities cannot get a loan for the farm as a whole. It can get a crop loan or an investment loan. The reality of rural households having multiple livelihood activities and differing seasonal cashflows is not usually recognized. The reluctance to examine each farmer's loan requirements stems from high costs of appraisal of numerous small individual proposals and the high-risk perception that clouds the vision of branch staff. Further, the loan tenures in rural livelihoods have been declining over time. Banks tend to offer shorter loan maturities despite the underlying purpose of loans being of a much longer term. With farm and non-farm livelihoods requiring higher investments to produce reasonable incomes, shorter loan maturities do not help the borrowers in meeting loan service obligations. A reason for the default in the case of livelihood loans is the inappropriate structuring of the loan in terms of size, maturity period, and installment intervals.

The high-risk perceptions of banks lead them to reduce the loan size, the loan period, and demand collateral. The inadequate loan size compels borrowers to complete the investment by borrowing elsewhere, often at high interest rates. These high-cost loans are serviced first, sowing seeds of delinquency in bank loans. The shorter loan periods result in higher loan repayment installments which are difficult to service with the income produced and also lead to defaults. Lack of collateral can result in denial of loan or a very limited loan size. The high-risk perceptions of banks alter loan terms to the detriment of borrowers, eventually increasing the risk of default in the banks' hands.

Another issue in bank lending for livelihoods has been that it has focused on production and ended up financing only the cost of production with respect to several crops and in certain regions. The failure of banks to focus on marketing and income realization has led to a shortage of working capital whether it is in the farm sector or in the non-farm sector activities. In case of agriculture, the ratio of cost of production to the value of output was as high

as 1:3.<sup>5</sup> By accommodating only the cost of production within the credit facilities, the farmers had been forced to look for immediate marketing of output at the post-harvest stage, which reduces the income realization potential. An associated issue was the lack of a well-thought-out lending strategy that looked at the different parts of the chain through which the agricultural commodities move to the final markets. HDFC Bank has a different strategy to lend directly to small customers (Box 3.1). Significant investments in post-production infrastructure and enterprises engaged in aggregation, processing, sorting, grading, packing, transport, and marketing would have ensured that farmers get a much better access to markets, leading to a better price realization. The holding capacity of farmers would have ensured that they are able to store produce and time their entry into the market. These aspects of the livelihood economic activities had been ignored by the banking system for a long time. In the recent past, there have been some initiatives in creating

marketing infrastructure and logistics, giving physical capacities for farmers to store their produce. There are also mechanisms for aggregation in the form of commodity cooperatives, processing units also, and producers' organizations that help farmers to pool their produce and then market the same with or without processing. Even in these cases, financing had been a critical constraint. Producers' organizations typically find that they do not have the collateral required by the banks. Value chain based approaches in the farm sector will significantly add to both livelihood opportunities and income realization in the hands of farmers. The post-production requirements of the farm sector are indeed high and have higher investment intensity. Banks need to focus on these areas.

Many non-farm enterprises too have found finance hard to come by. The data on bank credit outstanding as a proportion of fixed assets of small enterprises was about 64 per cent. Of gross value added by the non-farm sector units, bank credit was about 41 per cent.

### BOX 3.1 HDFC's novel livelihoods finance programme

HDFC Bank's Sustainable Livelihood Initiative (SLI) is a business model that has helped empower people, particularly women, in rural parts of India. Through this initiative, the bank reaches out to 3.5 million families in 25 states, with cumulative disbursements exceeding Rs 45 billion. The customers are mostly the un-banked and under-banked segment of the population that are provided with livelihood finance. The SLI adopts a holistic approach. It ensures that it develops a deep understanding of the needs of each of the women.

The key to success has come from the realization that the bank must move beyond its traditional role and support the women in two critical aspects: first, in helping them build and enhance skills that can help generate and grow their income. For this purpose HDFC is working in partnership with 2,000 NGOs to provide skills training in the chosen livelihoods activity. Once the activity is started by the customer, with the help of large organizations, a link is established to markets and others who can help the women market their products.

What does the Capacity Building Programme do? According to the bank,

- it helps to improve the income of the family;
- it builds the confidence of these women by providing a way to earn a livelihood;
- it teaches them how to manage their money and repayments in a prudent manner;
- it improves the quality of products; and
- it identifies efficiencies that further help improve productivity and the market potential of the products produced.

The bank has a separate vertical to manage the SLI. Special staff recruited mostly from the local area are trained and employed in mobilizing customers, training and monitoring their performance. The customers are organized into joint liability groups (JLGs) and financed as JLGs. The field staff mimic the credit officers of the MFIs in their processes. The rate of interest charged by the bank is around the same rates charged by the MFIs. The novelty of this model is that HDFC Bank has managed to operate in the small-ticket loans market in a nimble-footed manner, often competing with MFIs. HDFC Bank has not shied away from the pricing question and has ensured full cost coverage. It has demonstrated its sensitivity to customer needs through dealing with their skill and market linkage needs. The significant aspect of SLI is that it is not attempted as a pilot—it is a full-scale model that is part of the business strategy of the bank for including financially excluded in a sustainable manner, with benefits for both the customer and the bank.

*Source:* HDFC Bank website, Sustainable Livelihood Initiative, Newsletter August 2014, and discussions with field Staff in Shillong.

In agriculture where the land cost is not financed, the proportion of credit to agricultural GDP was higher at 48 per cent. The credit to GDP ratio at the country level across all sectors was about 52 per cent.<sup>6</sup> The data shows that underfinancing of the non-farm sector is more severe than in the case of agriculture. A study carried out by IFC recently estimated the realistic credit demand for MSMEs that is immediately realizable at Rs 9,900 billion. Forty-four per cent of this demand is estimated to arise from micro enterprises. The unmet demand is almost twice the current outstanding loans to non-farm sector units in the country. The micro enterprises in particular—requirements ranging from Rs 50,000 to Rs 2,00,000—find it extremely difficult to access credit.

## COST OF INTERMEDIATION

Very small loans and big banks are not compatible. The costs of dealing with small customers are found to be high, especially when periodic monitoring of borrower is required to be undertaken. The appraisal and documentation costs in the hands can be high and in case of defaults, the costs of managing delinquency is much higher. Banks have an aversion to small-ticket business as it impairs their viability on account of self-imposed pricing restrictions. There have been a few studies carried out to understand the cost structure in providing credit to rural areas and microfinance clients. The study carried out by IFMR<sup>7</sup> calculated the costs of banks providing loans to small borrowers as also to SHGs and compared the same with the cost of MFIs. The study found that the public sector banks carry much higher costs in providing small loans to customers, which was at 32.39 per cent compared to private sector banks, which incurred a cost of 21.56 per cent. The cost of an MFI in providing loans to customers was 8.74 per cent and in the case of SHGs, it was 6.30 per cent. But the overall cost including the financial cost was the highest in the case of direct loans by banks to customers at 41.53 per cent and in the case SHG loans by banks it was 28.93 per cent. After reckoning the returns on these loans, the banks were incurring losses on providing loans to small borrowers. Public sector banks on an average made a loss of 29.5 per cent and private sector banks made a loss of 20.7 per cent. In lending to MFIs, both public and private sector banks lost 1.75 per cent if the MFIs were AA rated.

Another study carried out by NCAER<sup>8</sup> found that the cost of borrowing for a small borrower from a formal institution was 15.7 per cent and that of an SHG member from his group was 20.5 per cent. The MFIs entailed a cost of 26.4 per cent for the borrower and loans from informal sector carried a cost of 44.6 per cent. However, as indicated in the IFMR study, banks tended to lose money in providing loans to the small borrowers as they did not reckon their total operating cost as also the risk cost in determining the rate of interest charged to customers.

Banks welcomed the SHG model as it aggregated the demand of 15 to 20 borrowers and increased loan size while reducing the number of customers and associated documentation and monitoring costs. In the recent past, even this aggregated demand of 15 to 20 members seemed low to banks, which have started looking for options to finance federations that can on-lend to groups. The lower risk cost of dealing with groups is an additional positive feature. Banks have responded positively to financing Joint Liability Groups (JLGs) of farmers and others for the same reasons as in the case of SHGs. The JLG loans are larger in size and offer improved 'cost to income ratio' for banks. The transaction costs of the borrower in group modes of financial access can also be high on account of the periodic meetings, if the bank staff attends these meetings. The frequency with which these meetings are held (and attended) will determine the extent of the costs. While bank staff attends the SHG meetings in the initial period after their formation or the disbursement of loan, subsequent visits to the groups are infrequent. Many MFIs have reduced the meeting frequency, going from weekly meetings to once in a fortnight or even a month. The reduced frequency of meetings has significantly reduced borrower transaction costs.

## GOVERNMENT POLICY AND STRATEGY IN FINANCE FOR LIVELIHOODS

At a policy level, the government and the RBI have initiated several measures to ensure that livelihoods, especially of vulnerable people (both farm and non-farm based) get access to finance. The priority sector lending framework came into existence to support mostly income-generating activities of different kinds apart from certain other national priorities. The policy on priority

sector loans was followed up by specific interventions in relation to plans and strategies at the bank level, which were implemented through the lead bank scheme and the credit planning exercises of the banking system. The RBI and NABARD also thought of providing a much clearer pathway for banks to be able to support livelihoods activities through credit by looking at both the processes of lending as also the necessary products. Thus were born the group-based intermediation processes such as SHG–bank linkages and JLG lending based on collateral substitution. In terms of products, the Kisan Credit Card had been a major driver of financing agriculture. Mechanisms such as fixing unit cost for different farm and non-farm activities and ensuring potential-based planning for the local opportunities available to expand people's choices in taking up income-generating activities have also been extensively used.

However, the policy, strategy, plans, processes, and products did not entirely deal with the set of issues arising in the livelihoods finance space (Table 3.3). The institutional architecture was inadequate to meet the

aspirations of people in different parts of the country. The preference of banks to work with the creamier sections of the poor resulted in the poorer sections being served less. The remoter parts of the country where the infrastructure, communication, and linkages were poor did not have the benefit of banking services. The government at the centre and in the states have been seized by the issues concerning livelihood promotion and support. While skill training, enterprise facilitation, and, to some extent, inputs and market linkages are arranged by government agencies (with varying levels of efficiency and commitment), finding financial sources for investment in the livelihood activities has been a problem. Integrated Rural Development Program (IRDP) tried to dovetail the government agencies' efforts with bank loans. The target tied credit disbursement approach was born in the mid-1980s. The IRDP transformed into Swarnajayanti Gram Swarajgar Yojana (SGSY), with improved features of back-ended subsidy. Currently, NRLM has replaced SGSY as the major livelihood promotion initiative. The NRLM seeks to place emphasis on creating community-based

TABLE 3.3 Gaps in livelihood finance

Gap	Nature of gap
New crops/activities, non-traditional livelihoods	Bank staff in branches unable to customize credit products for new and non-traditional livelihoods—they require predetermined schemes to finance.
Long-term loans, especially those with gestation periods such as in post-harvest infrastructure, plantations	Such products are designed, but not adequately offered on account of perceived high risks; high collateral requirements make access to such products difficult.
Value chain based investments, especially in farm gate infrastructure (pack houses, graders, sorters, packing machinery)	Suitable investment activity based products not designed—financing based on collateral available.
Small loans in non-farm sector	While some products such as composite loans, general credit card, and Swarozgar credit card are available, these are rationed out to very few people. Risk perception in financing services is high.
Marketing and trade finance for farmers and farmer organizations	The marketing credit products earlier available from cooperative banks to cooperative societies and their member farmers has shrunk. Advances against warehouse receipts is increasing, but farmer-level adoption of this has been difficult on account of the large ticket size of warehouse storage contracts compared to small crop volumes at the individual farmer level.
Small loans to groups (SHGs)	Available, but adequacy and timeliness have suffered. Continuation of credit facility after one loan is repaid is not certain, thereby disrupting livelihoods. Estimated demand–supply gap is very large.
Insurance	Agriculture and livestock sector suffer from unsuitable and ill-designed products. Plantation insurance, commercial crops insurance, and livestock insurance are rationed out for fear of moral hazard generated claims. Weather-based insurance coverage is thin and not closely related to crop production.

Source: Excerpted from N. Srinivasan's 'Status of Rural Finance in India: A Summary', commissioned by GIZ and NABARD.

organization right from the village to the state level to deal with livelihood finance issues. The government provides corpus fund assistance to SHGs and also a community investment fund to increase the loanable funds in the hands of federations of SHGs. The rate of interest on bank loans to SHGs in select districts has been subsidized (brought down to 4 per cent in the hands of the groups). The corpus and community investment funds made available to SHGs is expected to start up livelihood investments by a number of members without relying on bank loans in the initial period. The SHGs with some experience and a track record of intermediation with these funds will then be able to attract bank loans of a larger size. In fact, NRLM has a more detailed roadmap of the financial architecture required for supporting SHGs under NRLM than for the livelihood strategies. Some of the assumptions relating to credit demand (Rs 1,000 billion) and management ability of community-based organizations in handling such large volumes might require a relook.

The involvement of governments in ensuring flow of finance for livelihoods is no doubt encouraging and reflects the concerns of the state for the vulnerable. However, the strategies chosen and instruments employed for ensuring funds flow should not distort the market and hurt the sustainability of banking and financial institutions. The distortion of credit market through interest subventions (which favour bank customers and ignore the financially excluded), violation of credit discipline through mass waivers, and creating dependency in people through various ill-designed support schemes certainly do not qualify as ideal measures of creating sustainable livelihoods. The hidden costs of such state support could be far greater than the benefit produced. For example, under the interest subvention scheme, whether the low rate of interest will actually improve the farmers' well-being is not clearly established. One of the issues with the subvention scheme is that it favours farmers who can access bank loans and provides them the benefit. As stated earlier, 45 per cent of the rural people are unable to access banking services and almost 75 per cent of small farms are unable to access bank credit. The subsidies reach those who are large farmers and those who have the capacity to deal with banks. Second, the reduction in the rate of interest is only for short-term crop loans. Farmers arbitrage on the rate of interest and apply the short-term loan for long-term investment purposes and this puts their liquidity under severe stress. Serviceability of short-

term loans with long-term assets that produce incomes over a period of time is very difficult and the resultant liquidity stress is being serviced by managing the liquidity by the farmer and not by incremental income arising from the loan financed assets. This is an aspect which has to be seriously considered by banks and also by the government. Third, the share of interest cost in the overall production cost is small. The government, instead of focusing on reducing the cost of credit only for those farmers borrowing from a bank, should shift its focus to improving the price realization on the commodities produced. An increase in market prices through whatever means achieved will benefit all farmers regardless of whether they borrow from a bank or not. So, the interest cost reduction objective should be replaced by an income enhancement objective on the part of the government if the livelihoods have to become sustainable. Finally, the impact of interest subvention schemes on banks should be considered in detail. The cooperative credit structure comprising the three tiers had found its margins squeezed to render most of them unprofitable if they handled large volumes of crop loans (Figure 3.1). The cooperative structure in Haryana had a spread of 5.75 per cent between NABARD refinance rates and ultimate borrower interest rates in 2004. This had declined to an unviable level of 3.25 per cent to be shared between State Co-operative Bank (SCB), District Central Cooperative Bank (DCCB), and Poorest Areas Civil Society (PACS).

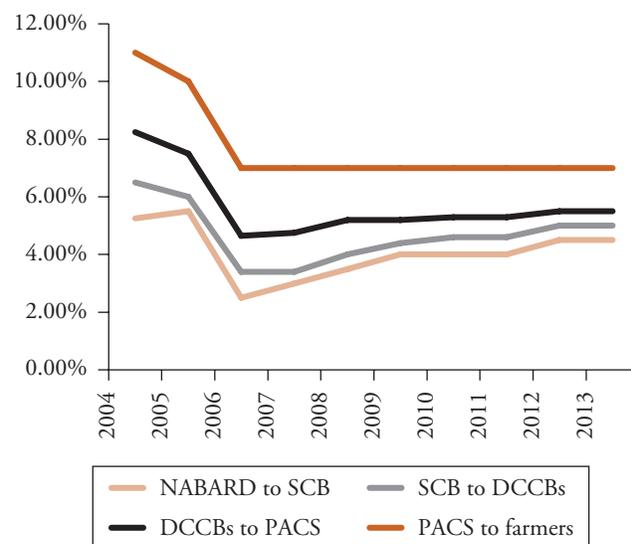


FIGURE 3.1 Spread available on crop loans to cooperative credit structure in Haryana

Creating a facilitating environment for livelihoods to thrive and prosper through better access to markets, reduction of costs of doing business, providing infrastructure and basic public services, and a hassle-free interface with government agencies for the small producers will produce superior results. Governments should desist from looking for credit fixes when other problems relating to sustainability of livelihoods within the state's domain remain unsolved.

## MICROFINANCE AND LIVELIHOODS

The SHG movement started off as a social capital building effort that would lead to access to mainstream financial services. The graduation concept that entered later envisaged SHG members taking up income-generating activities that would enhance their incomes. In the two decades of SHG–bank linkages, the maximum number of members of SHGs that had taken loans from banks is reported at 62 million.<sup>9</sup> The management information system (MIS) put together by NABARD does not provide data on livelihoods created or supported through the SHGs. The public domain data available in this regard is from Andhra Pradesh. The Society for the Elimination of Rural Poverty (SERP), AP reports that 24 lakh farm livelihoods and 65,000 livelihoods based on livestock have been supported out of a membership of 116 lakh by March 2014. The livelihoods supported and sustained form about 25 per cent of members linked through SHGs. Hand in Hand (HIH) India has reported that of its 9.8 lakh SHG members more than 10 lakh family-based enterprises have been created/supported, besides 24,000 micro enterprises.<sup>10</sup> The message from the SERP and HIH datasets is that SHGs can and do create livelihood opportunities. The nature of the enterprises for the most part may not be full-time vocations. They may merely be supplemental and, in many cases, seasonal. This explains why the number of family-based enterprises exceeds the number of SHG members in the case of HIH. Financing of such livelihoods is a difficult task indeed, given the problems of working out cash flows and rates of return on small, seasonal activities. When financing groups, the task of ensuring sustainability of livelihoods and, therefore, the utility of finance for the household is very difficult.

Livelihoods of SHG members require different institutional and financial product designs. State interventions usually suffer from aggravated supply-side assumptions and distort the priorities of households in livelihood enterprise activities. As for financial products, the existing cash credit based lending to SHGs is not suitable for supporting members' investment requirements. SHGs typically provide one year loans to members, recoverable in 12 monthly installments. Some SHGs provide longer-term loans, again recoverable in equal monthly installments. Short-term EMI repayment loans are suitable for trade and business type livelihoods where the trade turnover provides the cashflows to meet monthly repayments. As explained earlier in the demand side issues, as the loan gets liquidated month after month, the business suffers as it has less cash to hold stocks, leading to lower sales. In the case of investments that pay back over a longer term, the SHG loan structures are not suitable. Rearing of goats, poultry farming, pig rearing, or farm-based activities have lumpy cashflows and might require a longer repayment period without monthly installments. Another problem faced by SHG members is that the loan size is too small to support a complete livelihood adequate to support a family. Rationing of credit by banks on account of risk perceptions is a reason. The uncertainty of a subsequent cycle loan after a loan is repaid threatens the sustainability of livelihood activity in many cases. These operational issues have significant adverse impacts on the poor. Financial product solutions should look to provide flexible longer-term loans for the SHGs or their federations and leave it to them offer suitable loan terms for their members.

In the case of MFIs, the loans are small and can support very small livelihood activities. The monthly/fortnightly/weekly installments will be inconvenient for many farm-based activities. Livestock is one of the major segments in the rural loan portfolio of MFIs. Most livestock-based livelihoods require long-term loans on account of gestation periods and investments in infrastructure. The RBI regulation stipulating 70 per cent loans for income-generating activities has made MFIs focus on the nature of livelihoods that loans support. Some MFIs have also invested in developing skills of borrowers in the chosen livelihood activity (Box 3.2). There are some MFIs that have ventured out to finance small and medium enterprises (SMEs). Bandhan, Equitas, Grameen Koota, Ujjivivan, Janalaxmi, and others offer micro/tiny enterprise

**BOX 3.2** Financing activity based groups for livelihoods*The Dairy Hub*

In Melmalayanoor, Tiruvannamalai district of Tamil Nadu, Hand in Hand India has promoted a dairy hub with 280 women dairy entrepreneurs as members. The hub acts as a training-cum-production centre, run by the group members. The hub enrolls new members, arranges for inputs, trains the members in improved skills of dairying, ensures quality control, searches for markets, contracts for sale of milk, and manages the finances. Further the hub also arranges for animal healthcare and insurance.

Hand in Hand has arranged for financing of the entrepreneurs for purchase of milch animals through financial linkages for the SHGs and dairy activity groups. ADFT, NABARD, Chennai provided loans to Hand in Hand for on-lending to groups. Pallavan Gramin Bank has provided direct loans to the SHGs that are part of the hub. Thus HIH provided loans on its own account and also acted as a facilitator for bank loans where banks were willing to directly lend to the groups.

This model emphasizes the completion of all linkages—backward and forward—and accessing finance from all available sources. The initial impact has been improved productivity by about 3 litres of milk per day per animal, reduced cost of inputs by 15–20 per cent on account of aggregation of demand, a 30 per cent increase in price realized per litre of milk, and regular payments for milk sold once in every 10 days. The future plan is to promote a producer company when sufficient members enroll so that scaling up can be achieved on a sustainable basis.

*Source:* Dairy Value Chain, publication by Hand in Hand India 2014.

finance in the range of Rs 50,000 to 10,00,000. However, with the limitations imposed on MFIs, enthusiasm to expand this portfolio in the current environment will be limited. Further, the experience of some MFIs that tried out individual financing of large loans has not been as good as in the smaller group loans. Any new product idea in the SME space involving MFIs should deal with the regulatory limitations on the portfolio share of such loans, the risk profile of SMEs, and the need to build skills in MFIs that might require a reasonably large portfolio to justify costs.

Producer companies have considerable potential to provide customized, product- and process-specific loans to the producers and integrate the outputs with the market. Producer companies can easily finance a few contiguous links in the value chain. The potential is yet to be realized, but there are a number of experiments and pilots that are underway. A detailed treatment of producer companies' operations and performance is carried in another chapter.

## RELEVANCE OF EXISTING FINANCIAL INCLUSION EFFORTS TO LIVELIHOODS

The public sector character of banking was thought to be sufficient to meet the needs of the poor and the vulnerable and to ensure that financial services reached

all those with an effective demand. The last five years have seen an increasing recognition that most past efforts have fallen short of including all people with a need, thereby hindering inclusive growth. The suitability of modern banking (even in the public sector) to deal with small ticket financial needs has to be examined *de novo*. The business correspondent model has witnessed reluctant endorsement from most banks. The banking system does not seem to believe in the idea of 'fortune at the bottom of the pyramid'. Unfortunately those who believe that financial services poor is a viable business model such as MFIs are not taken seriously.

Financial inclusion products have to significantly change before they become effective in supporting livelihoods. The no frills accounts (BSBDA) cannot make a significant change to the practice of livelihoods. Nor will the promised overdraft of Rs 5,000 to select customers enable livelihoods to prosper. A meaningful credit initiative that protects banks from high risks and customers from high costs is what is needed. Financing institutions—both micro and others—have not invested enough time and effort in understanding the nature of demand and the real needs of excluded people. Adequacy and timeliness of credit are issues as also are loan maturities and cost to the customer. The enablers for finance to be effective in livelihoods such as technology, enterprise skills, and access to markets are scarce. Public sector supply of such enabling services is tardy. State and bank funding

of institutions that can make such enablers available is not seen as inclusive finance. The policy intent and a reasonable institutional network are already there. The willingness on the part of different players needs to improve as also the operating environment in which serving the excluded becomes a viable business proposition.

## THE WAY FORWARD

Considerable progress has been achieved in enhancing institutional presence and moderate progress in expanding banking outreach. Through three decades of government-led rural livelihood development initiatives in rural and urban areas, banks have provided small loans to a number of people for their livelihoods and, in the process, gained considerable experience. Livelihood finance for the vulnerable is not a natural response for many banks. It has to be consciously adopted as a business objective, and this is what the priority sector mandate seeks to achieve. While fulfilling the regulatory mandate to make small livelihood loans, banks can do it meaningfully. The agent banking model permitted by RBI provides the scope for testing out low-cost delivery models with high levels of efficiency. The ability of banks to serve small customers will improve if good use of business correspondents (BC) agents is made with due safeguards. The pricing freedom given to banks can and should be exercised (as has been demonstrated by HDFC Bank) sensibly in order to make the agent banking model viable for all.

