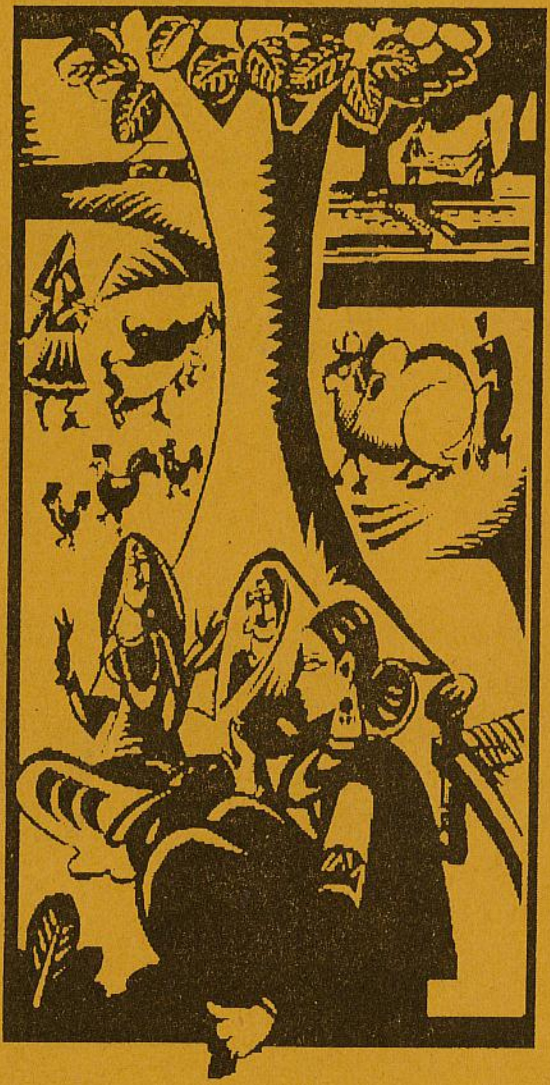
The Livelihoods and Development Monthly

NewsReach

OCTOBER 2008
Volume 8 Number 10



Producer Companies-Linking Small Producers to Markets - I

Incorporating the best in a cooperative and a company, in terms of maintaining the member-ownership of the former and the structural advantages of the latter, producer companies offer rural entrepreneurs a viable option for sustainable livelihoods

The Context

Enhancing the livelihoods of small producers below the poverty line has unique challenges. It requires capital and knowledge infusion from outside to enhance production as well as increased linkages with external markets. However, markets are often situated far away from the villages where small farmers and artisans stay. There is need for aggregation, sharing services and absorbing price risks, leading to the necessity of promoting producer organisations that serve these needs in a sustainable manner. Important too is the need for these producer organisations to adhere to the principles of member-ownership, members' participation in governance, efficient operating systems and transparent processes.

Small producers were, so far, brought together as co-operatives. However, due to political interference, corruption, capture by the elite and other issues, traditional co-operatives stand discredited. Reforms have been carried out in the Co-operative Act to address these lacunae. Over the past few years, there has been considerable exploration of alternate legal forms for organising small producers. Of these, the option of a producer company stands out because of the advantage it offers in terms of maintaining the member-ownership nature of a co-operative and the structural advantages of being a company. It offers a way forward for poor producers to establish themselves as market entities, operating on social principles, without compromising on business credibility.

Producer companies came into existence in 2003 with the amendment to Section 581 of the Companies Act, 1956. The amendment gave primary producers the flexibility of organising themselves on the one member-one vote principle—the essence of a democratic institution. The one member-one-vote principle, which is the defining feature of a co-operative, ensures that even the smallest producer has an equal right in governance as does the largest member. In a co-operative with a majority membership of small producers, it is difficult to push through decisions not in favour of the small producers through constitutional means. This principle has been kept intact in the producer company as well. Yet, a producer company operates under a regulatory framework that applies to companies, making it distinctly different from co-operatives, which suffer from a reputation of being arbitrary. Some of the salient features that provide a producer company its competitive edge are:

- The format provides higher legitimacy and credibility in the immediate business environment.
- It allows membership of registered and non-registered groups (such as Self Help Groups or user groups), offering enhanced possibilities for creating a member-controlled organisation.
- Outsiders cannot capture control of these companies. In other words, the Act permits only 'primary producers' and persons or associations connected with the primary producers to participate in the ownership of producer companies.

