**Syllabus:**Development processes and the development industry- the role of NGOs, SHGs, various groups and associations, donors, charities, institutional and other stakeholders

**Topics to know**

1. Definition of social capital
2. Number of NGOs in India (roughly) Examples and their work
3. 3 relevant constitutional provisions
4. 4 key roles of social capital organizations
5. 4 useful impacts on government
6. 4 sources of chaitable funding and relevant examples
7. Challenges with charitable funding
8. Recommedations of S Vijay Kumar Committee (Physical interface, guidelines on audits)
9. Define SHGs?
10. 3 key roles of SHGs
11. One successful Indian state-led experiement in realm of SHGs
12. NABARD study- 9 findings; get atleast 7
13. 6 weakesses of SHGs in India
14. Historical context; Definition of MFI (microcredit)
15. 4 types of organizations (apart from commercial banks) that serve the very poor in India
16. 3 examples each of MFIs from government and from private sector in India
17. 10 issues with MFIs in India
18. ~~Definition of a cooperative~~
19. ~~Importance of cooperatives in present-day context~~
20. ~~Problems faced~~
21. ~~Why was 97~~~~th~~ ~~amendment brought in?~~
22. ~~What steps should be taken to improve their functioning?~~

***Definition of Social Capital, Roles etc.***

As Robert Putman defines- Social capital refers to connections among individuals- social networks and norms of reciprocity and trustworthiness that arise from them.

The Indian Constitution provides a distinct legal space to social capital / civil society institutions **(a)** through its Article on the right to form associations or unions – Article 19 (1)(c); **(b)** through Article 43 which talks of States making endeavor to promote cooperatives in rural areas; and **(c)** through explicit mention in entries made in Schedule 7

There are more than 2 million such organizations registered in India

Social capital organizations play four critical roles in society:

* ***Service role:*** existence of NGOs gives people a first line of defense for grassroot level response to a problem without convincing govt. or fellow citizens for action.
* ***Value Guardian Role:***Non-profit sector acts as an exemplar and embodiment of fundamental value emphasizing individual initiative for the public good
* ***Advocacy/ Social Safety Valve Role:***They highlight the concern of society and play a critical role in giving them a representative voice
* ***Community Building Role:*** Creating and sustaining social cohesiveness

Social capital can improve the government’s performance in the following ways:

* It can broaden government accountability
* It augments system capacities and capabilities (eg. Bill & Milinda Gates efforts on health in UP, Bihar)
* It induces innovation and expertise in policymaking (eg. Swaniti working with MPs)
* It enhances the efficiency of public service delivery at the local level through involvement of residents (eg. MSDF in education on data system)
* It can facilitate agreement where political preferences are polarized

*(There are different definitions and legal standings for various non-profit organizations, such as Societies, Trusts, Waqfs, Trade Unions etc.)*

***Funding***

NGOs sector raises funds primarily from 4 sources:individuals (minor source, donations rise during natural calamities), private foundations, business houses (donations, CSR), and governments. In India, the character of funding is highly skewed- organizations catering to more glamorous causes such as environment are able to get more funding as compared to those that cater to human rights, gender equality etc.

There has been a recent trend towards business houses incorporating CSR as a core part of their existential strategy. This is achieved not only via donations, but also via technical assistance, as seen in the case of **e-chaupal (ITC),Azim Premji foundation that works extensively to improve primary education**

Both union and state governments provide considerable budgetary support to NGOs on a wide range of activities. Aside from budgetary support, there are also empowered autonomous government bodies like the CSWB(Central Social Welfare Board) and the NIPCCD (National Institute of Public Cooperation and Child Development) that act as an interface between the government and the social sector.

NGOs can receive foreign contributions, but only those that are registered with the government. They need to accept such contributions through an Indian bank, and they need to notify the government of all the details of such remittances. These contributions can only be used for the ‘stated purpose’,and the government has the power to audit and ask the NGOs not to avail funding from a particular source.