Product and process redesign, partnering other organizations in the field in marketing and servicing loans, improving staff skill sets, adoption of value chain based approaches to finance, and development of comprehensive risk management frameworks that include borrowers risks apart from banks risks are some aspects of future work. New institutional options such as NABFINS, KGFS, and ADFT have shown that flexibility has a large role to play in livelihood finance, especially for groups. For financing small-scale livelihoods, smaller and local institutions might be better equipped. The completion of ongoing policy formulation exercises on small banks is eagerly awaited in the sector. The state should play a facilitating role that would make livelihoods finance ready. The state is better off keeping away from trying to influence banks on credit flow and costs, but engaging in providing the right environment for the livelihoods to grow. Livelihood

finance is not a welfare activity. It is commercial, and both the lender and borrower should be disciplined in their roles. The state should respect the sanctity of financial contracts between banks and borrowers and support sustainability of financial institutions even as it encourages the development of viable livelihoods.

## NOTES

1. *Price Policy for Kharif Crops Marketing Season 2012–13*, Commission of Agricultural Costs and Prices 2013.
2. The data relating to banks and cooperative societies pertains to March 2012 and that of MFIs and SHGs relates to March 2013. These have been put together to get at a macro picture.
3. Annual Report of the Ministry of MSME 2013–14.
4. While the number of loans at 250 million has been estimated, it is difficult to conclude that all these loans were actually applied for income-generating purposes. Given the fungibility of money and the numerous demands—all of which are not for income generation—it is assumed that a part of the loans is used for consumption. The analysis here examines the 'best case scenario' of all loans having been applied for a livelihood, income-generating purpose.
5. Where input-intensive agriculture is adopted with both high investment and production costs, the ratio will be lower. The traditional plane of farming with low external inputs has a much higher input to output multiple.
6. As per the World Bank, the private sector credit to GDP ratio has been gradually increasing in India over the years and reached a level of about 52 per cent. Several other countries have higher ratios. China, for instance, has a credit to GDP ratio of more than 130 per cent.
7. *Cost of Delivering Rural Credit in India*, Anant Sahasranaman and Deepti George, IFMR, April 2013.
8. *Assessing Effectiveness of Small Borrowing in India*, Rajesh Shukla, P.K. Ghosh, and Rachna Sharma, National Council of Applied Economic Research, 2011.
9. Status of Microfinance 2008 to 2013, NABARD.
10. www.hihindia.org; The numbers are validated by M-CRIL in its independent study.

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# Corporate Social Responsibility and Livelihoods

*Manas Ratha*

It goes without saying that business benefits as more people earn higher levels of income, so they can buy services and products from businesses. C.K. Prahlad's seminal book *Fortune at the Base of the Pyramid* (2004) focused on the business opportunity in serving poor customers. Corporate India can either wait for wealth to increase and more consumers to enter the market or proactively help raise the income of poor Indians who can become consumers more quickly.

Corporate Social Responsibility (CSR), recently made mandatory by the Companies Act, 2013, can be driven by altruistic or moral inclination, or by some level of self-interest on the part of the corporate. Usually, it is some combination of both that results in the most sustainable and highest quality CSR programmes. CSR in India has traditionally focused on education, healthcare, sanitation, culture, environment, and a host of other worthwhile and important causes. By focusing on improving livelihoods, however, it becomes a perfect opportunity for companies to achieve two goals simultaneously—improve the

well-being of the poor, while serving the short- and long-term goals of companies.

Helping people to earn a level of income that enables them to enter the market and buy the products and services they need should sit at the heart of economic development and the social sector. Over time, it reduces dependence of the poor on government programmes and subsidies and builds a stronger economy and nation. Over 800 million Indians survive on an income of less than Rs 30 per day—they cannot be meaningful consumers at such incomes, even though as a group they represent a significant chunk of consumer consumption.

This chapter argues that while companies should continue supporting a wide range of important causes, a sharper focus on promoting livelihoods for the poor, both rural and urban, is better aligned with the abilities of companies and is more likely to create a sustainable improvement in the quality of life of the poor in the long term.

## WHAT EXACTLY IS 'LIVELIHOOD'?

Essentially, livelihood is a set of assets and activities that helps a person, family, or community to secure the basic necessities of life—food, water, shelter, clothing, healthcare, and energy. Central to this is the ability of the person or family to earn the income required to secure these basic necessities—in the absence of income, there is ongoing dependence on government subsidies or charity, both which can be unpredictable.

The concept of 'sustainable livelihoods' (SL) was first introduced by the United Nations' Brundtland World Commission on Environment and Development in 1987 in its report, 'Our Common Future'. It has come to be defined by Robert Chambers and Gordon Conway as follows:

A livelihood comprises the capabilities, assets and activities required for a means of living; a livelihood is sustainable which can cope with and recover from stress and shocks, maintain or enhance its capabilities and assets, and provide sustainable livelihood opportunities for the next generation; and which contributes net benefits to other livelihoods at the local and global levels and in the short and long term. (Chambers and Conway 1992)

Thus, the following are key elements of sustainable livelihoods:

1. It requires capabilities and assets.
2. It should be able to cope with and recover from shocks. Shocks such as severe illness, death, poor crops, and loss of job can instantaneously push a family into—or deeper into—poverty. Fear of such shocks motivates short-term outlooks, encouraging savings over productive investments in nutrition, health, and education, which help to improve incomes and reduce costs in the long term.
3. It should be sustainable for future generations.
4. It must create net benefits to others at the local and global level. This is to say it should not destroy public resources or deplete natural resources for the benefit of a few, for instance, through pollution or stressing natural resource supplies.
5. It should create net benefit in the short and long term, not compromising one for the other.

Creating livelihoods that meet these criteria can dramatically improve social balances through greater inclusion and well-being, enhance environmental

sustainability of society, and create economic opportunity as incomes and investment capacity of the poor rise.

Companies are fundamentally in the business of creating livelihoods—by employing staff and workers, creating opportunities for suppliers and vendor/channel partners, and in various other ways; companies are by far the largest employers and thus create livelihoods for all these people and their families.

CSR, however, can help corporate India create and improve livelihoods for a larger section of society that is unable to benefit from the opportunities that companies create. The unorganized sector in particular, which employs over 450 million people and is often a supplier to or distribution channel for corporates, can benefit from intelligent CSR support.

## WHAT IS CORPORATE SOCIAL RESPONSIBILITY?

The notion that companies benefit from society and therefore have an obligation to help society is an old one, and corporates and entrepreneurs have supported social causes for centuries. Howard R. Bowen coined the term 'Corporate Social Responsibility' in 1953. However, it was only in the 1980s that this vague sense of obligation towards society started being widely discussed as a clear responsibility, driven in no small part by increasing anti-corporate activism, government actions to regulate industries, and backlash against the financial excesses and environmental insensitivity of companies.

The first major company to 'voluntarily' publish a social and environmental responsibility was Shell in 1998, following damaging news through the 1990s about its complicity in human rights violations and its decision to destroy a large deep sea oil storage facility which could have caused wide environmental damage, but no impact on the company. Thus, this important CSR milestone was driven more by public relations (PR) and self-preservation, and CSR has often continued to toe a fine line between a genuine drive to improve society, and improving the image and reputation of companies.

Since the 1970s, business leaders and academicians have debated the role of the corporate in the context of direct and indirect stakeholders. In 1970s, Milton Friedman argued that the only responsibility of business managers

is to maximize value (and profits) for shareholders, as any action to further social good may be done to advance personal agendas or promote self-image, which may not be the right uses of a company's capital. Edward Freeman (1984), on the other hand, argued that companies have several relevant stakeholders beyond the shareholder, whose interests should be considered because a firm cannot continue to thrive and survive without the support of these stakeholders that include employees, customers, suppliers, and communities. Therefore, companies, in self-interest, should take into account and act to promote the interests of all such stakeholders. Donaldson (1990) further added an ethical dimension, saying managers should 'do the right thing' without regard to how such decisions affect financial performance.

CSR, thus, has been defined widely and narrowly. Depending on viewpoints, it can include various actions a company can take that improves the well-being of various stakeholders within and outside the business, and such actions may have a positive, neutral, or negative impact on the financial profitability of the company. In all cases, however, CSR must aim to improve the well-being of society and environment.

While today globally most people define CSR fairly broadly, this chapter will limit CSR to a definition offered by McWilliams et al. (2006), where a firm engages in 'actions that appear to further some social good, beyond the interests of the firm and that which is required by law.' While countries have laws about how companies treat the environment, employees, and other groups, CSR means going beyond the interests of the firm and beyond what is required by the law. Practically, however, companies usually seek to derive some benefit from their CSR activities, which is not necessarily a bad thing as long as the CSR work primarily addresses and solves the problems it aims to, while also delivering benefit to the company.

As India's Companies Act, 2013, now mandates CSR spending for certain companies (see Box 4.1), the criteria 'required by law' may not be relevant in the Indian context as CSR activities are now required by law. While this Act defines certain activities that qualify as CSR activities, companies should remember that their ability to influence society positively may extend beyond these defined activities and, accordingly, they should pursue such endeavors even if they do not count towards CSR as per the Act. Indeed, one of the risks of

#### BOX 4.1 Companies Act, 2013: Mandatory CSR (Section 135)

On 18 December 2012, the Lok Sabha passed the long-awaited Companies Bill, 2013. Following approval by the Rajya Sabha on 8 August 2013 and receiving the assent of the President of India on 29 August 2013, it became the much awaited Companies Act, 2013 (the 'Act'), replacing the Companies Act, 1956. The Act became operational from 1 April 2014 and introduced Corporate Social Responsibility (CSR) into the Companies Act for the first time.

#### Section 135 of the Act related to CSR obligations of companies, applies to all companies that in any year have:

1. net profit of at least Rs 5 crore or
2. net worth of at least Rs 500 crore or
3. turnover of at least Rs 1,000 crore.

The computation of these figures is as per the profit and loss (P&L) statement of the company and shall not include amounts from overseas branches of the company. This section will apply to Indian subsidiaries of foreign companies.

#### Companies that are eligible as per above these criteria must:

1. Constitute a board-level CSR Committee:
  - (a) Responsible for creating a CSR policy, designing CSR activities, proposing budgets, and presenting to the Board
  - (b) Also responsible for developing monitoring mechanisms, monitoring programmes, and reporting on implementation
  - (c) Consisting of:
    - (i) For public listed companies: Minimum three members, including an independent director
    - (ii) For public unlisted companies and private companies: Minimum three members but an independent director not required
    - (iii) A private company with only two directors can have a CSR committee with both directors

(Continued)

**BOX 4.1** (Continued)

2. Establish a CSR policy for the company:
  - (a) Lay down processes, activities, and modalities for executing CSR plans
  - (b) List CSR programmes and projects the company plans to pursue, that are aligned with Schedule VII (see below)
  - (c) Policy must be approved by the board of the company and disclosed on the company's website and directors' report
3. Spend at least 2 per cent of the average net profit of the past three years on CSR activities in line with the CSR policy.
  - Thus for the financial year 2014–15, the approximate spending should be = 2 per cent\* (average net profit of financial years 2013–14, 2012–13, and 2011–12).
4. Report on CSR activities at the end of the year as per the prescribed CSR Reporting Framework

**Eligible activities:**

Section VII lays down the following as eligible areas of spending. Any other activity will not qualify towards the computation of mandatory CSR spending, even if it does create social impact.

- (i) Eradicating hunger, poverty, and malnutrition, promoting preventive healthcare and sanitation, and making available safe drinking water
- (ii) Promoting education, including special education and employment enhancing vocation skills, especially among children, women, elderly, and the differently-abled, and livelihood enhancement projects
- (iii) Promoting gender equality, empowering women, setting up homes and hostels for women and orphans; setting up old age homes, day care centres, and such other facilities for senior citizens; and measures for reducing inequalities faced by socially and economically backward groups
- (iv) Reducing child mortality and improving maternal health
- (v) Combating HIV/AIDS, malaria, and other diseases, and providing preventive healthcare including assistance to differently-abled persons
- (vi) Ensuring environmental sustainability, protection of flora and fauna, conservation of natural resources and maintaining quality of soil, air and water, including promoting renewable energy solutions
- (vii) Improving employability through vocational skills
- (viii) Rural development projects
- (ix) Contribution to the Prime Minister's National Relief Fund or any other fund set up by the Central Government for socio-economic development and welfare of the scheduled castes, scheduled tribes, other backward classes, minorities, and women

Thus, the eligible activities are wide, allowing companies to pursue socially impactful activities that align with their priorities. The following, however, will not be counted towards CSR spending:

- (i) Contributions to political parties
- (ii) Spending on communities or activities outside India
- (iii) Activities that exclusively benefit employees, their families, or contract workers of the company
- (iv) One-off events such as sponsoring marathons or events, and television advertising or programmes that are not aligned with a clear programme or project

**Other important points to note:**

- (i) CSR activities can be revenue generating, but that revenue cannot be counted as part of business profit. Any surplus generated by CSR activities must be spent on future CSR activities.
- (ii) CSR projects should prioritize communities and areas near where the company operates. This cannot only earn the company goodwill, but the company can use its local knowledge, staff, and resource to manage projects effectively.
- (iii) Salaries paid to and expenses incurred by the CSR staff as well as expenses incurred during volunteer for social activities (proportionate to time spent on volunteering activities) can be included as part of CSR budget, though it is not clear yet how these will be calculated or whether any restrictions will be applied.

(Continued)

**BOX 4.1** (Continued)

- (iv) Five per cent of the CSR budget can be allocated to skills and capacity building of the company's own CSR staff and staff of implementation partners.
- (v) Companies that do not meet the aforementioned spending levels need to explain reasons in their Annual Report.

**Implementation of CSR programmes:**

Companies have four primary ways to implement their programmes. Each approach has its own challenges, requirements, and benefits, and companies should identify the best method based on their CSR plans. Companies can also have different approaches for different projects, based on various considerations.

1. Directly on their own
2. Setting up their own non-profit foundation to implement programmes
3. Through independent, registered non-profit organizations
4. Pooling resources with other companies that are doing similar CSR activities

No.	Approach	Explanation	Pros	Challenges
1.	Directly on their own	The company will, through its own staff and P&L, spend on CSR activities and while reporting, allocate these expenses to the CSR budget	<ul style="list-style-type: none"> <li>• Flexibility—all company resources can be used for CSR as and when needed</li> <li>• For certain project requirements, the company can engage vendors, service providers, and professional expertise</li> </ul>	<ul style="list-style-type: none"> <li>• Clear monitoring, accountability, and responsibility frameworks needed to ensure prioritization in execution—else CSR can remain overshadowed by regular business</li> </ul>
2.	Setting up their own non-profit organization or foundations to implement programmes	This foundation can undertake projects aligned with the company's CSR policy and will be funded by the company	<ul style="list-style-type: none"> <li>• More flexibility in spending CSR budgets as such foundations can carry surplus from year to year (though some ambiguity)</li> <li>• Foundation can raise external funds also to increase size of programme</li> <li>• Foundation can independently build appropriate team, and have policies and culture suitable to achieving its goals</li> </ul>	<ul style="list-style-type: none"> <li>• Cumbersome to manage regulations for such entities</li> <li>• As it has own resources, financials, etc., scrutiny and transparency may be greater than in previous option</li> </ul>
3.	Through independent, registered non-profit organizations	The company can grant funds to any established registered Trust, Society, or Section 8 (earlier called Section 25) company that has a track record of at least three years in activities similar to the CSR work being undertaken	<ul style="list-style-type: none"> <li>• Company does not build much overheads or staff—relying on partner organizations to manage and run programmes—so can build programmes faster with lesser chance of failure</li> <li>• This lean structure can create flexibility in designing programmes as it can select the best non-profits to work with, and can also adapt and change strategies if needed by switching partners—not easy if they need to rebuild team with different skills</li> </ul>	<ul style="list-style-type: none"> <li>• Need to properly select and oversee partner organizations to ensure proper compliance and quality of work</li> <li>• Company would not have deep control over day-to-day functioning of programmes—may lose some benefits of its CSR spending</li> <li>• Non-profits: See Box 4.2.</li> </ul>

(Continued)

## BOX 4.1 (Continued)

No.	Approach	Explanation	Pros	Challenges
4.	Pooling resources with other companies	All the companies thus collaborating will have to report separately on their CSR activities	<ul style="list-style-type: none"> <li>• Companies can leverage each other's expertise and CSR networks to create scale and efficiencies</li> <li>• Companies often understand each other's priorities and language, making collaboration relatively easy if overall goals are clearly aligned</li> </ul>	<ul style="list-style-type: none"> <li>• Sharing credit for impact created can be contentious</li> <li>• Parting ways, if any company changes priorities, can deeply affect the programme and beneficiaries</li> </ul>

**Risks of Section 135:**

While this path-breaking regulation can significantly increase both the quantum and quality of investments in social infrastructure and activities, there are certain risks posed by making CSR compulsory.

1. *Bureaucracy and procedures will slow down CSR activities and impair quality:* Many companies that have had active CSR programmes are pausing to ensure they are complying with all the new requirements including policies and Board committees. This should be a temporary effect. Longer term, too much focus on adhering to policies and reporting systems may reduce flexibility for companies to adapt their programmes and take the most effective course towards solving solutions.
2. *Moral Conviction replaced by legal obligation:* In the past, managers' moral leanings and some business interests drove much of CSR activities. By creating a legal obligation, at least some CSR activities will become tick-the-box exercises which can have unintended consequences (poorly conceived and implemented social problems can leave beneficiaries worse off), tarnish the credibility of CSR, and perhaps even elicit future government regulation that harm corporate India's interests and abilities, as many people see this section as a way for the government to (unfairly) share or transfer the burden of development with corporates.
3. *Companies often do not have expertise to make social interventions:* Many companies have long histories of CSR and running foundations and therefore have the experience of investing significant amounts into social programmes. Companies that do not, feeling the need to make large financial commitments quickly, may have unreasonable plans or take up the time of non-profit partners and create conflicts with unreasonable expectations. This can create significant mistrust, waste resources, and have longer-term consequences that weaken the social sector.
 

Many companies are realizing that special skills and understanding is required to run CSR effectively. It is not the same as running a business, and simply deploying business managers to oversee CSR does not always work. When needed, companies must use advisors and consultants, and hire staff with relevant experience to develop and implement social programmes.
4. *Narrowing the ambit of CSR:* Some activities, particularly around human rights' advocacy, improving governance and justice, and sustainability projects for the company, are not covered by Section VII. Companies that have been supporting such causes may move away and support only causes included in Section VII to meet their financial obligation, thereby leaving many important causes and non-profit organizations without adequate funding. It is therefore important for companies to understand that CSR goes beyond the Companies Act, and we come back to Donaldson (1990) who asked managers to do the 'right thing'.
5. *Corruption:* Companies may be coerced into, or may find funding non-profit organizations that are essentially fronts for political or underworld interests, an easy way to cover the tracks of illicit payments. Political favours may also be granted while urging companies to invest CSR funds in certain constituencies. Audits must be required to ensure that CSR policies are specific and focused, and that programmes adhere to these policies, to ensure that CSR funds are not diverted for such reasons.

Source: Overview of Section 135 provided by Samhita Social Ventures.

**BOX 4.2** Questions Non-profit Organizations should ask about CSR

While non-profit organizations eagerly wait for CSR spending to grow and are increasingly orienting their fundraising efforts towards corporate India, they would be wise to learn from peers who have both succeeded and struggled to work with companies. Here are some common challenges, particularly with companies that do not have clear CSR plans and processes or dedicated CSR staff:

1. *Decision-making can be slow and the process unclear:* Companies sometimes struggle to balance the demands of various managers and departments from CSR projects, leading to delays and flip-flops. NGOs are asked to urgently create proposals or make presentations, and then no decisions are taken for weeks. NGOs should ask about how decisions are taken and who are the key decision-makers, and inquire about typical timelines and the process the company follows, to ensure it invests the right amount of time and is not frustrated through the process.
2. *Corporate demands increase:* Once again, lack of experience and processes leads companies to enter into grant and process agreements with NGOs without clear reporting systems or goals. As different corporate departments enter the scenario, they may make new requests of the NGO. Communication and PR teams often require additional publicity materials, visibility, or request site visits and photo shoots, accounting and legal teams will conduct extensive due diligence or demand formal impact assessment reports, and HR may try to find volunteering opportunities. Smaller NGOs, in particular, may find this onerous, so it is worthwhile to ensure that the CSR team is engaging all departments within the company from early in the process.
3. *Visibility and credit:* Often, once a project is underway, a company realizes it is not getting the amount of visibility that it had expected. Clear understandings between the communications team and the NGO can prevent much heartburn later on. The NGO should also clearly understand all branding guidelines of the company to ensure compliance.
4. *Renewal of agreements:* Many companies sign one-year agreements with the assurance that it will be extended if work proceeds smoothly. Sometimes, however, change of personnel, priorities, or the funding situation causes last minute changes and shocks to the NGO. NGOs should be in dialogue about renewal well before the end date and speak directly with decision-makers in this regard as early as possible.
5. *Understand sensitivities:* Like any organization, each company may be sensitive to certain actions or behaviours of their partners. Some may want to be aware of any bad press related to NGOs they fund; some may care about the NGO keeping them informed of new programmes, partnerships, and strategic developments. Some may insist that the NGO not accept funding from a competitor. Understanding these sensitivities builds a strong relationship that is more likely to endure.

In short, it is important for NGOs to understand a corporate funder and do their due diligence to ensure expectations are met on both sides.

the Act is that excluded activities which are nonetheless important for society will stop receiving attention and funding from corporates who may have supported such activities earlier.

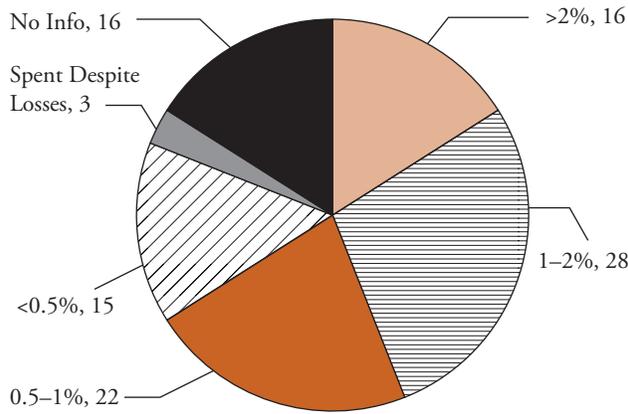
## THE STATE OF INDIAN CSR AND COMPANIES ACT, 2013

Section 135 of the new Indian Companies Act, 2013, (hereafter, the Act) has mandated CSR spending by Indian companies starting in the financial year 2014–15. While the new Companies Act is a milestone in enshrining the social responsibilities of the corporate sector, one must not forget that India Inc. does have a rich history of supporting social and national development. Many old business houses, newer companies, multinational companies

(MNCs), and state-owned enterprises play an important role in rural development, education, sanitation, health services, improving agriculture and livelihoods, etc.

Much of the excitement is around the fact that about 16,000 companies in India that qualify under the criteria laid down in the Act (see Box 4.1) will need to contribute about Rs 15,000–22,000 (USD 2.5–3.6 billion) each year to the social sector. However, the following three factors affect exactly how much capital will flow into the social sector:

1. While no one has an exact figure due to lack of current reporting norms on CSR, these companies may already be contributing about 30–40 per cent of this amount towards social, religious, and cultural causes, or as much as Rs 7,000–8,000 crore. Often, promoters may make personal contributions to charitable causes, which may now be routed through the company to meet regulatory needs.



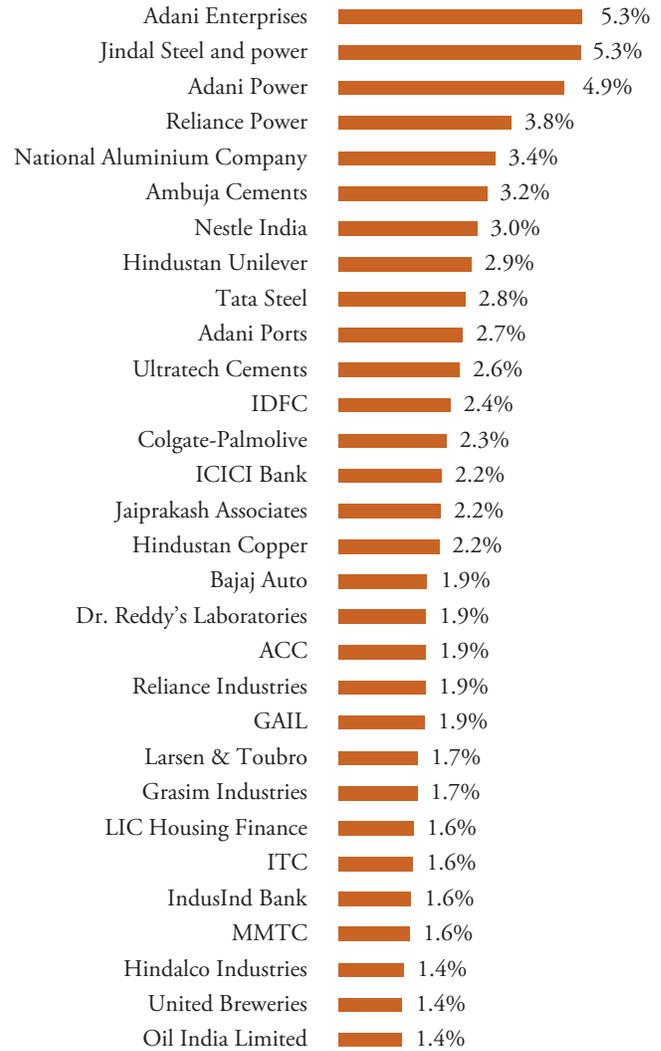
**FIGURE 4.1** CSR as percentage of profit in FY 2013: Top 100 companies

Source: Partners for Change (www.picindia.org).

Research by Partners in Change (www.picindia.org) estimated that 84 of the top 100 companies in India (by revenue, listed on Bombay Stock Exchange [BSE]) whose CSR information was available would need to spend Rs 4,276 crore on CSR, while in FY 2012–13, they actually already spent Rs 2,724 crore, or 64 per cent of the mandated amount. Therefore, additional spending will be smaller than expected by many. Of these 84 companies, 16 (19 per cent) already spend more than 2 per cent of profits on CSR, while 28 (33 per cent) spend over 1 per cent and are close to the required spending levels as per the Act.

- Some of the spending by companies towards religious, political, or employee engagement activities will be disallowed under the definition of CSR in the Act. Therefore, companies may need to re-prioritize their social investments, which can have an adverse impact on specific causes and institutions that currently get donations from companies.
- Perhaps most importantly, companies can delay deploying funds into social activities; for example, by setting up and capitalizing foundations or simply explaining why they were unable to do so. Similarly, employee volunteering activities will count towards CSR budgets, but the actual impact on social issues is unclear.

Non-profit organizations that are lining up expecting to raise significant amounts of capital from CSR may have a wait ahead of them. Nonetheless, the potential for CSR to influence outcomes can be significant if these funds are



**FIGURE 4.2** 30 companies with CSR in FY 2013 as highest percentage of average net profit of prior three years

Source: Partners for Change (www.picindia.org).

spent wisely, with adequate planning, due diligence and monitoring.

It is also useful to remember that CSR is still tiny compared with the USD 75 billion (Rs 4,50,000 crore) in 2013–14 that the Indian government (including states) spent on social services (see Figure 4.3). Thus, a criticism of the Act that the government is trying to transfer responsibility for social development on to the corporate sector holds little water.

This is, however, an opportunity to apply the financial, human, and technological resources of India Inc. towards addressing human and environmental development.

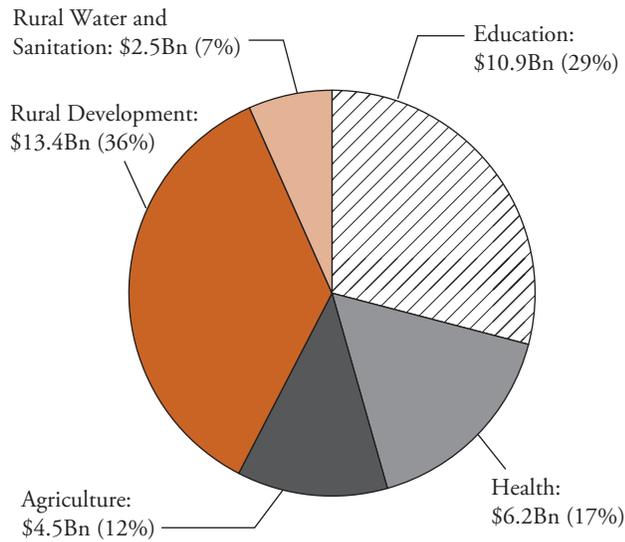


FIGURE 4.3 Central government spending on social services, 2013-14

When combined with ongoing efforts of the government and the social/non-profit sector, CSR may achieve significantly more than its relatively small budget may indicate, as this chapter later outlines.

Figure 4.4 indicates causes supported by corporates. Not surprisingly, education and health are leading areas of focus as companies frequently fund equipment and operating costs of schools, colleges, and hospitals, training of staff, free treatments for deserving patients, etc. It is also relatively easy to get visibility for such contributions.

Supporting sustainable livelihoods can fall under multiple categories including vocational skills, women’s empowerment, agriculture, water, and infrastructure and finance, and may add to about 20 per cent. Many other activities such as healthcare, education, and community development will support improving livelihoods.

### BENEFITS OF CSR TO A COMPANY

Most people agree that CSR activities should create some direct or indirect benefit to the company. Such benefits (i) create deeper interest and enthusiasm for the activities, within and outside the firm, and (ii) make CSR more likely to be sustained because it is easier to discontinue

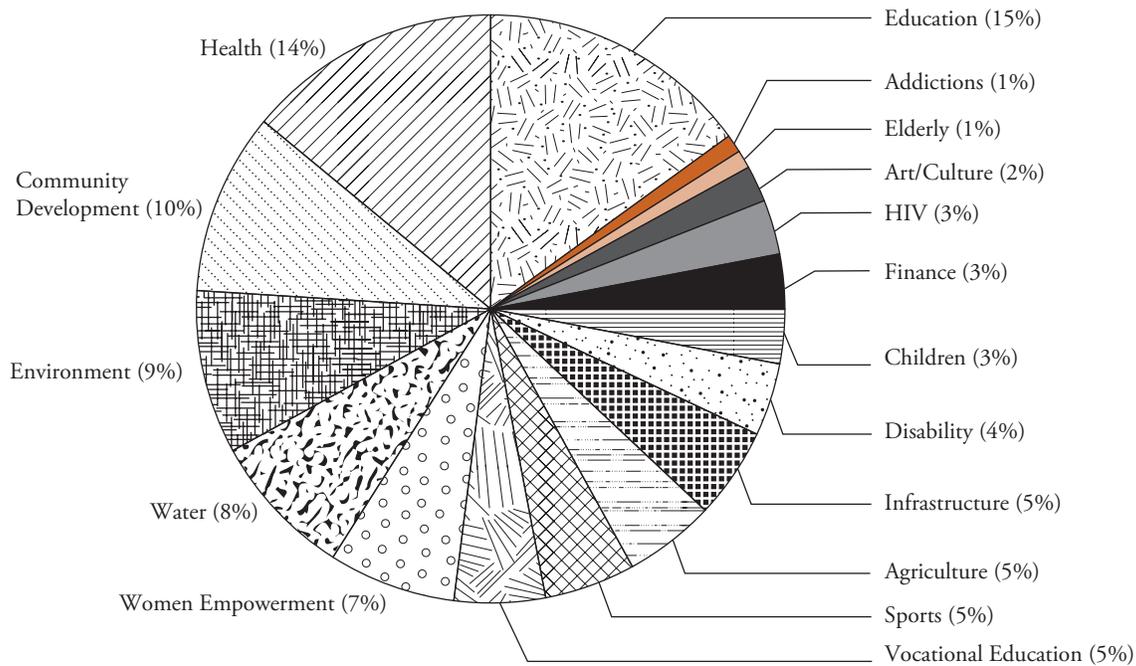


Figure 4.4 CSR spending of top 100 BSE-listed companies

Source: CSRidentity.com; company Annual Reports.

something that creates no benefits at all, than something that creates tangible benefits. Some of these benefits are summarized here.

1. *Brand image and customer goodwill:* Cluttered and hyperactive media and communications have made it increasingly difficult for companies to distinguish their advertising and brand-building efforts from those of competitors. Good quality CSR work that transforms lives can help build brand value, customer loyalty, and competitive advantage. All media research indicates that new generations of consumers seek more human values from the brands they consume, including compassion, understanding, respect, and sensitivity.

CSR done purely for public relations purposes will not be effective as people can see through a gimmick, but genuine, sustained high-quality work can earn great rewards. Indeed, it is a lost opportunity that CSR efforts are not highlighted more prominently in corporate communication and advertising as a way to inform the world about social challenges and also build goodwill for the company.

Companies should decide which target audience they wish to connect with through CSR, and accordingly create plans. Hindustan Unilever's 'Swasthya Chetna' campaign has educated 110 million people on how hand washing leads to improved health—thus building awareness that can save lives and helping build Lifebuoy's market share.

2. *Deepen understanding of local realities:* Engaging with communities to understand and provide their basic needs gives an in-depth and ringside view of their lives, challenges, family structure, and communal and political forces. CSR can thus help build consumer insight, often in ways that surveys or market research studies do not capture. Going a step further, companies such as Godrej and General Electric have partnered with social enterprises for consumer analysis, product development, and field testing products very successfully, at a fraction of the cost and with higher success rates than traditional approaches.
3. *Develop the value chain and ecosystem:* Every business needs an ecosystem to develop, produce, sell, and

service its products, and a vibrant ecosystem reduces costs of the business. CSR can help establish new micro-enterprises that could be vendors or training people on entrepreneurship so they may sell products of the company as Hindustan Unilever has done with Project Shakti in rural India. Companies are yet to develop the potential to help CSR on this front.

ITC's efforts in watershed development and improving livestock and animal husbandry has improved relationships with farming communities which can benefit its growing foods business.

4. *Improve relations with local communities:* Business interests often do place companies in conflict with local communities, especially when they use local natural resources or affect the social fabric by creating employment or benefits for certain people. Even where there is no conflict, CSR can help establish healthier relationships where communities are more supportive of the company's plans and activities. At a minimum, this can increase the well-being of company staff and even lower costs of security and maintenance. At the other end, local communities that champion a company can improve the company's access to raw materials, labour, vendors, and markets, creating significant economic value.

As Ambuja Cement found, communities that benefitted from long-term work of Ambuja Cement Foundation (ACF) helped the company to successfully get expansion permissions from the government. When Ambuja Cement expanded to new areas, these communities helped convince people who opposed the arrival of the company by explaining how ACF had improved their lives.

5. *Happier employees:* The role CSR can play in improving a company's reputation among its own employees and raising their motivation is perhaps underrated. Many companies have found that genuine, consistent CSR efforts help reduce turnover, motivate employees to recommend job opportunities at the company to friends and family, improve confidence of sales teams when speaking with prospective clients, and encourage employees to care more about their work.

In service businesses, or where employees have extensive interactions with customers, such an

attitude of the workforce can significantly improve the customer experience and brand value.

The risk is that companies that are inconsistent in CSR, or undertake it notionally or for PR purposes only, will find employee backlash that can be damaging internally to its culture and productivity and externally to customer service and brand perception.

Merrill Lynch advertises its environmental efforts to prospective employees. Capgemini makes grants to social causes on behalf of employees and even people who apply for jobs. 51 per cent of Indian employees care about CSR causes their company supports, while Hewitt has found that as many as 45 per cent of employees would take a 15 per cent paycut to work for a company that created social and environmental impact. Research by Aon Consulting showed that even back in 2005 in the US, CSR was the third most important driver of employee engagement and influenced retention—leading to huge savings and productivity improvements.

6. *Support from government:* Many governments, including in India, view business with an eye of suspicion, expecting businesses to act always out of pure self-interest with scarce care for the effect of their decisions and actions. By executing good quality CSR and highlighting these to governments, companies can differentiate themselves, justify their requests and demands, and make themselves more desirable citizens. Environmental sustainability and social development are high on our government's agenda, and companies that assist in meeting goals and targets are more likely to be looked upon favourably.

CSR activities that raise people above the poverty line also lighten the governments' financial burdens and are considered favourably.

7. *Economic development that creates new customers:* By providing basic services and infrastructure, whether it is healthcare, education, livelihoods, or sanitation, CSR does help accelerate economic development, and this is good for business in the long term. However, focused CSR can have transformative impact at local levels, creating quicker benefits for companies in the medium term.

All in all, we can see how a genuine, robust, and high-quality CSR programme can have direct and tangible benefits for society and companies. However, CSR can only enhance the sheen created by responsible and honest businesses, not cover up the damage done by unscrupulous ones. Those in the former category will find that the incremental value of good CSR far outweighs the cost—especially now that a certain level of spending is mandated.

Recognizing the value in CSR can make the difference between taking it seriously and doing it well or not. The best example in India may be the TATA Group that has combined ethical business practices with deep social responsibility and reaps rewards in all the ways mentioned.

## HOW COMPANIES CAN BENEFIT BY FOCUSING THEIR CSR ON LIVELIHOODS

The poor are defined by the lack of income to meet their essential needs. Therefore, their greatest need is to increase income. Therefore, improving incomes of the poor and creating sustainable livelihoods has wide-ranging benefits, the most important being that the poor can start to take charge of their own lives and decide what services they want to avail of. They can also invest in themselves and their future generations, thus entering the marketplace where they can buy the services they need, rather than relying on charity or the government for their basic requirements.

As mentioned earlier, CSR plays an important role in providing basic services like healthcare and education, thereby adding to the government's infrastructure for serving the poor. Businesses are actually best placed to impact and improve livelihoods as they are closest to markets, manage vast supply and value chains, employ large numbers of people, and have deep experience and resources that are most relevant to developing sustainable livelihoods.

Table 4.1 compares the benefits to companies from different types of CSR activities.

This shows that programmes on livelihoods, if executed well, can have the greatest benefit for companies. One challenge, however, is that livelihood programmes have to be tailored to local conditions, resources, challenges, and traditions, which can make them more tedious to

**Table 4.1** Benefits of CSR activities to companies

	Education	Healthcare	Livelihoods
1. Brand image and goodwill	H	H	H
2. Deepen understanding of local realities	L	M	H
3. Develop the value chain and ecosystem	-	-	H
4. Improve relations with local communities	M	H	H
5. Happier employees	H	H	H
6. Support from government	M	H	H
7. Economic development that creates new customers	M	M	H

Notes: H = High benefit to company; M = Medium benefit to company; L = Low benefit to company.

design and deliver effectively, compared with education or healthcare which can be more standardized and replicable. This also makes interventions more expensive and less scalable, and these factors should be built into the overall CSR plans and timelines.

## APPROACHES TO CSR

While early CSR was essentially corporate philanthropy (donations, charity, gifts to people in urgent need, relief work, etc.), the concept has evolved to include various corporate activities and business decisions that have social and environmental impact.

In recent years, concepts or methodologies such as strategic philanthropy, venture philanthropy, shared value, triple bottomline, and sustainability have entered the lexicon, and each concept has lessons and methodologies for companies seeking to pursue high-quality CSR. A company must select what is right for itself.

Broadly speaking, today there three forms in which CSR is executed, as mentioned subsequently. These approaches can be complementary to each other and, indeed, most if not all companies can have a portfolio of activities spanning across the three.

**A. Corporate Philanthropy** (strategic or otherwise):  
Some direct benefit to company

**B. Shared Value:** Benefits society and creates significant direct benefit for the company

**C. Sustainability:** Optimize resource utilization to benefit the company and environment

## Corporate Philanthropy

Traditional corporate philanthropy, the way in which companies supported social causes, basically involves donating money to non-profit organizations and sometimes the time of its employees towards 'good' causes. It was relatively unplanned and non-strategic, in that companies allocate a budget and then make donations based on proposals and requests received from non-profit organizations or individuals seeking financial support in the face of accidents or crisis. Many larger companies effectively created their own non-profit organization to run programmes, but, with few exceptions, these are usually not managed with the same level of professionalism and focus as the business. Even though companies may focus on specific areas such as rural development, livelihoods, education, healthcare, and natural disasters, there is no overall mission or long-term goals guiding how such donations are made and, therefore, the process tends to be reactive and based on relationships.

## Strategic Philanthropy

An approach that has evolved since the late 1990s, strategic philanthropy takes a more thoughtful, planned, and engaged approach towards philanthropy in order to achieve certain predetermined goals. These goals can include objectives of the corporate as well. There are a few steps to be followed, depending on how strategic the company wants to be in its philanthropy.

### Developing a Strategic Corporate Philanthropy Programme

1. *Internal goals of CSR:* The company must have a clear idea, or at least a shortlist of long-term priorities, of what benefits it is seeking for itself from its CSR programme. Some companies may decide that understanding certain

local communities is more important, while others may prioritize employee satisfaction. A company may select any combination of the benefits of CSR identified earlier as its goals. Unless the CSR goals are discussed openly and agreed upon by key decision-makers across the company, there will always be disagreements when programmes are designed and implemented; setting clear objectives and priorities upfront can prevent tensions and failure later on.

2. *Estimated financial allocation:* While the budget required will depend on various factors, it is useful to have a sense of the budget, or at least a range, for the next few years. Strategic philanthropy needs long-term vision and hence long-term capital commitment is important for planning programmes.
3. *Selecting CSR activities:* To be strategic, one needs to create a plan, and answering the following questions can help to start building one. Answers should be based on the history and culture of the company, its products and client base, core capabilities, and areas of operations, and should align with what the company wants to achieve through its philanthropic activities.

A top-down process to identify a few broad areas and options is usually most efficient; so, bringing in senior management, which has to commit resources and long-term support, is advisable. Soliciting bottom-up feedback helps fine-tune programmes such that there is broad buy-in, which will help in volunteering activities, if any.

- (a) *Sector/issue:* A company may choose one or more focus areas depending on its CSR objectives and business activities that make it familiar with the issue.
- (b) *Demographics to impact:* What population group will benefit; for example, youth, children, elderly, adolescent girls. The company may choose a demographic that it understands well, such as a section of its customers or target audience.
- (c) *Location and geography:* Implementing programmes in areas where the company has business activities is likely to create more benefits for the company. Local knowledge can help design better programmes, while having staff and resources can help create volunteering opportunities and better oversight.

4. *Understanding the identified focus issues:* Once the company has identified areas for intervention, it should invest some time (and funds) to fully understand the problems and underlying drivers, as well as what kinds of solutions and interventions can be successful, to make informed decisions while approving grants or making implementation plans. Just as it is helpful to engage domain experts, consultants, and advisors when developing a new product or entering a new market, using the right advisors and researchers can help develop better CSR programmes that are more effective and likely to be successful. Reaching out to corporate and family foundations that run programmes or grant funds in similar areas can also be very useful in understanding the ground realities of running philanthropic activities.
5. *Implementation plan and setting goals:* As discussed later, a company can implement its CSR plans in various ways—by setting up its own team to run programmes or giving grants to other non-profit organizations. Thus, an implementation roadmap laying out the various options and preferences should be created at this stage, which can be revised in case of challenges or roadblocks (like not being able to recruit the right team to implement programmes on its own or not finding non-profit organizations that have the right skill sets).
 

Short-term and long-term targets can be set at this stage, in consultation with implementation partners or teams, to track progress. Setting interim and final targets helps all partners (the company, implementing non-profit organization, local communities, government, etc.) to plan activities, track progress, and course-correct, as needed.

Multi-year financial commitments, subject to meeting targets, are very important, as single-year commitments create uncertainty that reduces effectiveness and prevents deeper investments into programmes.
6. *Monitoring and evaluating programmes periodically and making adjustments along the way until the goals are met (or revised).*

Generally speaking, the key challenges faced by companies include:

- (a) prioritizing from a range of philanthropic opportunities to focus on a few;

- (b) identifying qualified and interested staff members (internally or externally) who can ensure programmes are managed well, while creating the desired benefits for the company;
- (c) impact assessment to assess whether funds were well spent or not; and
- (d) sustaining long-term focus to achieve set targets, as changes in personnel, financial performance of business, and experiences with partner organizations can cause frequent changes in focus.

This entire process requires considerable work and focus and, therefore, the company needs staff, advisors, and consultants dedicated to developing and managing such activities. Advisory organizations such as Dasra ([www.dasra.org](http://www.dasra.org)), Samhita ([www.samhita.org](http://www.samhita.org)), GiveIndia ([www.giveindia.org](http://www.giveindia.org)), and Charities Aid Foundation India (CAF; [www.cafindia.org](http://www.cafindia.org)) can help companies in this process.

### Creating Shared Value

Shared value is a concept developed by Michael Porter at Harvard Business School and Mark Kramer at Harvard's Kennedy School of Government. According to them, 'the prevailing approaches to CSR are so disconnected from business and strategy as to obscure many of the greatest opportunities for companies to benefit society' (Porter and Kramer 2006).

Creating shared value means seeing social problems as business opportunities that have not yet been addressed. From the CSR perspective, one can align CSR goals, social needs, and business strategies, thereby ensuring that CSR delivers tangible value to the company, while also integrating CSR activities into the company's core business processes. Thus, the company can use all its resources and expertise—people, technology, facilities, products, etc.—to implement CSR. Such alignment is likely to create the maximum benefit for society and companies.

Shared value has significant merits and, globally, many companies have designed successful programmes using this approach. One criticism is that shared value is no different from business strategy as usual, aimed at uncovering and exploiting new opportunities closer to the base of the pyramid. In order to be treated as a process for social development, shared value projects must create significantly more benefit for external stakeholders than for the company itself. One must also keep a watchful

eye that the primary beneficiary of CSR is society and the company comes second, rather than the other way around. With strategy and CSR closely intertwined, the focus can subtly shift. While this may not be a bad thing as society continues to benefit, it does go against the spirit of CSR as espoused by McWilliams (2006) and by the Act.

The tight integration of CSR and business objectives and processes makes shared value projects relatively complex to develop and resource-intensive to implement. Thus, such projects must be developed with a long-term vision and goals as switching plans frequently can undermine business confidence and performance. The cost of failed shared value programmes is much higher than if strategic philanthropic projects fail, as those are disconnected from the company's core business and operations.

### Developing a Shared Value Programme

1. Identify present and future business challenges and risks whose origins and solutions lie largely outside the boundaries of the company. For example, qualified labour pool for the company, vendors who can provide the kinds of products the company needs, environmental changes that can impact operations, etc., are challenges where companies have to work with other actors to develop solutions. These should be medium- or long-term problems, and solving it should create significant business value.
2. Identify and prioritize those challenges that the company can address. Nestle, for example, identified that stable agricultural supply chains are critical to its operations, but dwindling water supplies in many areas where it sources products can disrupt supply chains. It thus identified water use as a focus area. Adidas identified that not using shoes puts the poor at risk for deadly infections through cuts in the feet, while also affecting productivity and comfort. It partnered with Grameen Bank in Bangladesh to produce low cost, good quality shoes that are affordable for the poor and protect them from disease.
3. Estimate resources required to address the challenge and set targets. Here, the company has to understand the issue in depth and evaluate what capital, manpower, and other resources will be required. While final plans will be developed after more detailed assessment, setting some targets at this stage will help focus discussions.

This process requires extensive internal brainstorming as a broad range of teams, departments, and divisions may be involved, given that CSR becomes closely aligned with company operations and strategy. The case study of Godrej's Good and Green programme highlights this important aspect.

4. Develop an execution plan and set goals. Like in the case with strategic philanthropy, a company has various options such as setting up its own team to run programmes or giving grants to other non-profit organizations. Regardless, a strong core team is required to coordinate activities within the company and with external partners and stakeholders.

Like any large project, strong management, setting achievable and realistic interim goals, and robust monitoring and reporting mechanisms to key decision-makers are all critical for a successful shared value project. A large initiative may have sub-projects that run in parallel, and control and responsibility is often initially concentrated in the shared value project team, and gradually pushed on to business managers as the programme takes shape and initial bugs are resolved.

5. Monitoring and evaluating programmes periodically and making adjustments along the way until the goals are met (or revised). The evaluation process is more complex as it includes business performance metrics and engages a cross-section of management that holds current or future responsibility for meeting programme targets.