***Challenges-***

* **S. Vijay Kumar committe on social sector highlight lacunae in ecosystem**

**-Accrediation-** accreditation authority can be set up with stakeholders from govt., civic society for self regulation

**-Data base on NGOs-** authentic database is missing

**-** Weak **institutional setup** both in private and public sector

**-** Lack of **long term vision** for sector.

**-** Absence of **large players** (eg. Global giving in US) to channel funding from corporate and individual donors (also pointed by Mahindra CEO)

* **High donation to regilious trusts-** 10% to welfare stuff rest religious etc. as per banaglore based think tank-**often** associated with **money laundering-**

***S Vijay Kumar committee recommendation***

* Seameless integration of legislation spread across IT Act, FCRA etc. reducing intrusion and increasing regulation
* NITI Aayog to act as the regulatory body for NGOs
* Provides for framework of auditing of account, procedure to inititate recovery of grants in case of misappropriation
* Need to reduce physical interface to reduce harassment.

***Self-Help Groups***

SHGs are informal associations of people who choose to come together to improve their living conditions. The most important functions of SHGs are:

* To encourage and motivate its members to save
* To persuade them to make a collective plan for generation of additional income
* To act as a conduit for formal banking services to reach them (collective guarantee system)

Exploiting the strong community networks in rural areas by means of SHGs can go a long way in improving credit linkages across the nation. Positive experience since the 1970s across various states (Andra Pradesh, Tamil Nadu, Kerala- ***Kudumbashree***) in the country has shown that small group organization and self-management are potent tools for economic and social empowerment of the rural poor.

Forming small groups and linking them to bank branches for credit delivery has been the most important feature of the growth of the SHG movement in our country.

A NABARD impact evaluation study showed that:

* 58% of the households covered under SHGs reported an increase in assets (average asset increase 72%)
* There was a threefold increase in savings and
* Dependence on moneylenders lessened
* a doubling of borrowings per household and the share of consumption loan in the borrowing went down from 50% to 25%;
* 70% of the loans taken in post-SHG period went towards income generation ventures
* Employment expanded
* Participation in group activity significantly contributed to improvement of self-confidence among the members
* In general, group members and particularly women became more vocal and assertive on social and family issues

While the SHG movement has grown in absolute terms (**8.7 Mn SHGs in India catering about 11 Cr HHs)**, compared to the prevalence of widespread poverty in the country, the size of loans made to SHGs by formal institutions remains modest, and there is much further scope for improvement. Some of the weaknesses of the SHG model are:

* Urban and semi-**urban areas** are practically excluded from this mode of credit delivery
* **Regionally**, the SHG movement is much more focused on southern Indian states (~55%) as compared to northern/North-eastern ones (~10%); this imbalance needs to be rectified
* Does not necessarily attract and include the **poorest of families**
* The economic gains generated might not be adequate to bring about a **significant transformation in the lives** of the participants
* **Low skill development factor**: Many of the activities undertaken by the SHGs are still based on primitive skills related mostly to primary sector enterprises. With poor value addition per worker and prevalence of subsistence level wages, such activities often do not lead to any substantial increase in the income of group memberseg. Van DhanYojana
* There **is lack of qualified resource personnel** in the rural areas who could help in skill upgradation / acquisition of new skills by group members
* Weak communication network (teledensity <0.5 – eco survey’19) hampers digital and technology usage.
* SHGs face issues in accessing credit due to following reasons:
  + Inability to provide collateral security (women land ownership <14% in agriculture- Agri census 2015-16)
  + Inadequate reach of the institution (rural branches 34% while 70% population- RBI data)
  + Poor credit absorption capacity
  + Weak community network

***Microfinance Institutions (MFIs)***

Microfinance initiatiated with pilot supported by NABARD in 1992 involving 500 SHGs under a programmeSHG-bank linkage programme. (SBLP)

Micro-credit is defined as provision of thrift (money used carefully), credit, and other financial services (such as deposits, loans, payment services, money transfer, insurance and related products) of very small amounts to the poor. Leaving aside the commercial Banks, the needs of this sector are currently being Handled by the following four major players:

* Rural Banks
* Cooperatives
* Institutions which have been registered as Societies, Public Trusts, and Section 25 Companies or as NBFCs to take up the work of micro-finance on operational/financial sustainability
* Unregulated individual moneylenders

*Formal sector MFIs:*

* Government: RashtriyaMahilaKosh, RRBs etc.
* Private sector: SEWA, Nav Bharat Jagriti Kendra (also NGO in health & education) etc.
* Over the years, some of the Indian MFIs have performed quite well, and rank among some of the topmost such institutions in the world. While some of them work as non-profit organizations, some work for-profit (such as SKS- SwayamKrishiSangam-poster boy of successful SHG)