Perhaps the greatest challenge lies in:

- (a) creating projects that deliver a healthy mix of benefits to the company and society;
- (b) building a CSR team that can engage, motivate, and when needed, force internal managers to prioritize CSR; and
- (c) computing the benefits of the programme to the community and the company vis-à-vis costs.

Some examples of shared value projects from a CSR perspective include Hindustan Unilever's Shakti programme where the company trains rural women to sell its products in their and nearby villages, thereby developing a powerful grass-roots distribution channel. In the process, it has empowered 65,000 women, called

Shakti Ammas, by imparting skills that are transferable and enabling them to become micro-entrepreneurs, earning an average of Rs 1,000 per month, serving 165,000 villages and four million households. The programme has been extended to include men called Shaktimaans.

The Godrej Good and Green programme integrates shared value and sustainability—a case study is in the Appendix—and aims to train and retain 1 million youth for jobs in construction, manufacturing, agri processing, health, and beauty—all areas where the company has business activities.

Nestle's dairy factory in Moga, Punjab, is amongst its largest globally, collecting milk from 1,10,000 farmers every day. Since opening in 1961, the company has not only invested in village-level infrastructure to collect, store, and chill milk to improve its supply chain but also provided ancillary support to farmers such as veterinary services, artificial insemination centres, and educational tours to boost productivity. The company also provided financial support for farmers to buy milking machines and other devices to improve their business. Together, these initiatives significantly improved the incomes of its milk suppliers. Over the years, the company has gone further by investing in agricultural productivity and farm yields, sanitation, water, health, and education to transform Moga into a prosperous milk district and industrial center.

Samhita Social Ventures ([www.samhita.org](http://www.samhita.org)) and FSG ([www.fsg.org](http://www.fsg.org)) are well-known for helping companies craft and implement shared value projects.

## Sustainability

Many companies have developed a parallel stream of activities under the 'sustainability' banner, aiming to improve the environmental and financial sustainability of the business in the future. This includes shrinking the environmental impact of all aspects of the business by lowering energy consumption or converting to renewable energy sources, reducing carbon footprint and waste by-products of operations, and using environmentally friendly materials. Over time, such actions are expected to be good for society, environment, and the company. Sustainability can also promote well-being of critical operating stakeholders, such as employees, vendors, and business partners.

Sustainability typically focuses on reducing costs and risks for the company, while also benefiting the environment or communities, while CSR can undertake actions that do not directly benefit the company at all, at least in the near-term. Sustainability usually lays more emphasis on environmental factors, while CSR typically is more focused on society and people. There is a lot of room for both to overlap.

Sustainability initiatives may be part of CSR or vice versa, or both may be managed separately. Usually, sustainability initiatives are closely intertwined with operational activities, while CSR focuses primarily on activities outside the business and, therefore, competencies required differ too much for both to be effectively run by the same team. This decision should depend on the business, organizational structure, and CSR/sustainability strategies of the company.

cKinetics ([www.ckinetics.com](http://www.ckinetics.com)) is an advisory firm focused on helping companies with sustainability strategies.

In summary, CSR is moving in directions so that companies take greater responsibility for the social impact of their CSR spending and that they derive greater benefit for such spending and efforts.

## OPPORTUNITIES FOR CSR IN LIVELIHOODS

In 2012, India was estimated to have about 490 million workers, the second largest workforce after China. Of these, 94 per cent are in the unorganized sector including agriculture, artisans, and micro-industries. Of the 6 per cent in the organized sector, private industry employs about 35 per cent, while government and state-owned enterprises employ 65 per cent.

- Agriculture, horticulture, dairy, and related sectors employ about 52 per cent of labour—over 250 million people.
- Unorganized manufacturing, unorganized services, and unorganized retail/wholesale employ 10 per cent each.
- Organized manufacturing employs 5 million or about 1 per cent.
- Social services (including private schools and healthcare) employ 1.1 million or 0.25 per cent.

In recent years, absorbing and creating productive livelihoods for the 15 million young people who come of working age each year, as well as improving prospects

	<b>A. Corporate philanthropy</b>	<b>B. Shared value</b>	<b>C. Sustainability</b>
What it is?	Granting funds and volunteering time for 'good' causes that may or may not be related to the company	Using corporate resources and process to create mutually beneficial social impact	Reducing any negative effects of the company's operations on the environment or society
Benefit to company	Depending on plans and execution, may be minimal (even zero) or substantial—direct financial gain usually small	The concept itself implies significant benefit to company, which should include direct financial benefits	Often requires upfront investments that create medium- and long-term gains as savings kick in; reputational and 'soft' value can be considerable
Benefit to society	Depends entirely on the company's plans and quality of implementation	Primary beneficiaries will be stakeholders or potential stakeholders of the business	Communities and environment near operating areas of the company, and direct stakeholders
Operational level	Largely run separately from operations of firm	Managed by an independent team, but integrated with certain aspects of business operations	Managed by a monitoring and planning team, but is integral to many or most operating decisions of company
Timeframe	Can be short- or long-term programmes	Long-term programmes as they are tied to the company's needs or strategies	Multiple parallel projects with goals of varying timeframes
Social and environmental impact	Entirely dependent on quality of initiative—may create very little or significant impact	Generally substantial impact as expertise of the company is being deployed	Financial savings motivate the company to do it well, thereby creating considerable impact

for the existing workforce, has become an important political, economic and social priority.

The unorganized sector has low productivity and low incomes—in 2006, it produced 57 per cent of GDP, only one-sixth the productivity of the organized sector (Kulshreshtha 2011). Incomes are lowest in rural unorganized sector jobs, and this drives demand for government jobs and urban migration. The urban unorganized sector holds great potential to create large numbers of reasonably paying jobs to service growing urban populations, but training, productivity, and skills remain a constraint.

In all industries, there exists a value chain that employs labour and uses capital (including machinery and equipment) to convert raw materials into finished products. By evaluating such value chains, companies can find points where they can intervene with CSR projects, to create meaningful difference to the livelihoods of a small or large number of families.

The following identifies a few parts of most value chains where companies can find appropriate CSR opportunities through strategic philanthropy as well as shared value creation.

1. *Developing capabilities and skills:* Skill development has become a large focus area for corporate and government, to train youth for employment in industry (manufacturing and services) as well as for self-employment. This is an opportunity for shared value projects, as a company can benefit by creating skilled labour for its own industry, and lowering costs of recruitment for itself as well as its channel partners—thus earning goodwill.

A strategic philanthropy approach would be to identify industries that require trained people and supporting organizations that can provide such skills development—even if these industries are not where the company operates. Dr Reddy's Foundation is such an example where they train urban youth for BPO, retail, and hospitality jobs, while the company is in pharmaceuticals. For shared value, the company will focus on its own and allied industries. Godrej Industries is such an example and GMR's Varalakshmi Programme trains school drop-outs for jobs like electrical and elevator maintenance and airport

operations that are aligned with its businesses, as well as about 80 other courses including computer training and other disciplines unrelated to its business.

Companies can bring the following to the training process:

- Curriculum that is relevant to industry needs including best practices—even if that requires longer or more expensive programmes
- Provide equipment that is actually used by industry to training centres so that students are familiar with the needs of companies
- Select prospective students who have the aptitude for particular jobs
- Provide industry teachers or train the trainers as per industry norms and needs
- Teaching soft skills including teamwork, discipline, and leadership
- Recruiting the best trainees, thus motivating students to excel

These create opportunities for donating funds as well as volunteering.

*Types of opportunities:* Each of these is important and desperately needed to make India's growth more inclusive, boost productivity, and lower inflation in labour costs. Each has its own set of challenges and companies need to understand intricacies while formulating plans.

- Training youth for generic entry-level jobs
  - A challenge here is to be affordable; many programmes are too short and low quality and do not impact enough skills to create a sustainable career for the student
- Up-skilling existing industry workers (not own workers) for complex or specialized tasks
  - Jaipur Rugs Foundation conducts trainings for weavers, teaching them latest techniques and tools to meet new standards
- Training in specialized skills required in their industry
- Financial assistance and loans for workers and students wanting to pursue such programmes, especially if they are forgoing current income for training in a better vocation, or if they want to attend higher-quality programmes that are longer or more expensive

**Implementation:**

- There are many social organizations including social businesses, non-profit organizations, and corporate foundations that have learnt how to effectively run training programmes and centres. Partnering with such organizations is the most effective way to implement CSR in this domain, as they have the experience, networks, processes to attract students and team, and infrastructure and locations.
- Many companies have partnered with or taken over the management of ITIs (Industrial Training Institutes) of the government, funding them, improving infrastructure and course content
- The company can identify and fund such organizations to run the programme, and assist by creating curriculum, training the trainers, and helping to select the right students
- Based on its preferences, the company can do the following:
  - Donate funds for operating costs of implementing organizations such as non-profits
  - Subsidize cost of training for students through scholarships, so the best students get opportunities without regard for cost. Often, aside from course fees, lost income, travel and living costs to location of training, and uncertainty of jobs prevent people from attending training programmes.
  - Donate equipment and tools for students to be trained on

**Benefits to the company:**

- Set standards for the industry by influencing curriculum and processes taught
- Lower cost of recruiting top talent—can identify prospective recruits during training process and recruit them quickly
- By teaching specific processes and skills, the company has no need to further train such staff—other companies may incur costs to train fresh recruits on company-specific processes
- Establish brand name and reputation amongst workers in the industry
- If relevant, training those who install, use, or service the company's products can increase familiarity with the company's products, thus

driving sales. For example, an electrical equipment manufacturer that trains electricians may find that these electricians recommend the company's products due to familiarity and comfort through the training process.

**Challenges and risks:**

- Scaling up training programmes can be challenging due to cost of infrastructure, difficulty in attracting minimum batch sizes, and availability of trainers.
  - Drop-outs are significant as young people often are not committed to a certain stream of work and may change tracks during or shortly after training.
  - This makes it difficult to assess impact of programmes, as many graduates of training programmes do not get jobs or choose to not get one. Even those who, may not stay long and may switch careers, which is difficult to track.
2. *Creating and supporting livelihood institutions—collectivizing producers through cooperatives, farmer producer companies, and social businesses:* Companies often struggle with community-based CSR efforts due to dispersed, unorganized beneficiaries, and lack of systems and processes in communities through which to deliver support. Therefore, creating institutions or one-time infrastructure is easier to manage than, say, capacity-building assistance to create livelihoods.

Agriculture is prime for this approach—while it employs 45 per cent of India's labour, it produces only 14 per cent of GDP; it is growing at 2.3 per cent annually and over 80 per cent of farm households earn less than USD 1 per day per capita. Companies can sometimes start by identifying organizations, such as cooperatives and farmer producer companies (FPCs) to work with, or organizing producers into such institutions, which can have significant benefits for the producers but often fail due to mismanagement, non-professionalization of management, and political interference/interests leading to leakages or certain groups capturing disproportionate benefits, and so on. The failed cooperative movements in India are well known—a few successes, such as Amul, are exceptions.

Two primary reasons for such failures are lack of professional and unbiased management, and

unavailability of adequate capital to make the right investments to create value for the producers. Corporates can step in to help address both issues, providing the financial resources and managerial oversight including instituting processes, governance, and risk management systems that can make cooperatives and FPCs more transparent, financially successful, and beneficial for its members.

Working with socially oriented businesses can be a convenient way for corporates to create social impact and help their business. Social businesses can be suppliers, distribution channels, and product development partners, and the company can support these enterprises through training and know-how, making investments or providing working capital and grants, and providing business opportunities. Axis Bank Foundation (ABF) has provided grants to Earthy Goods to expand its supply chain and marketing footprint. The Taj Group of Hotels has helped bee honey producing company, Under the Mango Tree, to produce honey in villages around its properties and buys and serves the honey at its hotels, thus providing financial assistance and a market.

Such an initiative can be targeted for a few years to create a sustainable enterprise that will create long-term benefits for communities.

3. *Asset creation to enable and enhance livelihoods*: Having the right equipment, tools, and infrastructure can improve productivity and quality of work done, and thus incomes. Often, however, farmers, craftsmen, and semi-skilled workers cannot afford to buy these equipment, and CSR programmes can identify and provide the right equipment free of cost or at subsidized prices to enable or improve incomes.

Such support can take on different forms, depending on the sector, geography, and needs of people and communities.

- *Establish facilities*: A company built village-level *agarbatti* production centres with machines, where women could come at any time of the day and use the machines for a very small fee. The fee covered costs of maintaining the centre and machines, while the capital expenditure to establish this was treated as CSR. Women could thus work very close to their homes at much higher productivity than if they hand-rolled

*agarbattis* at their homes. Going a step further, this centre could have a training and quality control staff member to guide and help the women do a better job. Many companies have set up agriculture support centres like this in rural areas. Producing sanitary pads and other simple healthcare products for local consumption can become viable enterprises.

- *Create shared infrastructure*: Many CSR programmes create rural infrastructure such as roads, check dams, micro-grids for electricity (solar or biomass), marketplaces, or storage facilities for crops and goods for the benefit of livelihoods of local communities. The Aditya Birla Group builds irrigation and water storage facilities in villages and undertakes rural electrification, while DLF Foundation has built roads to connect villages to highways. By electrifying villages, Cummins Foundation has helped multiply incomes.
- *Equipment and tools*: An electric products company gave kits of electrical devices to electricians in a peri-urban area so they could work more safely and improve standards and productivity. Deutsche Bank and Union Bank of Switzerland (UBS) support the Be! Fund which provides equipment of up to Rs 5 lakh to local youth who can solve a local problem such as providing a transport solution or renting water pumps until a farmer repairs his own that has broken down. ABF, in partnership with the NGO Bandhan Konnagar, gives farm and non-farm equipment to women for activities such as goat rearing, fishing, and cosmetics businesses, enabling them to become entrepreneurs.

This kind of support is relatively easy to identify and provide as all over India, as across urban and rural areas we find people who do not have the right assets to do their job well. Sustainability, however, becomes a question—What happens when tools break down or infrastructure needs repair? One way is to charge small usage fees for such ongoing maintenance. When these assets need to be replaced, however, either the incomes may have enabled savings so people buy new assets on their own or with loans, or CSR may need to step in again, depending on individual cases. Either way, providing such assets can have a significant impact on livelihoods.

4. *Productivity enhancement: Technology and know-how:* Corporates can share intellectual property and processes that could be safer, lower cost, and more efficient than traditional means. Such support is often delivered through camps and fairs, but technology transfer and process changes often need consistent handholding for a period of time, without which people fail to properly adopt the new techniques. Companies can consider using their own locations if convenient, or creating permanent locations in villages or urban areas to provide ongoing assistance, so as to meaningfully help the target population, perhaps for such period of time till the new process has been properly adapted into practice, and thereafter providing periodic updates through camps.

ITC's early e-Choupal project was one such attempt where village booths equipped with a computer and internet access could help farmers and villagers access information on farm practices, risk management, market prices, and input costs, thus empowering them to make better decisions. IBM is working with the NGO Drishtee Foundation to develop Smart Rural Aggregation Platform (SRAP) to offer agriculture advisory and extension services to rural farmers, as well as setting up supply chains, e-governance services, a rural help line, micro-financing, and other services—working to bring India's villages up to the technological speed of its cities and raising incomes of farmers and the self-employed in villages. Deepak Foundation's Apna Kisan Mall equips farmers with information, scientific knowledge, and modern practices of farming, and offers audio-visual training programmes and exposure trips. SMS-based crop advisory service and weather information is provided to farmers regularly.

5. *Risk management and mitigation:* Very often, families living on marginal incomes and with no security net are so dependent on current streams of income that they are unable to take any risks even to try new approaches that can improve income levels or stability of income. Resistance seen amongst farmers to adopt new techniques or cropping patterns is a prime example—as any failure or problem with the new technique means immense financial hardship.

Similarly, people will not abandon one profession or trade for another due to risks of being unsuccessful and losing whatever income they earned in the former profession.

Companies could in essence provide insurance in such cases, allowing people to try new techniques or make changes that can lead to a better future, without fear of failure. Such assurances should be bundled with the new process or training for a new vocation, and multiple companies could come together, if needed, to offer such a solution. For example, if a company is trying to increase adoption of new environmentally friendly pesticides or organic farming techniques, a financial services company could provide guarantee for a certain level of income if the new technique fails. If a training programme finds that working professionals cannot forgo their current income to be training on a new, more lucrative profession, a corporate could provide scholarships that cover part of the income lost during training, to entice students.

The Adani Foundation provides life insurance cover of Rs 30,000–75,000 and student scholarships to families of fisher folk who are below or marginally above the poverty line.

An important aspect of sustainable livelihoods is the ability to cope with shocks. This approach, essentially of insuring against failure, can also be used to encourage people to develop multiple income streams, which will help people cope with shocks in any one source of income.

6. *Creating and supporting market access for local producers:* While appropriate infrastructure, as mentioned earlier, can help producers, it is also well known that in various sectors including crafts and agriculture, middlemen and traders capture significant value, while producers earn little. Corporates, with their understanding of supply chains, marketing, and business development, can help such producers, particularly where they are organized to operate at some scale (for example in SHGs, cooperatives, or FPCs), to access markets more directly so as to earn higher incomes.

Companies can also help such producer groups design the right products, reach buyers, and negotiate

the right terms, particularly if they are in the same industry. A FMCG company can help gain access to organized retail, while a clothing or furnishings business can help artisan groups access international markets.

Corporates may find it easier to work with ‘social businesses’ that have emerged to help producers in such sectors, but often these social businesses themselves are small and resource strapped. For a corporate, however, such social businesses may be easier to work with, while the financial support can directly flow to the producer groups. Each sector has its own supply chain and economics, which need to be understood to develop such an intervention.

7. *Organizing industries:* Companies can also play a role in organizing the unorganized sector in their industry by creating standards, lobbying for regulations and guidelines, and training the sector in these aspects. This could be particularly useful in crafts, food processing, and construction. Some of these activities will not be considered to be CSR as per the Act, but on the whole, this can help to improve service levels or products, and

incomes of various entities in the sector and benefit corporate and unorganized players in that industry.

Normally, such an effort should be integrated into other interventions in the same sector so the company is addressing various inefficiencies, including industry structure, in order to improve livelihoods of those engaged in that sector.

Thus, companies can find CSR opportunities that suit their resources, geography, and business objectives. The most important thing is to be consistent as it usually takes several years to make a permanent impact on livelihoods (asset creation projects can be quicker).

### Supporting Government Programmes

As mentioned earlier, the Government of India and state governments spend nearly USD 75 billion on social projects each year, including through NREGA, NRLM, regular healthcare, and school systems. As per the programme guidelines, norms, and budgets, however, many expenses are either not allowed or spending is restricted, which leads to various problems, which CSR can help address.

No. Problem or challenge	How CSR can help
1. Often, research, planning, engineering and design, project and operations management, and supervision are under-invested in, while actual construction and labour costs are covered. Under-investing in some of these activities means that the end solution may not solve the problem, or may be of inferior quality and utility.	By understanding such projects and filling gaps, CSR can help ensure that projects are well designed and properly implemented for effectiveness. The Ambuja Cement Foundation spent money on consultants and invited the company’s engineers to redesign a dam being built by the government, thereby significantly increasing its benefit, while spending very little money. The Swades Foundation, through its deep understanding of the areas where it operates, regularly assists government programmes to be implemented and monitored more efficiently and cost effectively.
2. Projects run out of budget and are left incomplete or are inordinately delayed, causing complete waste of government funds	By monitoring planned and ongoing projects, companies may be able to predict problems and avoid incomplete projects, or invest their own CSR funds to accelerate completion, so benefits of the projects start flowing to the people. Maharashtra alone is estimated to need over Rs 70,000 crore to complete agriculture projects that are underway—which will take over 10 years at current budget levels. CSR could help accelerate this pace by providing expertise and funds to fast-track projects.
3. Existing infrastructure is often neglected and not maintained, reducing utility	Identifying useful but poorly maintained or abandoned infrastructure that the company can adopt and maintain
4. Communities may not be aware of government schemes that can be utilized for their area or problems	After understanding the needs of a certain area, CSR can monitor government programmes and allocations to ensure that area gets what it needs, including subsidies and support for new projects that can improve local livelihoods (e.g., capital expenditure rebates to set up small-scale industries).

Such approaches require a good understanding of ground realities as well as the ability to work with various government departments and officials for long periods of time. Companies can also hire consultants and advisors as needed to ensure they get the right solutions. The leverage offered by solutions can be incredible—small CSR efforts can yield very large benefits.

### Partnering with Other Companies

Many companies have established track records and experience working on certain issues or in certain geographies. Whether companies are relatively new or established on their CSR journey, and regardless of whether the budget is small or large, there is scope to partner and assist each other where objectives and priorities align, to maximize the impact of their CSR efforts.

Companies from the same industry may sometimes be reluctant to join forces unless it is an industry-wide effort, but two companies who work in the same region, or have common stakeholder groups, can find joint CSR opportunities. In such cases, it is important to set clear goals of each party and their responsibilities (financial contribution and others). Sometimes, one company may just contribute funds to help expand the CSR initiatives of another company (getting recognition and other benefits in return), while sometimes both companies may jointly manage the CSR programmes—in which case, it can be useful either to create a team with members from both companies, or have an independent operations team.

The Apollo Group that manufactures vehicle tires runs an HIV awareness programme for truck drivers. They decided to expand this programme by setting up health centres for truck drivers along highways. Apollo and ACF have opened few centres together, with both companies funding the centres and Ambuja Cement operating them where it has a presence. Both companies get equal visibility and hold periodic joint reviews to ensure that goals of both companies are being met.

Livelihood programmes require long-time frames and can be capital intensive and, therefore, partnerships between companies can be very useful to ensure focus, adequate resources, and stability of the programme.

Indeed, the social (and government) sector suffers frequently from fragmented efforts, parallel programmes, duplication, and lack of critical mass of resources to see projects through to an impactful conclusion. By collaborating, CSR can sidestep these challenges and support the social sector and government to maximize their impact as well.

### CONCLUSION

CSR needs to be viewed and treated partly as a company's responsibility and obligation to society and the environment, and partly as a tool that can further its goals. By making CSR mandatory, the Companies Act creates a unique opportunity for corporate India to use its resources—money, people, technology, networks, etc.—to further noble objectives of any modern society—a minimum standard of living and basic services for all, opportunities for jobs and livelihoods, and a safe environment where all can thrive.

By focusing CSR on livelihoods, companies can quicken income growth so more people enter the market where they can buy the goods and services they need, rather than depending on charity, government subsidies, or free services. In various ways, CSR can benefit companies equally in terms of reputation, brand image, developing supply chain partners, or creating future customers. There are different approaches to CSR, such as strategic philanthropy and creating shared value, each with its own advantages and challenges, and companies need to have clear CSR objectives before they can develop clear CSR plans and programmes.

While the Companies Act put down various regulatory requirements and norms for CSR, companies should remember that CSR extends beyond the Act and to that end, should be willing to support causes that are important to society. India consistently ranks near the bottom of every social and environmental indicator—here is an opportunity for companies to help change this. Partnering with government, social businesses, NGOs, and other corporates is an effective way to pool capabilities and funds, to maximize the impact of social programmes.

**CASE STUDY** Conversation with Saumya Lashkari, Head, Godrej Good and Green (G&G)

*Keywords: Creating Shared Value, Employability, Skills Development*

Launched in 2011, Godrej Good and Green is the shared value initiative of Godrej Group—a vision for playing a part in creating a more inclusive and greener India by achieving the following by 2020:

1. *Ensuring employability*: Train 1 million rural and urban youth in skilled employment
2. *Creating a greener India*: Achieving zero waste, carbon neutrality, positive water balance, and a 30 per cent renewable energy source
3. *Innovating for good and green products*: Having a third of portfolio revenues comprising good and/or green products and services—defined as products that are environmentally superior or addresses a critical social issue (e.g., health, sanitation, disease prevention) for consumers at the bottom of the income pyramid
4. *Brighter giving*: Structured employee volunteering

These goals span across CSR and sustainability (#1 and #2), are deeply intertwined with business strategy (#2 and #3), and engage all employees (#4) across all four businesses—chemicals (Godrej Industries Limited), consumer products (Godrej Consumer Products Limited), Real Estate (Godrej Properties Limited) and Foods (Godrej Agrovet Limited) with revenues of over Rs 8,000 crore and profit after tax (PAT) of Rs 325 crore in FY 2014.