*Issues with MFIs:* **NABARD MFI** status 2017-18)

* Coverage is low (roughly 11Cr households have access to microfinance roughly **30% population-**
* Focus on rural poor, and neglect of urban poor and Uneven geographic coverage (South v/s north & north-east divide)
* Low client retention (about 28%)
* High transaction costs (as limited scale and credit volume)
* Lack of well developed MIS, human resource capacity and its retention
* High rates of default (about 73%) and late payments, leading to **coercive recovery practices**, contributing to farmer suicides (AP released an ordinance banning these in 2010; eventually paved the way towards formation of MFIN)
* Lack of access to funding, mostly dependent of NABARD refinancing-hence not self-sustainable
* It is widely recognized that installing a uniform regulatory mechanism will go a long way in facilitating further growth and development of private initiative in this sector. As 2nd ARC suggests NABARD can be asked to take up the regulatory which will be synergistic given it already acts as re-financing institute for MFIs. (MFIN- as suggested by rbi in 2012 is self-regulatory body but it ain’t successful as also shown by global examples)

***Self-Regulating Bodies***

Bodies like Bar Council, Medical Council etc. in India perform dual tasks of regulating their respective professions as well as setting norms for any new institutions being set up in their fields. There have been calls for separation of powers, so that these bodies can focus on regulations, while newly set up statutory, independent bodies can take up the task of licensing and setting up curricula, norms for professional education, faculty improvement etc. Main argument is that current curriculums focus too much on single professions, while in today’s globalized worlds, there is need for a broad-based curriculum. Also, current procedures are seen to be very restrictive when it comes to entry of new institutions.

***Cooperatives***

As article 43B of constitution envisages, a cooperative is an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly owned and democratically controlled enterprise.

Cooperatives have existed in India for over a decade, and post-independence, were thought of as a part of the strategy of planned economic development.Theyplayed a significant role in the economic development process, during green revolution and also the white revolution (AMUL). However, today they face several challenges:

* Bureaucratization and government control
* Politicization of cooperative leadership
* Multiplicity of control (state, agricultural ministry, RBI, NABARD)
* Cooperative credit institutions (which are important sources of rural credit) have a poor resource base, dependence on external funding, and huge accumulated losses, leading to them being unprofitable
* Regional disparity
* There is a crisis of credibility, where there is little trust in the capability of cooperatives to manage business challenges successfully; this has resulted in growing privatization instead of cooperativization

Due to undue state interference, the cooperatives have detracted from their main goal: promotion of self-help. Ideally, cooperatives should be self-driven, rather than oriented towards and helped by corporates or the government. In India, the government has been too keen to provide financial and other kinds of help to cooperatives, and the cooperatives have eagerly availed of this help. This perpetuates the cycle of dependence and bureaucratic control.

It is important to recognize that 84% cent of our farmers fall in the category of landless, marginal and small landholders; they do not have access to organized markets for their produce and the availability of agriculture credit is far too inadequate. Non-agriculture activities in rural areas are equally credit starved. In this background, the most appropriate institutional structure, which has the capacity to tackle these problems, is cooperatives. They can provide credit to the rural people at affordable rates. They can also play a major role in other primary sector activities such as livestock development, dairy production, fisheries and agro-forestry. Cooperatives can establish linkages between credit and market and thus develop into multi- purpose rural institutions. Reforms are thus required in the cooperatives sector to makeit stronger. Some of these reforms are as follows:

* The **97th constitutional amendment**made forming cooperative societies a fundamental right, and also added a directive principle of state policy as ‘to promote voluntary formation, autonomous functioning, democratic control, and professional management of cooperative societies’
* This constitutional amendment was brought about to insulate cooperatives from avoidable political and bureaucratic interference; however, the amendment by itself will not change much, unless institutional changes are brought about to improve the independence of cooperatives
* State-level laws relating to cooperatives need to be harmonized so thatcooperatives that operate across states can work easily
* State control over the management of cooperatives should be rationalized
* More transparency to ensure that credit is not siphoned off to non-priority sectors- MIS at last mile