**Creating Shared Value:** While the group's CSR programmes (mostly traditional philanthropic and charitable activities) were undertaken primarily through corporate trusts, G&G is centred and aligned with corporate strategy and business operations, to create shared value for society, the environment, and the business. The company invests significant resources in developing and running G&G programmes and derives substantial benefits.

**The process:** Buying into the concept of shared value early on (perhaps because the trusts already took care of philanthropy), Godrej Industries retained advisors FSG and Dasra to help develop an overarching strategy for CSR, sustainability, and positive business impact. Three questions were asked:

- (a) What does India need?
- (b) What does Godrej need?
- (c) What does each business unit need?

Loosely, this translates into the first step of developing a shared value strategy: *Identifying present and future business challenges and risks whose origins and solutions lie largely outside the boundaries of the company.*

The next step is to *identify and prioritize those challenges that the company can address.* While many ideas emerged, employability was chosen as it ticked all the three questions, and created shared value with the potential for deep impact on the company and society. Education, nature conservation, healthcare, etc., do not create shared value and would be left to the corporate trusts for philanthropic projects. The other two goals (#2 and #3) were chosen on principles of environmental sustainability and responsible business.

To go deeper, the company understood and forecasted the employment needs of its businesses and its supply chains and partners in the long term. FMCG needed sales staff, but also beauticians, retail staff, and others to sell and use the products; Agrovet needed better trained farmers; real estate business needs construction workers, electricians, plumbers, and interior designers, while its factories needed turners, fitters, and people with other industrial and mechanical skills. From this assessment, the company created five targets for 2020 (10 years):

- (i) Employability: 1 million youth trained
- (ii) Waste: Zero waste and carbon neutral
- (iii) Water: Positive balance
- (iv) Energy: 30 per cent renewable energy sources
- (v) Revenue: 33 per cent from G&G products

Then the company identified specific programmes to achieve these targets and began exploring how to operationalize and launch these initiatives.

*(Continued)*

## CASE STUDY (Continued)

**Processes and efforts that have worked:**

1. *Senior management made G&G a priority:* Strong messages from senior leadership, including the Vice Chairman, Nadir Godrej, and Executive Director, Nisa Godrej, holding quarterly reviews with the G&G team and relevant business heads on G&G projects, respectively, sent strong messages.
2. *Key staff have KRAs related to G&G:* All business heads will have KRAs related to achieving all the targets including employability targets. Thus, head of construction business will be responsible for training a certain number of construction workers aside from meeting energy, waste, and other targets for the business.
3. *Focus on doing the work well:* In the early stages, communications and PR, which are involved with projecting the company to the external world, were not included in G&G activities. Thus, the team had a chance to learn, experiment, and improve processes without external scrutiny or expectations, but with serious demands from the company's leadership. Pressure must be applied to ensure rapid progress—in early days, it is better from internal than external quarters.
4. *Prioritize social impact more than benefit to company:* Particularly in the early days of the project, this ensures every employee understands and internalizes the social responsibility of their work. While programmes were selected based on shared value, day-to-day operations of G&G focused entirely on creating social value, not benefit for Godrej.
5. *Quickly build a competent core CSR team:* Having a focused team that reported directly to the Board reinforced messages that G&G was a strategic priority. Building a high-quality team with a mix of business and social sector skills ensured projects were well conceived, that business heads were engaged and made responsible, and that project management was as rigorous as any business project within the group. In earlier decades, business functions like HR or corporate communications did not have full-time, specialized, and trained senior staff, but over time those became important business functions. CSR will see the same evolution.
6. *Centralize control in early days:* A dedicated team working with all business units helped share knowledge, ensure all projects were aligned with corporate objectives (versus each business running with its own initiatives and programmes), and develop tools and formats. Currently, all projects are managed jointly by business teams and G&G staff; over time, project management will be handed over to business teams, while the G&G team will continue to develop policies, programmes, tools, and formats, and undertake audit, impact assessment, communication, and other such functions.
7. *Be willing to experiment and fail:* G&G follows a process:



This helps iron out kinks in early stages, bring in appropriate resources at each stage as needed, and abandon projects that do not work without investing too much in them. It also means progress will be slow in early days, but then programmes can quickly gain momentum once they pass the 'Test and Refine' phase.

**Collaboration with other corporates:** Companies seeking to partner on CSR activities must be authentic and honest about their goals and objectives, and committed about what they can bring to the table (skills, knowledge, funds). Without such transparency right from the start, joint efforts will fail.

**Working with non-profit partners:** While the sustainability projects are executed internally, employability programmes are run by partner social enterprises. Lessons learnt:

1. Aside from setting goals together and funding programmes, the company must help bring good practices and systems to its partner NGOs that may lack these, help to strengthen management, and reduce costs and boost efficiency of the NGO. Such engagement deepens understanding between partners, strengthens long-term partnerships, and, ultimately, the company gets more impact for its CSR funds.  
A shared value approach both prioritizes such value creation as the company directly benefits from it and is able to deliver such support because CSR is closely intertwined with business operations. A philanthropic mindset may not be able to do the same.
2. Solicit honest feedback from implementation partners so the company can improve how it works with them so as to get better results and benefit more from CSR efforts.

(Continued)

## CASE STUDY (Continued)

**Key challenges:**

1. The pace of rolling out programmes and process of pushing operating responsibility to business teams (from G&G team) should be sensitive to performance pressures, bandwidth, and skills of business managers to handle these projects. The G&G team incubates and pilots all training projects along with business teams, but gradually reduces its engagement so that the business team ultimately takes responsibility for the scaling process. However, different business teams progress at different speeds due to the aforementioned issues.
2. Impact assessment is very important for internal evaluation and for externally explaining the CSR strategy. Lack of standard metrics to measure impact of training programmes, in particular, makes it very hard to compare performance across players or to properly communicate what the company is achieving. Just the number of people trained is not enough, as the quality of the programme and the end result of creating employment must be met—but these are very difficult to capture and track over time.
3. Finding senior staff who understand the social sector, have strong domain and functional skills, and who can operate within a corporate structure and work closely with business heads, remains a challenge in expanding G&G.

## CASE STUDY Conversation with Pearl Tiwari, Head of Ambuja Cement Foundation (ACF)

*Keywords: Corporate Foundation, Integrated Development, Livelihoods*

When setting up its first factory in Ambujanagar, Gujarat, in 1987, Ambuja Cements first had discussions with the local community to acquire land and address any concerns about its factory. The biggest was that a cement plant would destroy agriculture in nearby areas due to pollution from cement dust and consumption of fresh water used for manufacturing cement. Ambuja Cements demonstrated its concern for environment and the community by building its first factory to Swiss standards—a rose garden set up outside the factory flourished, allaying concerns about air pollution. Aside from increased project costs, however, such technology helped to improve operational efficiency and energy consumption, which benefited the business.

In 1988–9, it took up the Van-Vihar Project to convert a mined quarry into an environmentally restored and scenic location and in 1993, the ACF was established at a time when only a handful of very large Indian corporates undertook meaningful social development activities.

ACF was set up to ensure that community engagement and development got appropriate attention. The company had also learnt by then that special skills are required for community-based efforts and simply deploying engineers to do such work will not work. So, ACF, from the start, hired social workers and others with relevant and specialized skills, and had HR policies relevant to its team and mission, different from Ambuja Cements.

**Mission:** ACF firmly sees its mission as furthering the company's goals by providing for communities and employees. Execution, however, is not by undertaking projects that the company believes is important, but by engaging and listening to locals, understanding their needs and concerns, and then using high-quality staff and processes to address these needs.

**Activities and impact:** Early on, in the part of Gujarat where it was based, drought and availability of fresh water was a major problem. Water resource management became the first focus area, with the company focusing on community action, behaviour change, and building infrastructure like ponds and check dams to harvest and retain water. This has dramatically improved water availability, affecting agriculture, animal rearing, health, sanitation, and the environment—creating green patches in the desert. *Focusing on the most significant problem faced by the community yielded incredible goodwill and local insight.*

The company built hospitals and schools for its staff, but *opened these up to the local community*, creating goodwill and greater engagement between staff and locals. It also helped to improve local health and educational facilities. The company now provides comprehensive healthcare and supports 350 schools to improve the quality of education.

Over time, livelihoods emerged as the key issue in these poor communities. While the company could employ some of the educated or highly skilled labour in the region, most people had low skills, usually in agriculture, yet hoped for jobs with the company. Recognizing that this could create resentment (towards the company and particularly employees from local communities), ACF realized that if people were more self-sufficient and earned decent incomes, they would not expect or need jobs from Ambuja

(Continued)

CASE STUDY (Continued)

Cement. ACF built a multi-pronged approach that included seed production, sustainable farming, micro-irrigation, inviting experts and providing information, creating learning groups for farmers, cattle rearing, and veterinary services.

Over time, ACF encouraged people to diversify from agri-livelihoods and thus started its thrust into vocational skills development in 2005—today it runs 16 Skills and Entrepreneurship Development Institutes (SEDI) in 10 states, offering 56 different technical and non-technical programmes. Unlike Godrej's model, these programmes are not related to the company's business or recruitment needs.

Thus, over time, ACF developed the classical integrated development model, addressing an increasing range of community issues, in the attempt to make these regions more prosperous, healthy, and self-sufficient.

**Benefits of ACF to Ambuja Cement:** Initially, even though CSR was a clear priority for founders of the company, it was seen as a waste of resources by business managers—only spending, no earning. Co-founder, Mr Narotam Sekhsaria, always asked the CSR team to focus on doing good work, without considering interests of the company. Over time, managers started seeing the value of ACF in the following ways:

1. *Community goodwill helped business expansion:* When the company expanded its manufacturing facilities or even opened plants in new areas, the overwhelming community support for them helped acquire land and get permissions more easily—significant barriers particularly for extractive industries in India. Ambuja Cement has become a 'neighbour of choice'.

Today, the ACF team moves first into any area the company is considering for expansion, and builds community relationships, addresses their concerns, and makes plans for local development. Based on needs, resources, and partnerships (particularly with government), the radius of activities moves outwards from the factory location.

2. *Strengthen government relationships:* ACF's deep and genuine commitment to social work and quality of work done has made ACF a choice partner for implementing government programmes. Local farmers nominated ACF as the implementation agency for the government's Krishi Vikas Kendras, which today are operated by ACF but 95 per cent funded by the government. Local politicians value the improvements that ACF brings to their constituencies and support rather than harass the company.

The company benefits through quicker processing of its work by the local government, little harassment by officials, and faster implementation of new projects—all of which have tangible financial value.

**Governance and management:** ACF presents an update of its plans and projects to the Board of Ambuja Cements twice a year. The Head of ACF reports directly to the Chairman of the company, which sends a strong message to the entire company about importance of CSR.

ACF is one of the three legs of sustainability at Ambuja Cement, the others being Manufacturing Excellence and Environment.

To ensure coordination across all three legs of sustainability, Ambuja Cement has established a Corporate Sustainability Steering Committee and Unit Sustainability Steering Committees at each manufacturing site. By having senior business heads on these committees, the company ensures that all three legs get due importance and attention. Moreover, through rigorous reviews, it ensures that all factory locations share knowledge, best practices, and responsibility for company-wide goals.

**Partnering with government:** Having established itself as a high-quality social development organization, ACF has emerged as a key implementation partner for various government projects. Today, the government funds about 80 per cent of ACF's work, demonstrating how companies can leverage CSR spends manifold.

**Corporate Sustainability Steering Committee**

- Includes:
- Head of ACF
  - Head of manuf. excellence
  - Head of environment

Present to Ambuja Cement National Executive Council 2-3x per year

- Meets Quarterly
- Invites other relevant business executives
- Responsibilities:
  - Sets annual priorities
  - Ensures compliance with regulations

**Unit Sustainability Steering Committee**

- Includes:
- Business Unit Head (Chair)
  - Heads of Depts related to environment and sustainability: ACF, Labour, Environment, Technology, etc

Present to Regional Executive Council each month

- Meets Monthly
- Responsibilities:
  - Implementation of policies
  - Meeting goals and targets

(Continued)

**CASE STUDY** (Continued)

As mentioned before, local communities sometimes request ACF to implement government schemes, knowing that ACF listens to their perspectives and concerns, brings in processes and project management, technical skills, and, if needed, funding, to ensure projects are well executed.

**Implementation strategy:** ACF is an operating corporate foundation, with a large team that develops and executes programmes. This gives it greater control over quality of programmes and creates the flexibility to respond to evolving situations rather than being dependent on external NGOs, and helps the company to meet its own needs from CSR. Due to this structure, ACF can also create highly integrated programmes, which is difficult when working with multiple NGO partners. However, corporate foundations partner with NGOs, where possible, if the output can be exactly what the company needs.

**Partnering with other corporates:** ACF sees the new Companies Act as an opportunity for companies to come together and contribute towards solving parts of a problem, thereby addressing problems holistically. To this end, ACF has partnered with Apollo Tyres to set up health facilities for truck drivers. ACF, with its experience in healthcare, manages these centres, while both companies fund it jointly, get equal visibility, and review performance periodically. ACF partnered with Power Grid Corporation of India to operate mobile health vans. While Power Grid Corporation pays for the vans, ACF is able to operate them at very low costs due to its existing infrastructure, management, and overheads in the region.

At its 16 training centres, it has partnered with Taj Group of Hotels for hospitality courses and with Godrej Industries for beautician courses. Schneider Electric provides equipment and curriculum, trains the trainers, and provides joint certification for electrician training programmes.

The most important thing is to focus on local context and needs, have a staff with the right set of skills, and a strong mandate from the company to do what is in the best interest of local communities.

**CASE STUDY** Conversation with C. Joseph Babu, Executive Trustee and CEO of Axis Bank Foundation (ABF)

*Keywords: Strategic Philanthropy, Employability, Skills Development*

Set up as UTI Bank in 1993 as one of the earliest private banks in India, Axis Bank had become a mid-size bank by 2004. At this time, the senior management decided to consolidate and formalize its sporadic and ad hoc philanthropic and volunteering activities, and the Axis Bank Foundation was established in 2006. While the Bank continues to set priorities and directions, ABF has complete freedom and attention to implement programmes.

Axis Bank hired Boston Consulting Group (BCG) to help identify the form and constitution for its Foundation, which was set up as a Public Trust due to ease of management compliance. BCG also helped identify education as a key focus area.

**Strategy and focus:** Like many service sector or consumer-facing industries, banks do not have specific communities in which they operate. Therefore, ABF decided that trying to implement its own programmes would be a difficult and costly process, and it would lose flexibility to change courses and adapt over time. Since its inception, therefore, ABF has given grants to non-profit organizations (and occasionally social businesses) to run and expand their programmes.

In 2010, after the arrival of Mr Babu as CEO, ABF reviewed its focus areas and changed priority from education to sustainable livelihoods—including food security, income generation and skills development, and urban migration. It also set a new goal of having an impact on 1 million lives by 2017; 85 per cent of its budgets are invested in livelihoods, while 15 per cent is allocated to other areas including education, health, and sanitation.

Until recently, ABF also oversaw sustainability, energy, resource consumption, and employee diversity programmes for Axis Bank. This has since been hived off as these activities on internal business processes and need very different staff, expertise, and focus from strategic philanthropic CSR.

**Approach and methodology:** Recognizing that it takes a long time to impact livelihoods, ABF makes four to five year funding commitments and creates a five-year plan with a target number of households impacted, key milestones, and operating plan, so partner NGOs can build a team, design, pilot and scale programmes, to create meaningful impact during the grant period.

(Continued)

## CASE STUDY (Continued)

Unlike many Foundations that only fund direct programme costs, ABF focuses on funding the NGOs' operating expenses—staff salaries, training, communications, technology, etc.—thus helping to build the partner NGOs' institutional strength. For direct programme costs, ABF advises and helps its partners to tap government funds or the more traditional corporate foundations. Well-funded NGOs with good teams and resources are able to deploy programmes more effectively and maximize impact.

Twenty-two livelihood programmes have been rolled out, impacting 7,50,000 families so far, well on its way to impact 1 million lives by 2017. These include agriculture interventions (across 50 backward districts in 24 states), skill development for rural youth, and supporting artisans, the second largest employment pool after agriculture, with product development support and market linkages.

**The process:** Being a non-implementing, grant-making foundation, ABF has to ensure it has strong processes to review and approve grants, monitor progress, and assess impact.

1. Identifying prospective grantees: ABF accepts unsolicited proposals from NGOs and, through recommendations, also identifies potential grantees.
2. Evaluating proposals and due diligence: Proposals are reviewed on several parameters including impact on livelihoods, ability to raise other funds to scale, and depth and sustainability of impact created. Due diligence includes site visits, management meetings, and review of track records to understand management capabilities and core skills and weaknesses.
3. Creating a plan: A tentative five-year plan is usually drawn up jointly by the NGO and ABF team, and reviewed by the ABF Board before a grant is approved. This includes quantitative and qualitative targets and goals.
4. Once a grant is approved, a comprehensive baseline is conducted to document the conditions at the start of project, against which improvements can be measured.
5. Every project has its own set of impact metrics, though increase in income and cost per beneficiary are common benchmarks for all livelihood projects.
6. Every project is linked to a bank branch, depending on the area of implementation. An ABF Champion is nominated, an employee at that branch who takes responsibility such as organizing volunteering activities, taking customers to the project or publicizing the project at the branch, and giving the NGO space to sell its products at its office. This builds connect and buy-in with the 35,000 employees of the bank.
7. Monitoring:
  - (a) Projects are monitored every month—basic information is collected from NGO partners and reviewed against set targets
  - (b) Funds are released quarterly and a short site visit is undertaken before each tranche is released
  - (c) A detailed review is done annually with the partner. Decisions to further scale the grant, maintain status quo, or even reduce the grant amount if the project is unable to meet targets or achieve expected impact, and there is limited scope to rectify the situation are taken at these annual review meetings.
8. Bank employees are kept informed of projects and progress, so this information can be used with customers and regulators to explain the positive impact of Axis Bank.
9. A rigorous mid-term evaluation is done after about two years to monitor progress, so any lessons can still be incorporated and validated

Over the years, ABF has spent significant efforts on due diligence and now has 42 implementation partners. Going forward, plans are to develop new projects with these partners rather than add new ones. This will deepen relationships and improve the quality of programmes as a good working relationship and understanding of each others' culture and systems is already in place.

**Team and governance:** In 2010, ABF had four team members. As the budget has increased and processes have become more rigorous, the team has expanded to 12 full-time members, overseeing over Rs 50 crore in grants each year.

All ABF staff including the Executive Trustee are from amongst Axis Bank employees who can apply for full-time positions and are accepted based on interest in social work, skills, and background. ABF has now started recruiting staff from the social sector, so it has relevant expertise on its team. Adding middle-level managers from the development and livelihood sectors, in particular, should improve the quality of work.

(Continued)

## CASE STUDY (Continued)

ABF has six trustees—three are external and three from Axis Bank. A significant external presence ensures operating independence of ABF.

**Working with the government:** Helping deploy government programmes has a huge impact.

- The corporate can pay salary and costs of NGO to run project well, while direct project costs come from government.
- Any shortfall in government allocations, including timing mismatch, can be covered by the corporate to ensure the entire project is completed as planned.
- Research, baseline and endline impact surveys, technology for collecting and managing large amounts of data can be paid for by CSR—huge value and insight can be generated from these activities.

**Advise to corporate foundations:**

- CSR is serious business. Get good people to do it, and you will get good results.
- Keep arm's length between corporate parent and foundation. Roles of each should be clear.
- If something just is not working, cut losses and allocate more funds to what is working and is scalable.

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# Farmers' Producer Companies

## Need for Capital and Capability to Capture the Value Added

*Vijay Mahajan*

### INTRODUCTION

#### State of Agricultural Livelihoods in India

India has a large agrarian economy with most of its rural population subsisting on farming. Though the share of agriculture in the overall GDP has fallen steadily from over 50 per cent in 1950–1 to 14 per cent in 2011–12, the overall foodgrain production in India barely increased from 52 million tons (MT) in 1951–2 to about 70 MT in 1964–5. The generation which last saw a big famine in Bengal in 1943–4 has mostly passed away, and today's Indian youth have no memories even of the 1960s when the nation was facing severe food shortage and foodgrain was imported from the USA under the Public Law 480 food aid programme. By the 1970s, due to the launch of the green revolution based on high-yielding varieties of wheat and rice, India crossed over 100 MT of foodgrain production.

By the 1990s, the prescribed level of per capita food consumption was produced domestically and imports became near zero. As the arable land area of about 180 million ha has always been scarce in India, the increase in foodgrain production came from increase in cropping intensity and increase in yields per ha. While only 11 per cent of the net sown area of 140 million ha was cultivated more than once a year in 1950–1, this rose to 38 per cent by 2008–9. In terms of yields, the maximum gains were in wheat and rice. By 2011–12, wheat yield went past 3,000 kg/ha or sixfold of the 1950–1 level, while rice yield was 2,300 kg/ha or about four times the 1950–1 level (Venugopal and Kaundinya 2014). By 2011–12, the production was over 257 MT. This is a great national achievement. Yet, the majority of India's farmers are in distress.

Agriculture is still the predominant occupation of over 56 per cent of India's population, who are either cultivators or agricultural labourers. Even among cultivators, the most numerous category are the marginal

(less than 1 ha) and small (less than 2 ha) farm holdings, 63 per cent and 18.8 per cent of all farmers, respectively, in 2006–7. However, they accounted for 20.7 per cent and 20.8 per cent of the land area, respectively. The average marginal holding size was 0.4 ha and the average small holding was 1.4 ha. This has made it very difficult to eke a full livelihood for the most numerous among farmers—the marginal and small farmers.

This has resulted in most farmers in this category engaging in non-farm activities in the off-season, when not busy with agricultural operations. The most telling example of this is the number of manual (tricycle) rickshaws that ply in the post-harvest months of November to May versus the monsoon agricultural months of June to October. Even in agriculture, farmers are trying to diversify into higher-value commodities such as vegetables and fruits, and milk production, which fetches them a better yield due to the combination of land and labour. As can be seen from Table 5.1, by 2005, small and marginal farmers contributed as much as 83.5 per cent of all vegetable production, 88.4 per cent of fruits, and 77.4 per cent of milk. It appears most of these commodities are indeed grown by small and marginal

farmers. But, as Table 5.1 shows, only 15.8 per cent of small and marginal farmers grew vegetables and only 5 per cent grew fruits in 2005. Though the proportion may have gone up since then, the participation rate is low: 'Evidence has shown that smallholders do participate and make a sizeable contribution to the production of high-value food commodities, but their links to markets are not strong' (Birthal et al. 2007).

Yet, the price realized by the farmers is usually a small fraction of the end price paid by the consumer, as can be seen from Table 5.2.

One explanation of this difference in the farm-gate price and the consumer price is the long chain of middlemen that exists in the traditional marketing channels—from the *katcha adatiya* (local commission agent who procures from farmers) to the *pucca adatiya* (a commission agent on the wholesale buying side), to the wholesale buyer to the retailer. However, even if those multiple layers are removed, as has been tried in some cases, the price difference remains significant. Another reason for this is the costs of procurement, aggregation, sorting, grading, storage, transporting to terminal markets and then to consumer outlets, and the risks and costs at each stage.

**TABLE 5.1** Participation of small farmers in the production of high-value commodities

Category	Vegetables	Fruits	Dairy
Participation rate (% of farmers in category who grow vegetables/fruits or engage in dairy)			
Small and marginal farmers (<2 ha)	15.8	5.0	41.0
Medium farmers (2–4 ha)	14.8	2.7	56.7
Large farmers (>4 ha)	10.4	3.0	68.5
All	15.3	4.6	44.2
Production share by farmers in category who grow vegetables/fruits or engage in dairy			
Small and marginal farmers (<2 ha)	83.5	88.4	77.4
Medium farmers (2–4 ha)	11.9	7.1	13.7
Large farmers (>4 ha)	4.6	4.5	8.9
All	100.0	100.0	100.0

Source: Birthal, et al. (2007).

**TABLE 5.2** Channel margins in various vegetables and fruits

Prices at various stages	Tomato	Potato	Cabbage	Cauliflower	Banana
Price paid by end consumer (Rs/kg)	8.20	12.00	9.00	9.50	12.00
Price received by farmer (Rs/kg)	2.00	6.60	5.00	5.50	4.00
Price realization by farmers as % of consumer price	24	55	56	58	33
Price paid by end consumers as % of price received by farmer	310	82	80	73	200

Source: Murray (2009).

The National Sample Survey Office (NSSO) conducted a Situation Assessment Survey of Farmers (NSS 2003)<sup>1</sup> during 2003 as part of the NSS 59th round, collecting data from 51,770 farmer households in 6,638 villages. Unfortunately, this survey has not been repeated more recently, but farmers' livelihoods today may have worsened. Two of its findings are highlighted in the following box.

- An estimated 27 per cent of farmers did not like farming because it was not profitable. In all, 40 per cent felt that, given a choice, they would take up some other livelihood. (Indeed this proportion in 2014 may be even higher.)
- Nearly 5 per cent of farmer households had a member who belonged to a self-help group (SHG). Only 2 per cent had a member who belonged to a registered farmers' organization. About 29 per cent of farmer households included a member of a cooperative society. Only 19 per cent had availed themselves of services from a cooperative. Most of these households availed of either credit facilities or services related to seeds or fertilizers.

### Role of Farmers' Producers Organizations (FPOs)

Let us dwell on the second point stated earlier. Farmers can be organized into informal groups, formal associations, cooperative societies, producer companies, and unions. In India, cooperatives have been the primary modality of organizing farmers. In spite of over a hundred years of state support to farmers' cooperatives, it is disappointing to note that only one in five farmer households availed of any service from a cooperative. A majority of these user households got only a part of their crop credit needs and fertilizers from the cooperative.

There are next to no cooperatives (except in dairy and sugarcane) in the processing and value addition side. In sugarcane, there is a long history of cooperatives, particularly in Maharashtra, and 40 per cent of all sugar is produced by cooperative sugar mills. In milk processing cooperatives, while there is a history of over seven decades, particularly in Gujarat, but in 2013, only about 16 per cent of the marketable surplus milk was procured and processed by dairy cooperatives. In no other commodity are cooperatives as important in India.

In the case of credit, the importance of cooperatives has come down over the years due to internal problems

as well as better operations by the commercial banks. The share of credit cooperatives in agricultural credit has come down from over 50 per cent in 1970s to 16 per cent in 2012.

In input supply, thanks to state patronage, two very large farmer-owned cooperatives were created—Indian Farmers Fertiliser Cooperative Limited (IFFCO) and Krishak Bharati Cooperative Limited (KRIBHCO). They thrive as organizations, and the total share of cooperatives in fertilizer supply in India was 36 per cent in 2012, as per the data provided in Table 5.3.

In contrast to the Indian situation where cooperatives are not major players in any sector except sugarcane, milk, and rubber, farmers' collectives are very significant players in the value chains of developed countries. In the European Union (EU), cooperatives account for 50 per cent of the input supply and 60 per cent of processing and marketing. The numbers for the US are 25 per cent and 30 per cent, respectively; for Australia 30 per cent and 40 per cent, respectively; and for New Zealand 70 per cent and 90 per cent, respectively. In the Netherlands, the market share of Rabobank alone is 85 per cent in agriculture, 40 per cent in savings, 40 per cent in credit to small and medium enterprises, and 35 per cent in home mortgages. Within the EU, different countries have different market shares occupied by cooperatives in different commodities and in different stages such as input supply, credit, and processing and marketing.<sup>2</sup> This is shown in Table 5.4.

What is the significance of farmers' collectives (cooperatives or farmer owned-companies) having a large market share in most agricultural commodities and in various steps of the value chain—from input supply to output marketing? The first thing we need to acknowledge is that value addition in just crop cultivation is quite low, if one takes into account all the costs of labour, land rent or land quality maintenance, irrigation, inputs, and post-harvest operations. The major part of the value added in agriculture is not in crop cultivation, but in post-harvest storage, transportation, processing, packaging, and marketing. Take, for example, a 50 gm *roti* served at an Indian home. It costs about Rs 3, but the farmer's value added (income, that is, sale price less input cost) for the wheat is no more than Rs 0.30 of this. So, even at home, it is 10 per cent of the final price. If the same 50 gm wheat is made into biscuits, the final price would be at least Rs 10 and the farmer's share of value added falls to 3 per cent.

TABLE 5.3 Share of cooperatives in national economy

Particulars	% for item by cooperative organizations
Rural network (villages covered)	98
Total agricultural credit disbursed by cooperatives	16.9
Short-term agricultural credit disbursed by cooperatives	20
Kisan credit cards issued (43.66 million up to 31 March 2012 since inception)	38.3
Fertilizer distributed	36
Fertilizer production (4.598 MT for the year 2009–10)	28.3
Installed capacity of fertilizer manufacturing units (31.69 lakh MT, N Nutrient, as on 31 March 2010)	26.3
Installed capacity of fertilizer manufacturing units (17.13 lakh MT, P Nutrient, as on 31 March 2010)	30.3
Installed number of sugar factories (324 as on 31 March 2012)	48.2
Sugar produced (9.304 MT as on 31 March 2012)	39.7
Capacity utilization of sugar mills (as on 31 March 2012)	44.7
Wheat procurement (9.440 MT during 2012–13)	24.8
Paddy procurement (5.518 MT during 2011–12)	14.8
Retail fair price shops (rural + urban)	20.3
Milk procurement to total production	7.85
Milk procurement to marketable surplus	16
Ice cream manufacture*	45
Oil marketed (branded)*	49
Spindles in cooperatives	9.83
Handlooms in cooperatives*	54
Fishermen in cooperatives (active)*	23
Rubber procured and marketed*	18.5
Areca nut processed and marketed (3.65 lakh tonnes)*	15
Salt manufactured (18,266 MT)*	7.6

Source: National Cooperative Union of India, *Indian Cooperative Movement—A Statistical Profile 2012*, available at <http://www.ncui.coop/pdf/indian-cooperative-movement-a-profile-2012.pdf>

Note: \* for previous years.

TABLE 5.4 Market shares agricultural cooperatives in the EU

Country	Dairy	F&V	Wine	Meat	Cereals	Forestry	Inputs	Credit	Savings
France	47	30	52				52	85	
Germany	70	45	33	30			54	41	
Denmark	95	18		90			58		
Netherlands	83	57		35			54	87	40
Belgium	50	72		20			40		
UK	50	40		25	25		30		
Ireland	60			70	65		65		
Sweden	95			40		60	70		
Finland	96			70		34	40		34
Austria	94			20	65			67	
Italy	38	41	70	15	17				
Spain	40	15/45	50	30	35		70	66	
Portugal	82	45	49						
Greece		55	40		40				

Source: COGECA, EU-Federation of Agricultural Cooperatives.

Thus the conclusion that farmers need to participate in the full value chain to benefit from agriculture and they need to be aggregated into large numbers to be able to own parts of the value chain. For this, they need capital and capability.

Many visionaries saw this and some like the economist D.R. Gadgil were able to persuade a farmers' leader Bala Saheb Vihke-Patil to establish sugarcane crushing factories in the cooperative sector. Another visionary farmer leader, Tribhuvan Das Patel, who had successfully organized dairy farmers of Kheda district of Gujarat into the Anand Milk Union Ltd (AMUL), was looking to build the capacity of the institution to take on competition from the private sector. He hired a young professional in 1948—Veghese Kurien. By 1965, with the support of the government, Kurien managed to muster capital for taking the AMUL pattern cooperative all over India through the ingenious means of selling free imported milk powder and using the proceeds to finance the organization of dairy cooperatives and enabling them to set up procurement and processing value chains. These capital-intensive units were owned by district milk cooperative unions and state-level dairy cooperative federations, using a common brand per state, such as Amul in Gujarat, Vijaya in AP, Aavin in Tamil Nadu, Saras in Rajasthan, Parag in UP, and Sudha in Bihar.

For capability creation, Kurien established the Institute for Rural Management (IRMA) at Anand, with the hope that most of its graduates would work with the cooperative institutions. Initially, IRMA postgraduates joined cooperatives, but at that stage they were fresh youngsters and it took at least a decade before they could get into significant roles. By that time, most had left the sector. To build capability of the existing managers, IRMA then started the one-year programme for practicing dairy managers, but it was only a partial success. One major reason was the reluctance of state dairy cooperatives, run by a nexus of bureaucrats and political leaders, to build managerial capability in their cooperatives, lest it would challenge their ability to use the cooperative for their own purposes.

To enable the cooperative form of enterprises to continue to serve rural producers in the increasingly competitive scenario, and to grow along the value chain, a need for an alternative institutional form was recognized.

Various bodies deliberated on it, most notably the Brahm Dutt Committee established by the Planning Commission in 1989. This led to legislation of a new generation of 'mutually aided' (as against state-aided) cooperatives. The first of these was in Andhra Pradesh in the form of the Mutually Aided Cooperative Societies Act, 1995, which was subsequently replicated in nine more states. However, there was resistance to amend the cooperative law in several states, including Tamil Nadu, Maharashtra, Gujarat, and Uttar Pradesh, which had a large number of cooperatives.

### Producer Companies Legislation as an Enabler

Veghese Kurien kept up his search for a better way to free cooperatives from the yoke of the bureaucratic-political nexus. With this in view, he persuaded the Government of India to constitute a High Powered Committee. The noted economist from Gujarat Yogendra Alagh was appointed the Chair and its main terms of reference were to:

- examine and make recommendations with regard to framing legislation which would enable incorporation of cooperatives as companies and conversion of existing cooperatives into companies; and
- ensure that the proposed legislation accommodates the unique elements of cooperative businesses within a regulatory framework similar to that of a private limited company.

Recommendations of the Alagh Committee led to the producer companies legislation coming into force on 6 February 2003 as Chapter IX A of the Companies Act, 1956. Prior to this, the Companies Act, 1956, recognized only three types of companies, namely, companies limited by shares (sub-divided into public limited and private limited companies), companies limited by guarantee, and unlimited companies.

A producer company is a business enterprise registered under the provisions of Part IX A of the Companies Act, 1956, and is run on the basis of Mutual Assistance Principles (Sec 581G(2)), namely,

- voluntary membership,
- voting right independent of share holding,
- elected board from amongst members,
- limited return on share capital, and
- distribution of surplus on patronage base.

Any ten or more individual producers or two or more producer institutions or a combination of both may form a producer company. A producer company can also be formed by conversion of a cooperative having its objects/activities (directly or indirectly) beyond a state. Producers' companies are therefore like cooperatives registered under the Companies Act. Similar legal frameworks are in place in many countries, such as the US, Switzerland, Italy Denmark, Norway, and New Zealand.

The following terms are defined in the legislation:

- Primary produce—Produce of farmers, arising from agriculture (including animal husbandry, horticulture, and pisciculture) or any other primary activity or service which promotes the interest of the farmers.
- Producer—Any person engaged in any activity connected with or relating to any primary produce.
- Producer institution—A producer company or any other institution having only producer or producers or producer company or producer companies as its members, whether incorporated or not.
- Member—A person or a producer institution admitted as a member and who retains the qualifications necessary for continuance as such under Sec 581A (d) of the Companies Act, 1956. (Sections have been renumbered in the 2013 amendment of the Act.)
- Active member—A member who fulfills the quantum and period of patronage as may be required by the articles under Sec 581A(a).

Member voting provisions:

- For a company formed of individuals, a member shall have single vote irrespective of shareholding as per Sec 581D(1)a.
- Where the company is formed exclusively by producer institutions, the voting right may be computed on the basis of participation in the business as per Sec 581D(1)b.
- For a company formed of individuals and institutions, there shall only be a single vote for every member as per Sec 581 D(1)c.

The articles may restrict the right of voting to only those members who patronize the company. The legislation combines the institutional and philosophical strengths of cooperatives such as the ownership being limited to users; limited interest on shares; no trading of

shares; and patronage-based benefits with the flexibility and autonomy of company law. The law ensures active member participation in business and management by specifying the following:

- Active members participate in decision-making process, and are eligible to elect and to be elected as members on the Board
- Voting rights are based on patronage
- Participation in business is required for continuance of membership
- There is voluntary amalgamation and division in business interest
- The Board is elected by the producer company without any government interference
- There is flexibility with regard to joint ventures, alliances, and mergers and acquisitions.

Lesser bureaucratic and/or political interference is ensured by specifying that no political nomination is possible by the state government nor is there any scope for equity share capital from the government and no provision for supersession, providing exemption, issue of directive, compulsory amendments, etc. A comparison on key features between FPCs and cooperatives can be seen in Table 5.5.

### Programmes for FPC Support

It took several years for promotional agencies to recognize the value of organizing farmers into FPCs under the new legislation. The first few producer companies were made by developmental non-governmental organizations (NGOs), which are more prone to innovation. This effort was led by Action for Social Advancement (ASA) and Professional Assistance for Development Action (PRADAN) in Madhya Pradesh, where the state government's District Poverty Initiatives Programme took up the formation of nearly a score of FPCs with the help of NGOs. In Gujarat, DSC and Aga Khan Rural Support Programme (AKRSP) formed FPCs of farmers they were working with. BAIF also established a producer company of mango and cashew growers in Vansda in south Gujarat. In a few cases, such as Vishakhapatnam in Andhra Pradesh, an existing dairy farmers' cooperative converted itself into an FPC. Rangasutra was organized around the craft groups of URMUL in Rajasthan.

TABLE 5.5 Comparison between FPCs and cooperatives

Features	Producer companies	Cooperatives
Principles	Mutual assistance	Cooperative principles
Registration	Cooperative Societies Act	Companies Act
Membership	User-members	Non-users also
Relationship with other corporates/ business houses /NGOs	Transaction based	Producers and corporate entity can together float a producer company
Voting rights	One member one vote/patronage voting	One member one vote/patronage voting in parallel Acts
Professional management	Provision for experts in Board	No such provision
Role of registering authority	Significant, overbearing	Minimal, to ensure procedural and reporting compliance.
Borrowing power	Restricted	More freedom and alternatives
Nominees on Board	No such provision	Provided
Audit by	Chartered accountant	Government
Election held by	Incumbent Board	RCS
Area of operation	Not restricted	Restricted
Registration	Central Act	State Act

Source: Murray (2009); some modifications made by the author.

The fillip to the movement came when Pravesh Sharma, an IAS officer of the Madhya Pradesh cadre, who had served as Principal Secretary, Agriculture and Cooperatives in MP, joined as the CEO of the Small Farmers' Agri-business Consortium (SFAC) in Delhi. Though the SFAC had been established as far back as 1994, it was only running a small venture capital scheme under which agro-processing units run by private entrepreneurs were financed. In 2011, the Finance Minister announced a budget to promote vegetable-growing clusters. The task was given to the SFAC and it set up the National Vegetable Initiative around Urban Clusters (NVIUC). The methodology under this programme was to organize vegetable farmers into FPCs and the task was given to NGOs selected through an open bidding process. The NGOs were paid to hire staff and carry out the organizing and hand-holding activity over a period of two years. Subsequently, another similar programme was added under the National Accelerated Pulses Production Programme. This resulted in a large number of FPCs being promoted. The SFAC's website lists 379 registered producer companies as on 31 July 2014. However, practitioners assert that over 600 have been registered or will be registered before 31 March 2015. Another 100–200 have been formed under other programmes.

Having organized the FPCs, with farmers contributing the initial share capital, while the promotional costs were paid by the SFAC, it became necessary to provide FPCs with capital for further growth and the capability

to manage functions such as bulk purchase and supply of inputs to members and aggregation of produce for collective marketing. Help came from Ashish Mandal of ASA, who had promoted many FPCs in MP, who was nominated to be a member of the National Advisory Council. He carried out a number of conversations, and based on those inputs and his own experience of forming and hand-holding FPCs, made a presentation to the NAC, seeking a broad range of support, which was endorsed by the NAC. This then resulted in the SFAC getting funds for launching an Equity Grant Scheme and a separate Credit Guarantee Fund. Under the former, an FPC which has raised Rs 10 lakh of share capital from its members can get up to Rs 10 lakh as a matching grant to double its equity capital. Under the second scheme, the SFAC offers an 85 per cent guarantee for a bank loan of up to Rs 1 crore to the FPC. Both these schemes are poised to take off in this fiscal year.

Among non-government agencies, the Rabobank Foundation, Ananya Finance, and the Indian Grameen Services' (IGS) Livelihood and Microfinance Promotion (LAMP) Fund of the Basix Social Enterprise Group have been supporting FPCs with loans. National Bank for Agriculture and Rural Development (NABARD) has recently announced its intent to support FPCs with a combination of capacity-building funds as well as loans and refinance to banks who lend to FPCs. But will these schemes generate the support needed? To answer that question we have looked at the generic capital and

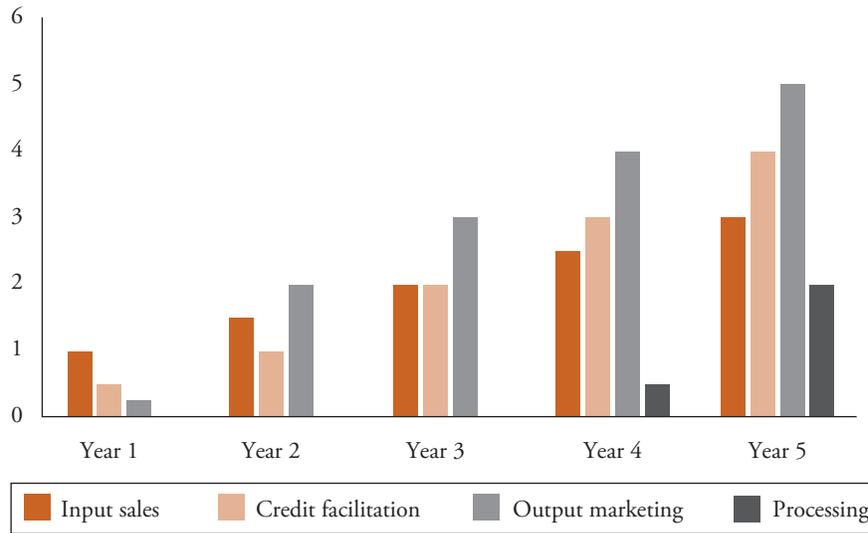


FIGURE 5.1 Stages in the evolution of an FPO (figures in Rs million)

capability requirements as an FPC evolves (see Figure 5.1). The four key functions of FPCs are:

- bulk purchase of inputs for supply to members;
- facilitation of credit, insurance, and extension services;
- aggregation of produce for collective marketing; and
- processing of produce for value added outputs.

Each of these functions requires additional capital and additional capability among the Board members, the general body members, and the staff of the FPCs.

In Figure 5.2 and Figure 5.3, we show what inputs are needed in the form of capital (grants, debt—soft and commercial loans, and equity) and what other inputs are needed to build capacity (training, exposure visits,

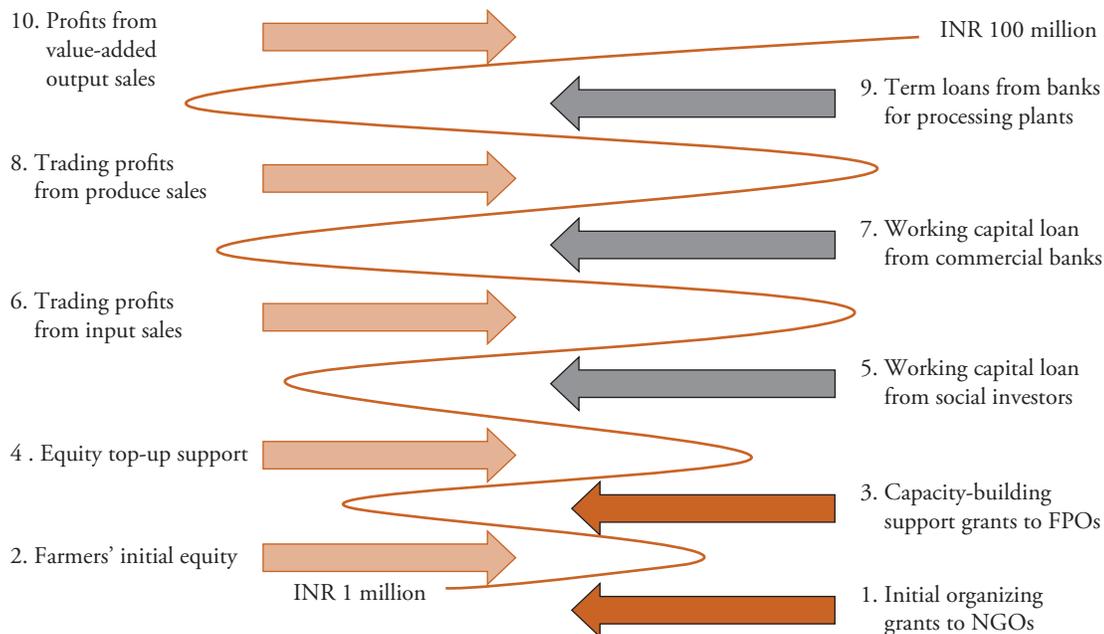


FIGURE 5.2 How FPOs can build capacity in 10 steps

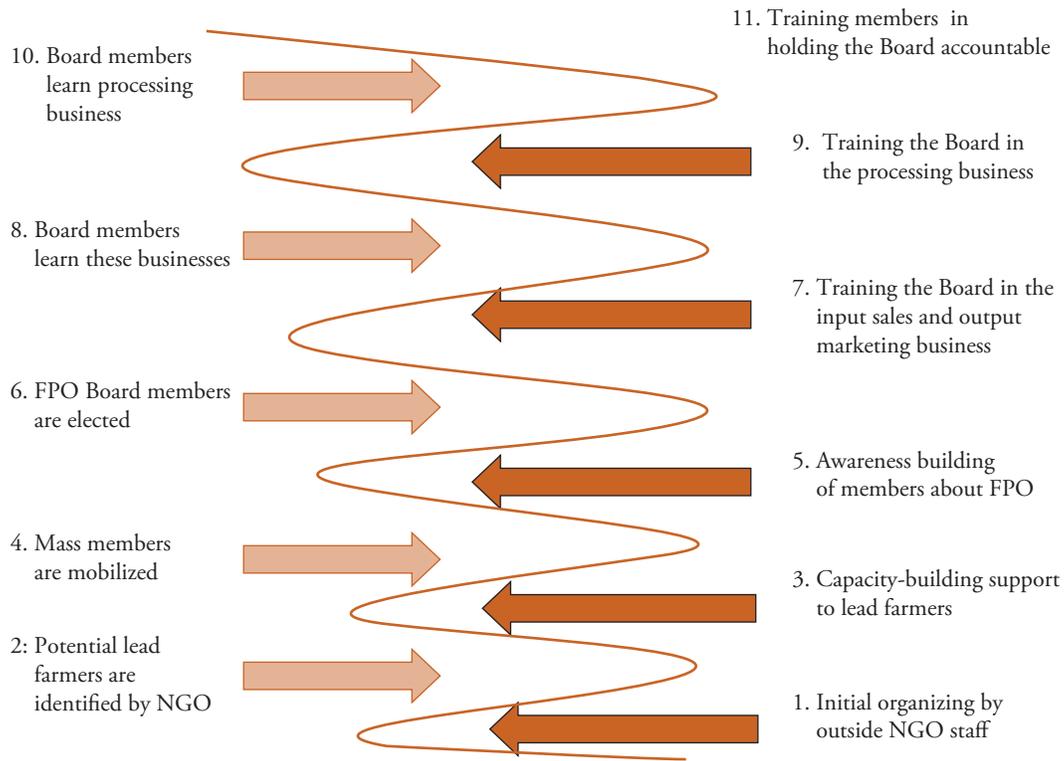


FIGURE 5.3 How FPOs can build capacity in 11 steps

hand-holding, system-building, governance practices, etc.). The two figures are self-explanatory, and what is important to note that the journey of the 21 steps (10 + 11) will normally take any FPC at least seven years, if it has to be done in manner that will build an abiding institution. Remember it took Verghese Kurien 16 years to go from AMUL to the NDDDB and another 16 for the NDDDB to complete ‘Operation Flood’ to replicate AMUL in 120 districts of the country.

## The Record of FPCs So Far

### Studies

One of the first comprehensive studies on producer companies was carried out by PRADAN in 2006. This study dealt more with the operational problems of establishing producer companies, many of which had to do with the unfamiliarity of officials and bankers about this new legal form. The next important study was by Murray (2009) who studied nearly 25 producer companies, of which a majority were in Madhya Pradesh. He also

studied two companies which were in sectors other than agriculture—Rangasutra in crafts and Masuta in tussar silk. Murray talked of a three-step evolutionary process of FPOs—initially as aggregators, later as intermediaries between farmers and processors, and finally as processors themselves. He ended with a ‘hope’ that banks would finance FPOs in a big way.

One of the most comprehensive studies on producer companies in India was carried out by Amar K.J.R. Nayak of Xavier Institute of Management Bhubaneswar (XIM), with NABARD sponsorship in 2013. The purpose of this study included the following: (a) to understand the current status of the producer companies in India in terms of organizational design and structure of ownership; (b) to understand the performance of the existing producer companies on various business parameters and in terms of improving net incomes and market power of small and marginal farmers; and (c) to determine the problems faced by these companies and the possible mechanisms to address the constraints being faced (Nayak 2013).

The study began with a list of 258 producer companies, collected secondary data in detail on 55 of

those, and then 15 of those were studied through field visits. The main findings are that producer companies already represent a huge diversity in terms of size, from those with a few hundred members to some with over a million. In terms of economies of scale, most producer companies have gone into at least the first few links of the value chains so as to add value. Few have gone into multiple commodities. In terms of technology, again they represent a spectrum—from using the traditional to adopting modern technology.

Management deficit exists in most producer companies and is being made up by certain internal or sectoral training programs such as the SFAC-funded XIMB programme Management@Grassroots. Marketing efforts again span a range of methods from rural sales to local retailing to using distributors to reach distant markets.

The study identified the key drivers for the formation of producer companies: (i) to create a good alternate delivery system to supply external agricultural inputs to farmers on time and at government prices and (ii) to directly sell the surplus produce of farmers in the market so that farmers get better prices for their produce.

Nayak (2013) identified the challenges of producer companies in the following areas: (a) social capital formation in producer companies; (b) governance and management capabilities of producer companies; (c) scope and scale of producer companies; (d) market landscape of producer companies; (e) ownership issues in producer companies; (f) convergence of resources from district administration; (g) institutional architecture of producer organizations in the district; and (h) financial capital formation of producer companies.

To overcome these challenges, Nayak recommends greater upfront effort in social capital formation and in capacity building; developing ecosystem services which include emergency credit, consumption credit, production credit, retail services on consumables, and other agricultural production support services; basic physical infrastructure; taking up 'climate-smart' agriculture and mitigating the risks of or adapting to climate change; convergence of knowledge and resources at the level of the producer company, including the creation of a district and below level architecture for producer companies, so that they do not come up as islands and later get overwhelmed. His most important recommendation is that 'producer organizations need to

be optimally designed on the various design parameters of an organization. The key design variables are size, scope, technology, management, and ownership, and these variables need to be simultaneously optimized for sustainability' (Nayak 2010).

In a recent comprehensive paper, two master's students from the Lunds University Puzniak and Cegys, studied seven sets of producers companies promoted by different agencies. They state: '[T]he producer company is found to be combined with other institutions—predominantly with cooperatives and self-help groups—which try to create platforms for ownership and governance of the producer company by a large collective membership of small producers' (Puzniak and Cegys 2011). Their paper explores 'how the latent potential of these institutional structures relevant to the aspirations of sustainable development' could be unleashed and identifies three key constraints—capital, capacities and facilitation' (Puzniak and Cegys 2011).

### *Practitioners' Feedback and Case Studies*

The author spoke to a number of practitioners from different promotional organizations to understand what they thought of the FPCs, the journey so far, and the future expectations and challenges.

According to Sankar Datta, an expert in organizing farmers' collectives and building their capacity,

One of the problems that a user-owner organization like farmers' producer company faces is the duality of interest of owners and users. As an owner, the share-holder farmer wants to maximize surplus (not on equity but on their patronage) even if that means paying lower to the suppliers. But, as a user, he wants the best price, and resolving this dichotomy makes the role of the leader very critical.

Secondly, these organizations emerge when there is a market failure. As markets become more competitive, the undue margins start disappearing. When the marginal return from selling to a collective starts becoming lower than the cost of collective action, these initiatives start fizzling out. As a result, cooperatives which have functioned very well in the first few years start underperforming after a few years.

Another important point is that size has a significant implication for the design of the collective enterprise. But, apart from the size of the group they have also looked at some of the other conditions that are necessary for collective action to be sustainable. Finally, if FPCs cater to only small and marginal farmers, they start facing the problem of breaking-even when the project funding support end. That is the time a producer

collective ends up enrolling (or failing to enroll) large farmers. With this group coming in the dynamics of governance, which is designed with patronage cohesiveness within a homogenous small farmer group starts cracking, unless there are other socio-political conditions create conducive environment.<sup>3</sup>

Girish Sohani, CEO of BAIF, shared that they have formed about 15 FPCs and another 10 are associations/cooperatives. They were among the pioneers in forming an FPC. According to Sohani, there is an inherent tension between the economic viability of an FPC (which requires a larger and larger scale) and the Board and management's accountability to the members (which gets more and more difficult with a larger scale). He suggested a two-tier architecture for this—form associations or cooperatives at the local level and then have an FPC at the next level. This is what BAIF had done in the case of the Vasundhara Producer Company, which is the apex body for processing and marketing mango and cashew nut products, with a turnover of over Rs 6 crore per annum. In contrast, in the Jawahar block of Thane district, they only have associations of flower growers, as no processing is needed. Sohani cautioned, however, that the capacity building that is required takes several years of hand-holding.

Trilochan Sastry, Professor at Indian Institute of Management Bangalore, who has organized the CCD set of commodity producers' cooperatives in the Anantapur and Adilabad districts of Andhra Pradesh/Telangana, felt that FPC legislation does not make adequate provision for building the capital base of these organizations and they thus necessarily remain at a disadvantage. He lamented the lack of availability of capital, even for financing normal operations such as buying and selling, leave alone for building processing facilities. Jacob John, a practitioner who has worked with Sastry's FPCs, identified the following reasons why FPCs hit a plateau. FPCs start well as they run on the enthusiasm of a small team and leadership and their scale of operations is small. But as the initial funding for a 'pilot' or the seed capital/ start-up funding dries up, working capital (initially arranged through friends and personal contacts) becomes a constraint. Successful FPCs are expected to generate their own sources of funds but with the exception of SFAC these are not available. Even NABARD loans are given against collateral security. Investment in processing and packaging is rarely possible at the single FPC level.

Jacob asserts that most interventions by FPOs begin in the high volume, low margin business (aggregation, basic cleaning/processing, and sales of commodities) and stay there as FPOs are not able to procure or rent high-end processing equipment to compete in product business. Scale and margins seem to be mutually exclusive categories for the FPOs and profitability seems to be an unachievable dream. What FPCs need is patient capital to support basic infrastructure including warehouses, early stage staffing, and capacity building. On the capability side of FPCs, Jacob John<sup>4</sup> says that people begin to leave the organization after it reaches the plateau because the spearhead team aka 'professional management' cannot see personal growth. He recommends encouraging young people to continue working in the sector through better training and capacity building and creating personal growth opportunities within the sector for both outside professionals and local talent.

According to Mihir Sahana, CEO of Basix Krishi Samruddhi Ltd,<sup>5</sup> 'the FPO is a structure which is too far off from members and hence does not promote collective action. Most of the FPO are covering 20–40 villages which is too big a geography for promoting collective action. The guidelines must clearly restrict an FPO to a maximum of 3–5 villages for organic linkage and interaction among members and also do critical functions collectively. As is seen in the Amul dairy cooperatives, the Mulkanoor credit cooperative and even in [well-functioning] SHG Federations, there is a legally structured body at the village level which is involved in many collective activities like milk collection, logistics, payments, etc. We may need to look at forming societies at a panchayat level (3–5 villages) with specific tasks that are performed at a regular interval'.

Hence, in FPO structures too we may need to relook at forming some formal body other than FIGs which can meet and undertake some regular activity at the village level. The FPO may then undertake other function like storage, capacity building and technical training, processing, chilling other management functions, etc. These are to have the same structure as unions. It is also felt that FPCs are not a good enough structure to be able to market their produce/establish market linkages to the advantages of its members as the numbers and volume initially is not high enough and also the

capability and manpower required to take out this function may not be viable to support an FPC as is structured now.

Ram Sundar Roy and Vasumathi are both Vice-Presidents in the Indian Grameen Services (IGS), a promotional organization of the Basix Social Enterprise Group, which has helped organize and register 45 FPCs and is in the process of helping another 40 to be formed. They felt that it takes between four to five years for an FPC to stabilize. Ram Sundar made the point that FPCs producing commodities, which can be stored such as pulses and oilseeds, will stabilize faster as compared to those FPCs which produce perishables such as vegetable and milk. Once the SFAC promotional support ends, the resource institution which formed the FPCs has a dilemma—incur ongoing promotional costs on its own or abandon the FPC early.

Both Ram Sundar and Vasumathi felt that the SFAC handholding support needs to continue for a much longer period. Of course, there can be a system of rating or self-qualification in terms of share capital gathered by farmers, level of active involvement of the Board and the members, and ability to attract other programmes. Another alternative could be for the SFAC to 'reward' the better-performing FPCs with programmes like the Pulses Procurement Programme-Minimum Support Price (PPP-MSP), which benefit their members as well as build capital for the FPC. Another option could be producing seeds for use by the farmer members as well for sale. One more option could be setting up of warehouses for non-perishable commodities and using those to facilitate provision of post-harvest bank credit to farmers through warehouse receipts, as also earning income from warehousing. On processing, both Ram Sundar and Vasumathi felt that it cannot be done at the level of an FPC as the produce of 1,000 farmers is too little for anything other than primary processing. Ram Sundar suggested that if processing units are established at the regional level, clubbing 10–20 FPCs may be viable, but even here it is best in the initial few years to undertake 'job work' of franchised production for well-established brands, and only after mastering that should FPC federations go into their own branded marketing. Vasumathi stressed the need to train local youth to work as FPC staff and FPC CEOs, who should ideally be from the local area.

#### CASE STUDY 1 Samarth Kisan Producer Company Limited, Agar, Ujjain District, MP

Ram Singh, CEO of Samarth, recalled that the producer company was formed under the aegis of Madhya Pradesh District Poverty Initiatives Project (DPIP) in 2006. It has 6,500 farmers as members. The authorized capital of the company is Rs 15 lakh while the paid-up capital is Rs 9.17 lakh. The company has received a fund of Rs 25 lakh from the Ministry of Rural Development. The state government has provided 2 ha land to the company where it has constructed a warehouse.

The CEO said that out of 6,500 farmers, the company is now able to provide direct services to 3,200 farmers and they are trying to mobilize more working capital to be able to reach to all the farmers. Among the members, 70 per cent are landholders, while 30 per cent are landless and are doing agriculture by taking land on lease. The company has taken licence for seed production and input trading (seeds, fertilizers, and pesticides).

The main crop of the region is soybean and wheat. Samarth has taken licence from Agriculture University for seed production and is producing foundation and certified seeds from the breeder seeds. Seed production has helped the farmers to earn premium, and it has also helped the 56 service providers of the company. Service providers are working on a commission basis for the company. They act as a bridge between seed companies and the farmers and earn commission on their services. The turnover of the company has reached Rs 1.89 crore in recent times. The company has appointed eight staff including the CEO.

Ashish Mandal of ASA, who had advocated the cause of FPCs at the National Advisory Council (NAC), on the basis of their experience of promoting and supporting more than 40 FPCs, said that there should be an FPCs, said that support cell of high calibre professionals at the level of 30–5,000 farmers for functions such as information technology (IT) for accounting and management information system (MIS), capital raising, and market linkages with agro-processing corporates. In this context, he gave the example of a Rs 2,000 crore basmati rice export house, which saw major rejections of its consignments to the EU as the pesticide residue was more than the permissible level. This company is now keen to work with FPCs as (i) it can systematically engage with farmers and educate them about the crop specifications the company needs and (ii) there is traceability in case of any problems detected after procurement. Thus FPCs can meet the corporate need for a reliable supply chain with traceability.

**CASE STUDY 2** PPP-MSP by Ajaymeru Kisan Samruddhi producer company<sup>6</sup>

As part of the 2010–11 budget, the Finance Minister announced a scheme for establishing 60,000 'pulses and oilseeds villages'. Implementation of this programme was given to SFAC, an agency set up by the Ministry of Agriculture, Government of India. The SFAC engaged many agencies around the country for this work and one of the selected agencies was the Indian Grameen Services (IGS), part of the Basix Social Enterprise Group, engaged in rural livelihood promotion. In late 2011, IGS was asked to work in the Kekri tehsil of Ajmer district as most of the farmers in the area grew pulses—black gram (urad), green gram (moong), and Bengal gram (chana) as these are hardy crops needing very little water. The IGS team led by its Rajasthan state head Dileep Gupta, 48, began going from village to village, talking to farmers in meetings, making them aware of the benefits of joining an FPC and motivating them to join.

Ajaymeru FPC was registered in February 2013 with 1,167 farmer members, all of whom had paid Rs 100 as share capital, while about 300 had paid Rs 1,000 each. Baluram was elected as its President, Bhawani Singh, the Vice President, and seven other members as the Board of Directors. Om Niwas was appointed the CEO. An opportunity arose for the FPC when the SFAC was given charge of the Pulses Procurement Programme through the Minimum Support Price (PPP-MSP) by the Government of India and it contacted Ajaymeru.

Ajaymeru procured 3,242 MT Bengal gram worth Rs 1,005 lakh from 975 farmers. The additional benefit to each of the farmer who sold his produce through Ajaymeru was about Rs 13,000. Ajaymeru facilitated farmers to realize the payment within seven days of procurement. As compensation for the services rendered by Ajaymeru, SFAC paid Ajaymeru Rs 10.05 lakh at 1 per cent of the value of the total pulses procured. IGS also received Rs 5 lakh as compensation of its support rendered at 0.5 per cent of the value for managing the procurement. Ajaymeru increased its share capital by 49 per cent, and its membership increased.

Vigyan Vikram Singh, Vice President of Basix Consulting, established 80 FPCs in 20 districts of Uttar Pradesh for the UP Bhoomi Sudhar Nigam, under a World Bank supported programme. He said that the attitude of the state government is an important factor in the success or otherwise of FPCs. For example, even though IFFCO is willing to market its fertilizers to farmers through FPCs, the state government has not permitted this, in spite of the fact that there is a

general instruction to treat FPCs on the same footing as cooperatives. Gouri Krishna, CEO, Basix Consulting, reiterated this point, when she said that in Maharashtra, where Basix is promoting 56 FPCs under the World Bank's Maharashtra Agricultural Competiveness Project (MACP), the cooperation from the state government is of a much higher order. She also stressed the need for setting up of a specialized training programme or an institute for training FPOs staff and CEOs.

**CASE STUDY 3** Bhangar Vegetable Producers' Company

The Bhangar Vegetable Producers' Company (BVPC)<sup>7</sup> Ltd has been formed in Bhangar Block II of the district of South 24 Parganas, West Bengal. BVPC has a membership of 1,750 marginal farmers (owning less than 1 ha of land). The farmers were mobilized to form the FPC by the State Department of Horticulture and Food Processing in association with Access Development Services (ADS). BVPC was one of the first companies registered under the National Vegetable Initiative for Urban Clusters.

The BVPC has a total cultivable area of 18,800 sq. m which includes 94 poly shade net houses of 200 sq. m each. Five high-tech polyhouses (of 1,600 sq. m each) have also been constructed. For all this, the BVPC received a subsidy of Rs 121.65 lakh from the government of West Bengal as follows: vegetable cultivation (Rs 28 lakh); shade net (Rs 52 lakh); motorized vending cart (five Tata Ace trucks for Rs 10 lakh); vermicompost (1,200 HDPE units and 12 vermicomposting units at Rs 31 lakh) and integrated pest and nematode management (120 farmers used effective microorganisms). Where a farmer could grow 7,500 kg of crops in the open in a season, after the intervention, he is able to grow more than 9,500 kg. The size, range, and quality of vegetables is also far superior to what was earlier produced. Before the intervention, the farmer was earning Rs 22,000 in 140 days on an average. Now the same farmers earn Rs 85,000 in 120 days. For future growth, the BVPC has submitted a proposal to the Food Processing Industry and Horticulture Department of West Bengal for establishing a sorting grading centre (Rs 7 lakh), a packhouse for Rs 31.75 lakh, purchasing six vending carts (Rs 75,000), and six refrigerated carts of 6 MT capacity each (Rs 24 lakh).

*(Continued)*

## CASE STUDY 3 (Continued)

According to the team involved, the key reasons for success of the BVPC include the following:

1. Small steps taken by the project team at the early stages towards building farmer confidence and allaying their scepticism.
2. The added transparency of formal bank accounts opened in the name of each FIG increased the confidence of farmers in the project.
3. Support received from local government functionaries and banks in the critical initial stages was an important factor for success.
4. Pooling of funds by the members through savings and contributions, against which the BVPC could avail of bank loans.
5. Land pooling made it possible to use improved technologies that could not have been used in small individual holdings.
6. Improved technology gave the farmers a huge edge over other producers and improved the quality of their produce. This ensured productivity increases without burdensome costs of production for small farmers.
7. Market research and awareness about cost of production and selling prices of other farmers helped the BVPC arrive at decisions about crop choices and marketing models.
8. Proximity to a large market with capacity to purchase high-value vegetables was critical.
9. The ability of the PC to sell its produce directly to the consumer was its biggest advantage without having to give up the margins to intermediaries.
10. Providing a comprehensive, end-to-end solution to farmers.

## THEORETICAL FRAMEWORK—WHAT MAKES AN FPC HIGH-PERFORMING?

### The Logic of Collective Action

In the book *The Logic of Collective Action* (1971 [1965]), Mancur Olson<sup>8</sup> challenged accepted wisdom in his day that:

- if everyone in a group (of any size) has interests in common, then they will act collectively to achieve them; and
- in a democracy, the greatest concern is that the majority will tyrannize and exploit the minority.

The book argues instead that individuals in any group attempting collective action will have incentives to 'free ride' on the efforts of others if the group is working to provide public goods. Individuals will not 'free ride' in groups that provide benefits only to active participants.

Pure public goods are goods that are non-excludable (i.e., one person cannot reasonably prevent another from consuming the good) and non-rivalrous (one person's consumption of the good does not affect another's and vice versa). Hence, without selective incentives to motivate participation, collective action is unlikely to occur even when large groups of people with common interests exist.

The book noted that large groups will face relatively high costs when attempting to organize for collective action, while small groups will face relatively low costs, and individuals in large groups will gain less per capita of successful collective action. Hence, in the absence

of selective incentives, the incentive for group action diminishes as group size increases, so that large groups are less able to act in their common interest than small ones. The book concludes that not only is collective action by large groups difficult to achieve even when they have interests in common but also situations could occur where the minority (bound together by concentrated selective incentives) can dominate the majority.

What are the implications of Olson's work on the design of high-performing FPCs? The first is to ensure that FPCs are not too large in number. However, the question is how large is 'too large'—ten, one hundred, one thousand? This dilemma has been addressed by enabling FPCs to have 'producer institutions' (PIs) as primary members, where PIs can be unincorporated groups as small as five or ten farmers. Thus, farmers can relate to PIs because of the small size of PIs. As for PIs having the right incentives to relate to and contribute to the FPC, the provision for voting rights of PIs being unequal (in proportion to patronage/usage)<sup>9</sup> ensures that those PIs which patronize/use the cooperative more have more say in the management of the FPC.

### Lessons from Management of Common-pool Resources

Common pool resources (CPRs), which were traditionally well-managed, have largely deteriorated over the years. This led some scholars to posit that there was going to be an inevitable 'tragedy of commons' (Garett 1968).

But empirical studies showed that CPRs continue to be well-managed in many disparate situations. Based on a project to identify and classify hundreds of these examples, Ostrom (1990) delineated how self-organized regimes manage common-pool resources CPRs. In a review paper, Cox et al. (2010) summarize the principles well for our purposes as follows:

*Principle 1: Well-defined boundaries.* This principle originally stipulated the presence of well-defined boundaries around a community of users and boundaries around the resource system this community uses. Each component helps to internalize the positive and negative externalities produced by participants, so they bear the costs of appropriation and receive some of the benefits of resource provision.

*Principle 2: Congruence between appropriation and provision rules and local conditions.* The first condition is that both appropriation and provision rules conform in some way to local conditions; the second condition is that congruence exists between appropriation and provision rules. We found very strong empirical evidence for both principles.

*Principle 3: Collective-choice arrangements.* Most individuals affected by the operational rules can participate in modifying the operational rules.

*Principle 4: Monitoring.* Like principles 1 and 2, we treated principle 4 as two sub-components. Principle 4A stipulates the presence of monitors, whereas 4B stipulates the condition that these monitors are members of the community or otherwise accountable to those members.

*Principle 5: Graduated sanctions.* Principle 5 stipulates the efficacy of graduated sanctioning systems. Sanctioning deters participants from excessive violations of community rules. Graduated sanctions progress incrementally based on either the severity or the repetition of violations. Graduated sanctions help to maintain community cohesion while genuinely punishing severe cases; they also maintain proportionality between the severity of violations and sanctions, similar to the proportionality between appropriation and provision rules from Principle 2.

*Principle 6: Conflict-resolution mechanisms.* Principle 6 states that systems with low-cost conflict resolution mechanisms are more likely to survive.

*Principle 7: Minimum recognition of rights.* Principle 7 stipulates that external government agencies do not challenge the right of local users to create their own institutions.

*Principle 8: Nested enterprises.* Principle 8 states that in successful systems, 'governance activities are organized in multiple layers of nested enterprises'.

What are the implications of Ostrom's work on the design of high-performing FPCs? The first is to ensure that FPCs should have well-defined boundaries; in other words, non-member farmers should not get the same benefits as members, such as lower-priced collectively bought inputs or better prices for collectively sold output. Principles 2 and 3 tell us that we should adapt FPC articles to their contexts, for instance, based on commodities.

The importance of monitoring emerges again and we have already said so earlier in response to the classical economic critique of collective firms as against joint stock companies—both are run by managers and elected Boards who need to be monitored. The lesson from Principle 5 (graduated sanctions) is built into FPC legislation, which permits voting rights only for active members, thereby disenfranchising inactive ones. Similarly, by permitting unequal voting rights across PIs, it ensures that those PIs which are doing little business with the FPC have proportionately less say in the affairs. Finally, the concept of nested enterprises has already been used by both dairy and credit cooperatives in India.

### Are Collectives Not as Efficient as Profit Maximizing Firms?

Apart from the argument we saw earlier that collective firms are disadvantaged in raising capital, there is a general view in the economics literature that collectives are not as efficient as joint stock companies. For example, Armen Alchian and Harold Demsetz (1972) asserted that

in non-profit corporations, colleges, churches, country clubs, mutual savings banks, mutual insurance companies, and 'coops', the future consequences of improved management are not capitalized into present wealth of stock-holders. (As if to make more difficult that competition by new would-be monitors, multiple shares of ownership in those enterprises cannot be bought by one person.) One should, therefore, find greater shirking in ... mutually owned enterprises.

Bruno Jossa (2009) discusses the critique of cooperatives implied in Alchian and Demsetz's argument that efficiency is maximized when a proprietor managing the firm and watching the labour force at work is the residual claimant of surplus. He concludes that their critique does not hold, and his basic argument is that cooperative firms vesting the monitoring function in the elected Board will not be

less efficient than capitalistic firms in the same situation. In practice, we know that both joint stock companies as well as cooperatives (and FPCs) will face the principal-agent problem where the shareholders (principals) have to manage through two sets of agents (the elected Board) and further through appointed managers. Thus as long as we ensure that the right monitoring systems and incentives are in place for the management through formal Williamsonian (2002) contracts, there is no reason why FPCs should not work as well as joint stock companies.

### Do Cooperatives Suffer from Capital Constraints?

A recent working paper by Iowa State University (Li et al. [2014]; see also Mazzarol et al. [2014]) deals with the classic question, whether, in theory, cooperatives suffer from capital constraints compared to counterpart Investor Owned Firms (IOF).

The user-owner principle of cooperatives reflects the requirement that cooperatives are capitalized by and operated for the benefit of its users. In the case of agricultural cooperatives, ownership requires that users have agricultural production at risk. The decision to use a cooperative is a joint decision by the producer to both use it and invest it in, where the investment is the purchase of the membership [shares] ... [and also retained profits]. Thus, [it] not only limits the potential pool of investors ... but also limits the rate at which equity can be acquired. In a cooperative, equity is built through the allocation and retention of the cooperative's profits to its members. An agricultural supply or grain marketing firm operating as an IOF can solicit investors without the requirement to buy products or deliver grain and does not rely on equity accumulation through profits. Thus, the user-owner principle creates a capital constraint, further implying that cooperatives' short-term investments and perhaps longer-term ones, too, just rely more heavily on debt than do IOFs (Lerman and and Parliment 1990).

Furthermore, members' equity in a traditional cooperative is non-marketable, non-transferable, and does not appreciate through changes in market values. The illiquidity of equity exacerbates the problem of equity financing if members, or potential members, do not view the cooperative as an attractive investment. Farmer members may view the investment in a

cooperative as having a high opportunity cost, given the money they contribute to the cooperative could alternatively be invested in their own operations. The user-owner principle also has implications for a cooperative manager's attitudes towards and propensity to take on risk. Cooperative managers may view the cooperative principle of risk-sharing and mutual responsibility as an insurance policy, prompting them to assume more risk and borrow more heavily than managers of IOF firms. As a result, cooperatives may be less discriminating in their investments than IOFs, causing an overinvestment in assets and lower asset efficiency in generating profits.

Other features suggest the contrary: that cooperatives will rely more heavily on equity than debt to finance growth. The user-owner principle creates an implied obligation to return a cooperative's profits to members. This happens in two ways. First, current patrons are allocated a portion of the current year's savings (profits) proportional to their individual use. The cooperative pays a portion of this as cash to the patron-member and a portion is allocated to the member but retained as cooperative equity. A member's equity accumulates over time as s/he uses the cooperative but will be redeemed out to the member at some time in the future. ... The illiquidity of member equity and the uncertainty surrounding the timeframe for retiring member equity in a traditional cooperative has implications for management as well. ... If the opportunity cost of this capital is not realized, reliance on equity financing may be greater than in an IOF where stock is valued based on expectations and management outcomes.

It is obvious from the preceding discussion that theoretical arguments are strong on both sides. The paper further states: 'Evidence from existing studies of cooperatives relative to their counterpart investor owned firms is inconclusive on the question of differences in capital structure' (Li et al. 2014). Thus, for us practitioners, it best to let this question rust!

### High-performing Producers' Cooperatives: Born or Made—The Indian Debate

Tushaar Shah conducted studies in IRMA during 1988–92 to understand why some cooperatives are sustainable and not others. What needs to be done to create strong producer cooperatives? In his book, *Catalysing Cooperation* (1993), he argued that there were 'boutique' versus 'pattern'

cooperatives. The example of the first being Mulkanoor and the latter being AMUL. The ruling hypothesis was that the policy environment makes or mars cooperatives. Shah's competing hypothesis was that incubating cooperatives capable of exercising *collective agency* results in strong, self-governing organizations. He defined collective agency as intentionality; internal locus of control; and capacity to act in a purposeful, goal-directed manner, and went on to assert that collective agency in a cooperative cannot be made to order; it arises out of the entrepreneurial energy, the quality of the incubation process, and the design of the going-concern. Table 5.6 shows how he contrasted the two.

Tushaar Shah then goes on to lay down certain principles for the design of high-performing cooperatives, which we discuss now.

- (a) *Internal locus of control* as the secret of collective agency—Ditch the incubator and assert its agency
- (b) They pursue *purposes important to members*; usually, this entails significant member wealth creation through value addition by providing unique range of services. Focus on significant wealth creation for members by inventing new ways of doing core business and diversifying meaningfully; have patronage-linked voting and constantly engage intense minority and overcome apathy of the majority
- (c) Their governance is *patronage cohesive*; they strike a careful balance between *equity* and *equality*, between intense minority and apathetic majority (*patronage cohesiveness*); recognition of senior rights; members have a right to recall a non-performing board/member; and member education promotes internal locus of control. The CEO is accountable to the Board and has serious performance-linked rewards. Moreover, the buck stops at the Board and General Body.

- (d) The governance structure is able to transmit patronage cohesiveness in its transactions with the operating system such that members' patronage interests are furthered (*governance effectiveness*). They use value adding organization and technology; organize business in ways that is rooted in the character of the coop as a member organization, and adopt business practices that deepen member stake and allegiance.
- (e) The operating system is able to constantly devise new and innovative ways to strengthen the loyalty and allegiance of the members to the people's organization (member responsiveness).

Shah asks, how do we know a new design will lead to robust cooperatives? He lays down four touchstones:

- They quickly internalize their locus of control and develop capacity to exercise collective agency
- They self-replicate with little external support and facilitation
- They resist, fight, or mutate in the face of external stress
- They constantly innovate and provide new, value adding services to members

Shah asserts that we have focused too much on getting a favourable policy environment, but very little on mastering and propagating the art of incubating coops capable of exercising collective agency. Liberal laws are necessary, but not sufficient. Quality ideation, incubation, design: necessary and sometimes sufficient. He argues in favour of a venture fund for incubating new coop forms, vibrant centres for research on coop management, and a reflective practice of coop incubation and design.

Some of Shah's prescriptions seem not just difficult to implement but also impractical.

TABLE 5.6 Conventional thinking versus reality for cooperatives

Conventional thinking	Reality
Successful coops follow ICA principles	Successful coops opportunistically choose principles that strengthen their agency
Successful coops seek to build egalitarian community	They seek member centrality which is the litmus test of performance
Small homogenous groups with equal resource endowments are ideal for coops	They creatively use inequalities to strengthen collective agency
Strong coops evolve bottom-up and not top-down	With right incubation process and design, strong coops can be spread top-down
Successful coops need charismatic leaders	Incubated and designed right, strong coops can thrive with available leadership
Coops need 'fertile grounds' to thrive	Fertile grounds are helpful, but not essential (Sudha dairy)
Coops need supportive laws to grow	Successful coops either create their policy environment or manage it to their advantage

- Internal locus of control as the secret of collective agency—Ditch the incubator and assert its agency.

The second one is in the same vein:

- [They] self-replicate without little external support and facilitation.

If indeed it was possible, even with some difficulty, for this to happen, we would see many more AMUL pattern dairy coops and Mulkanoor pattern credit coops. Having said this, Shah's insights must be kept in mind by any practitioner interested in establishing high-performing FPCs on a sustainable basis.

## HOW CAN PRODUCER COMPANIES BECOME HIGH PERFORMING?

### Improvements in the Practice in Line with Theory and the Law

It is amazing to see how well drafted the producer company legislation is, if we use insights from theory. But, in practice, since most FPCs have been established by people either from the NGO sector or from the cooperative sector, they have fallen for tokenistic equality. Very few FPCs have been registered in a way that voting rights across PIs be along proportion of business done with the FPC. Instead, most FPCs have one member, one vote provision and this leads to all the ills of the traditional cooperative.

### Changes Needed in the Law

#### Member Voting Provisions

The current law has the following provisions:

- For a company formed of individuals, a member shall have a single vote irrespective of shareholding as per Sec. 581D(1)a
- Where the company is formed exclusively by producer institutions, the voting right may be computed on the basis of participation in the business as per Sec. 581D(1)b
- For a company formed of individuals and institutions, there shall only be a single vote for every member as per Sec. 581 D(1)c.

To make voting proportionate to patronage, these clauses should be amended to read as follows:

- Voting rights of different members, whether individuals or producer institutions, shall be proportionate to the member's participation in the business of the company as at the end of the previous financial year, as per duly audited accounts.

### Provision for FPCs Issuing Preference Shareholders

We have seen earlier in this chapter that access to capital holds back the evolution of an FPC along the expected business path. As equity capital can only be contributed by the farmer members, there is the option of raising loans, but there are very few sources for this. Even NABARD has been seeking collateral security for loans to FPCs, when in the early years they have no significant assets. Banks are likely to follow the same requirement of collateral. The SFAC is obviating this with the Credit Guarantee Scheme. In addition to this, another source of funds that can be tapped is preference shares from financial institutions and agri-business companies. These shares can not only offer increasing levels of dividends but also a premium on the face value of shares at the time of redemption. This would increase the overall yield of preference share investors beyond the expected yield on long-term debt. For example, a 10 year redeemable preference share with a face value of Rs 1,000 which earns an assured dividend of, say, 6 per cent in years 1, 2, and 3; 9 per cent in years 4, 5, and 6; and 12 per cent in the years 7, 8, 9, and 10, and is redeemed at say Rs 2,000 at the end of ten years, has an effective internal rate of return (IRR) of 13.5 per cent which should be attractive to investors. Yet the cashflow is back-ended and gives enough time for the FPC to grow and redeem. It can also redeem through the issue of a new series of preference shares.

### Protecting the Rights of Preference Shareholders without Right to Vote

One aspect of the law which comes in the way of FPCs issuing preference shares is the provision in the Companies Act which gives preference shareholders the right to vote like equity shareholders, in case the

company makes losses. As preference dividend can be paid only out of profits, the preference shareholders become severely disadvantaged unless they have the ability to change how the company is run. This can be taken care of by amending the 'Producer Company' chapter of the Companies Act and providing that in case a producer company makes losses for two (or more) consecutive years, the preference shareholders shall have the right to move a resolution in the AGM/EGM of the company, seeking to elect another member in place of an existing member of the Board of Directors and also another person in place of the existing CEO. The voting on this resolution, however, would still be confined to the farmer members. In the event the resolution is lost, the amount owed to the preference shareholders shall automatically be converted into debt with a shorter maturity and higher interest rate than the implied IRR of the original offer.

## Improvement in the Taxation Regime and Supportive Policy

### *Improvements in the Taxation Regime*

Continuing with the idea of preference shares, the Ministry of Finance should consider granting exemption to investors on capitals gains arising from any redemption premium on preference shares of FPCs. This would go a long way to encourage investors to put money into FPCs.

On the issue of a lower corporate tax rate for FPCs, the Ministry of Finance needs to be convinced that FPCs deserve to get a lower tax rate (along the lines that cooperatives were granted). In fact, there is a case for a complete exemption of FPCs from corporate tax, similar to taxation on agricultural incomes, since agriculture needs to be seen in the new paradigm of not just crop cultivation but also the full value chain from seed to feed. At the least, FPCs should have the same exemption that was extended four decades ago to housing finance companies (HFCs) under Sec 36(1) (viii) of the Income Tax Act, 1961. Under this, if HFCs put up to 40 per cent of their profits in a long-term reserve, then to that extent the profits were exempted from tax.

Currently agri-processing value added tax (VAT) is paid on the entire value. There is a need to put forth an argument for such tax to be paid on 'True Value Added', that is on the difference between the purchase price and the sale price. At present, VAT is on an offset basis, and there is no VAT on incoming agricultural produce; the full price is charged to tax.

### *CSR Funding*

The Ministry of Corporate Affairs should consider including funding of FPOs as a type of permitted activity under the Corporate Social Responsibility (CSR) expenditure guidelines. At present, these funds can only be given to non-profit organizations.

### *Ensuring the Life-Blood—Finance*

The availability of finance at various stages in the life-cycle of an FPC is as important as life-blood. Different types of finance are needed at different stages. This is already shown in Figure 5.2. At the pre-formation stage, the promotional agency, usually an NGO or a government development agency, needs to be financed for the cost of mobilizing farmers, building awareness and making them come together, understand how the FPC will be helpful to them, and contribute share capital.

### *Comprehensive Early Stage Funding*

After the initial mobilization, FPC members elect office-bearers and begin early stage activities such as bulk purchase of inputs. Here, their share capital is unlikely to be enough, so the FPC would already need a working capital loan, or at least supplier credit, which may require some guarantee from a third party such as SFAC or NABARD. They may consider supporting FPOs for different types of needs at an early stage. All funds can be given through a single window or it can be a single fund for the following purposes:

- (a) Grant fund to promotional agencies for initial mobilization and ongoing capacity building.
- (b) Loan fund for working capital for input purchase. To give directly to FPOs through window or

- through organization such as Ananya, the IGS LAMP Fund, etc.
- (c) Grant fund to FPCs for staffing, basic infrastructure, and office expenses
  - (d) Guarantee fund—SFAC is offering up to 85 per cent guarantee for loans to FPOs worth Rs 1 crore. NABARD may consider setting up a guarantee fund beyond this.
  - (e) Equity enhancement—This is already being offered by SFAC in terms of matching the farmers' equity of minimum Rs 10 lakh, with Rs 10 lakh equity grant. It would be good for NABARD to top this up by another Rs 20 lakh, for growing and well-performing FPCs, if the members put in another Rs 10 lakh, so that their equity base becomes Rs 50 lakh.
  - (f) Shared infrastructure fund for support on IT applications such as warehouse management, price discovery, etc., built as cloud applications which each FPC can access on a per-transaction basis and pay by use, thereby cutting capital expense for the FPC. The same could be said for weather stations, price dissemination platforms, over-the-counter (OTC) buy-sell platforms like [www.krishidoot.com](http://www.krishidoot.com) and state-level associations of FPCs.
  - (g) Research fund for documentation/research and to build knowledge in the field, which would be given to selected institutions like IGIDR, IRMA, XIMB, CAB, MANAGE, CESS, and the ILRT.

### *Encouraging Value-chain Financing under Priority-sector Lending*

The RBI guidelines on priority sector lending by banks already mention FPCs. This should be broadened to include agri-input supply, agro-machinery rental/operation, agri-processing, packing, and storage and transport units owned by FPCs into the ambit of agricultural priority sector lending. This is in recognition of the fact that crop production is only one step in the agri-value chain, and the only way crop production can be made viable is if it is linked with the value chain.

Indeed, to allow the full benefit of value-chain financing to happen, the RBI should encourage and permit banks

to have movable title, which ensures that the collateral security moves along with the financing seamlessly. For example, when a bank gives a warehouse receipt loan to a farmer for a crop, against the security of the receipt, the specific produce that the farmer stored gets commingled with others' produce, but its value remains in the farmer/bank's name. Now, if this produce has to be bought by an agro-processing company for milling, it has to first buy the warehouse receipt from the farmer/bank and use its working capital loan for it. Instead, the agro-processor should be able to treat the warehouse receipts it has purchased as 'inventory' for the purpose of its working capital loan. This would minimize the need for additional paperwork.

### *Warehouse Receipts based Lending and Price Risk Mitigation*

India has seen an upsurge of bank lending to agriculture through warehouse receipts. This has been facilitated by the enactment of the Warehousing Regulatory and Development Agency, which regulates warehouses, warehouse keepers, quality assayers, and warehouse receipt financiers, and ensures that warehouse receipts, which have the status of negotiable instruments, are backed by proper security and collateral management practices.

Commodity spot exchanges have started offering OTC deals to reduce stock in authorized warehouses. But one important aspect that is missing is the concept of 'options'—a derivative contract which enables a market participant to hedge his risk against downside price fluctuations. Typically, a producer can buy an option (for a small premium) to sell his produce at a particular price on a particular date irrespective of the prevailing spot price. This hedges his risk in case the spot price falls unexpectedly.

In the absence of options, to offer a downside cover to FPCs who use warehouse receipts for the first or second time, NABARD should set up a Price Risk Cushion Fund. In the event the price of what they warehoused falls during the storage period, this fund would make up the loss by paying at least the same price as was prevailing on the day of storage. The fund would encourage FPCs to use warehouse receipt finance more extensively.

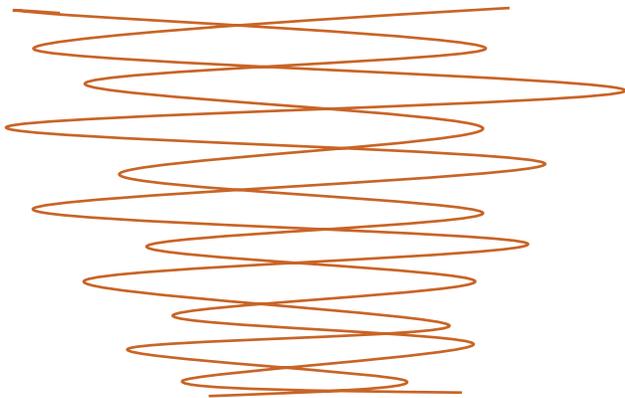
## CONCLUSION

It is still early days for the FPCs and a lot more ground needs to be covered before anyone can claim that they will enable India's farmers to move from being merely cultivators to participants in the full agricultural value chain. If farmers have to partake of the value added beyond the farm gate, they need to get organized and perform those functions, including incurring the costs and bearing the associated risks.

Various earlier studies, summarized in this report, as well as practitioners who contributed their insights to the author, all agree that the only way farmers can participate in the value chain is by getting organized into collectives—whether cooperatives or FPCs is a matter of detail. Two key constraints to building effective farmers' collectives are capital and capacity. Others have argued, and we agree, that if the 'latent potential' of the new institutional form called the producer company has to be realized, they must be facilitated to build their capital and their capacity. In that respect, we differ from Tushaar Shah's notion of 'self-reliant soon after, if not at birth' collectives.

The additional insight of this chapter is that these two are not separate and parallel or even intersecting tracks, but are intertwined spirals, much like the double helix molecular structure of DNA (Figure 5.4). This visualization emphasizes the fact that progress along one requires the other to progress as well—capital and capacity must balance each other. The 10 steps for raising capital must get interspersed with the 11 steps for capacity

FPOs Can build Capital and Capability in 21 Steps



**FIGURE 5.4** The double helix of an FPO's evolution into a high-performing FPO

building, making it a double helix of 21 steps. This is the recommended evolutionary path for a high-performing FPC.

## NOTES

1. Classification/comments added by author.
2. The author is grateful to Arindom Dutta of Rabobank India for pointing out this data.
3. Sankar Datta in an e-mail communication to the author, 2014.
4. Jacob John's PowerPoint presentation 'Scaling the Plateau—The View from Below' (2014).
5. Mihir Sahana's email communication to the author on the limitations of FPOs today (2014).
6. Excerpt from Dileep Gupta (2014), *Case Study on PPP-MSP through the Ajaymeru FPC*. IGS.
7. Summarized by the author from Indranil Banerjee, Varun Dhanda, and Ram Narayan Ghatak, *Case Study on the Bhangar Vegetable Producers' Company*, Access Development Services, 2013.
8. The excerpt is from Wikipedia.
9. Where the company is formed exclusively by producer institutions, the voting right may be computed on the basis of participation in the business as per Sec. 581D(1)b.

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# Notes on Contributors

**Sankar Datta** is a senior management professional from the first batch of Institute of Rural Management Anand (IRMA), with an experience of more than three decades in working in the development sector, especially helping poor producers link to value chains. He was a member of the founding teams of PRADAN and BASIX, and was formerly a member of the Faculty of Indian Institute of Management Ahmedabad, IRMA, and Azim Premji University, and Dean of the Livelihood School set up by BASIX, a new generation educational institution delivering training in livelihood promotion, combining research and training, in collaboration with various institutions.

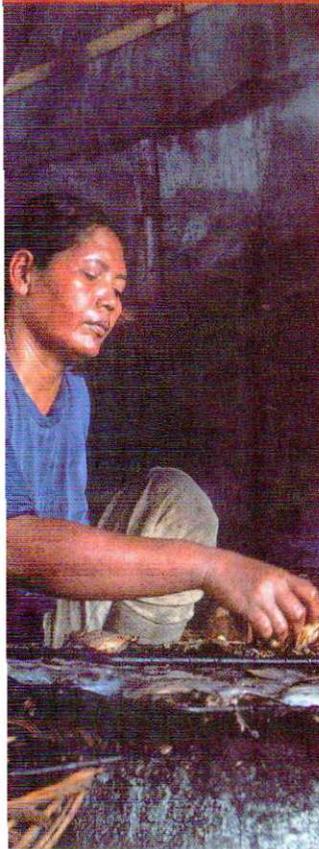
**Vijay Mahajan** founded PRADAN, a livelihood promotion NGO, in 1983. In the quest of scale and sustainability, he set up Basix in 1996, which has supported the livelihoods of over two million poor households, deploying over Rs 5,000 crore in loans and providing a range of livelihood promotion services along with savings and insurance to borrowers, thus moving from micro-credit to livelihood finance. Mahajan was a member and then Chair of the World Bank's Consultative Group to Assist the Poor (CGAP). He is a Distinguished Alumnus of the Indian Institute of Technology Delhi and the Indian Institute of Management Ahmedabad, and a Fellow of the Woodrow Wilson School, Princeton University. He was named one among the '60 outstanding social entrepreneurs of the world' at Davos in 2003.

**Manas Ratha** is Director of the Asia Social Business Impact Accelerator run by Impact Investment Exchange Asia (IIX) in the Philippines. He was Director at Dasra, leading *Portfolio Management*, the *Dasra Social-Impact Leadership Program*, and the *Indian Philanthropy Forum*. He has also worked with the investment bank Avendus Capital, advising growth companies in business services, media, and renewable energy on M&A and raising capital from large PE and VC investors, thereby gaining a deep insight into strategies and leadership styles that translate into scalable and valuable enterprises. He has started a VC-backed B2B eCommerce firm and was the chief operating officer at a high-end consumer electronics manufacturer with customers in 30 countries. A regular speaker at conferences and universities on a global scale, Ratha is an independent advisor to social enterprises in the health care, sanitation, and education sectors and has helped corporates and families become more strategic in their philanthropic efforts.

**Suryamani Roul** is the Senior Vice President at ACCESS Development Services. He has 30 years of experience in enterprise, livelihoods and entrepreneurship promotion with intensive exposure in remote areas and tribal communities. His previously held positions include the Project Director of Sustainable Tribal Empowerment Project, CARE India, Andhra Pradesh, and Project Manager of the CREDIT Project under CARE India's Small Economic Activities Development (SEAD) Programme, supported jointly by the Department for International Development (DFID) World Food Programme and Rotary Foundation in undivided Bihar (Ranchi). He holds a bachelors degree in Economics and a masters degree in Analytical and Applied Economics from Utkal University, and an MBA degree from University of Calcutta. In addition, he has received overseas training from the Asian Institute of Management, Bangkok; Coady International Institute, Canada; University of East Anglia, UK; and Yale School of Management USA on entrepreneurship, community economic development, livelihoods, and social entrepreneurship, respectively.

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**N. Srinivasan** was a development banker for almost 30 years in Reserve Bank of India and NABARD. Since leaving the Bank, he has been involved in several development projects nationally and internationally. A prolific writer, his publications include the Microfinance India State of the Sector (SOS) Reports and three books in the capacity as a co-author. He currently serves on the board of Equitas Holdings and Equitas Microfinance, Chennai; Microfinance Transparency, USA; and M-CRIL, Hand-in-Hand Trust, and Access-Assist Trust. As an international development finance expert, he works with the International Fund for Agricultural Development (IFAD), World Bank, Consultative Group to Assist the Poor (CGAP), Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), and other principals in India and abroad.



The *State of India's Livelihoods Report (SOIL Report)* is an annual publication that documents recent trends and challenges faced in the sphere of livelihoods promotion of the poor. It is one of the few annual documents that aggregates the experiences and challenges of the livelihoods sector, analyses case studies, and reports on policy paradigm, new initiatives, and evidence on results of both government and privately run programmes.

The 2014 edition of the *SOIL Report* looks at the changes taking place in the sectors that are generating livelihood opportunities for the poor. Analysing the major patterns and shifts in policies and programmes that are impacting livelihoods of specific communities that suffer from social exclusion, marginalization, and multiple deprivations, it discusses important government policies centring around livelihoods promotion and protection and analyses the depth and width of two flagship poverty reduction programmes—the Mahatma Gandhi National Rural Employment Guarantee Programme and the National Rural Livelihoods Mission (Aajeevika). It attempts to give a glimpse of growth of collective action fuelled by the growth of Farmers' Producers Organization and global experiences including the 'theory of change' and recommends possible improvements for greater effectiveness. The report also captures the new developments in the realm of Corporate Social Responsibility consequent to the introduction of a new policy and its implications on livelihoods promotion. It looks at the role of livelihoods finance to bridge the difference between Bharat and India. Most importantly, the report captures the gradual shift in policy direction with a new government in power at the centre.

**Contributors**

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*Cover photographs:*  
(front; back, top right) from ACCESS Archives; (back, top left) courtesy of Alfi Atmojo; (back, top centre) courtesy of Akhmad Solihin; (back, bottom) courtesy of Ady Augustine



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