- The format provides for patronage-based participation in governance. Surplus distribution also may be determined by the level of patronage provided by members.
- It has stringent regulations making statutory demands for better disclosure and reporting, thereby, protecting members' interests.

Case for Producer Companies

A legal framework within which a flexible yet accountable structure can exist is provided by the Producer Company Act of 2002. The Companies Act 1956 (the Act) recognised only three types of companies, namely, companies limited by shares (sub-divided into public limited and private limited companies), companies limited by guarantees and unlimited companies. With the coming into force of the Companies (Amendment) Act 2002, (1 of 2003), a fourth category, 'producer companies', found a place in the Act. The legislation enabled (a) the incorporation of cooperatives as companies and the conversion of existing cooperatives into companies, and (b) ensured that the proposed legislation accommodated the unique elements of cooperative business with a regulatory framework similar to that of companies.

The members have necessarily to be 'primary producers', that is, persons engaged in an activity connected with, or related to, primary produce. What is primary produce? According to the Act, it is a produce of farmers arising from agriculture, including animal husbandry, horticulture, floriculture, viticulture, forestry, forest products, re-vegetation, bee raising and farming plantation products; produce of persons engaged in handloom, handicraft and other cottage industries; by products of such products; and products arising out of ancillary industries. The need for such a flexible structure has arisen primarily because of the dismal agricultural scenario, as described next, which had led to large-scale casualisation of labour and declining employment opportunities.

Agricultural Scenario

At the base of the problem of the abysmal development of the rural areas is the fact that, overall, Indian agriculture is doing badly despite some improvement in the last three or four years. Unless agriculture prospers, it is extremely difficult for rural areas and people to prosper.

A 'problematique' highlighted by Prof. YK Alagh, the architect of the producer company amendment in 2002, in this regard is that land is moving away from agriculture and that is happening on a much larger scale than is officially acknowledged. The rate of urbanisation is much faster than the official rate. Much of this is happening as agriculture is fast becoming non-remunerative for farmers. There is urgent need for producers to come together and co-operate to bring about land consolidation, invest in irrigation and function collectively so as to establish market linkages as well as bring in technology innovations. Unless this happens, agriculture will not be able to affect reasonable returns to the individual producer. Prof. Alagh has offered the producer company format as a suitable organisational form for collectivising small producers. This is an opportunity for small producers to collectivise without losing control on their lands, as well as get into collaborative arrangements with big companies at a later stage for larger value for their produce.

Economic Imperatives

To address such issues, one needs a mix of community efforts and private initiative. It is here that the case for producer companies arises. Organisations have to be community oriented, because the problem is at the level of the community, the aquifer and the agro-climatic regime; the organisations have to be profit-oriented and efficiency oriented too.

Importantly, the farmer (or the producer) should be a stakeholder in this process. In high value-added agriculture, there are others who will do the job beyond the first stage processing. It is the companies or corporates that do the selling in cities. They will have to link up with the locals. If farmers are not organised, there is no way one can link up with the corporates.

In fact, producer companies may be necessary for two reasons: one is, of course, to organise agriculture and work out the terms acceptable to all players. The other is actually a question of legality. For example, since a tenant farmer does not have the legal right as a tenant, he cannot leverage his strength. No company will negotiate with an entity that is illegally occupying land. Let us recall that the only institution in India that recognises a tenant farmer is the primary agricultural credit society because it considers the crop to be the collateral. Even land development banks do not recognise tenant farmers. Thus, one needs tenancy reforms and organisational structures so that these people can leverage their relationship with the land for taking part in the new strategic partnerships that are coming up.

Historical Perspective

If we take a historical perspective, the impetus for patronage-driven organisations, which finally were known as cooperative organisations, came from the way capital-driven organisations were working for returns on investments.

The concept of a patronage-driven company or producer company is similar in nature to the cooperative. If we look at cooperatives in the Indian context, we see two distinct periods we see. One was pre-Independence—the first legislation in 1904 was very simple and enabling. At the time, government role was very limited. But, post-Independence, the idea that took root was that there should be a partnership between the government and the cooperatives. And from 1953 to 1991, with such partnerships coming into place, there was a transformation in the character of the cooperatives, both in the legislative and as well as in the structural sense. The evolving cooperative legislation format sought to place everything in the hands of either the state government or the Registrar. It must be remembered here that debate on the discomfort that such changes were causing started as early as in 1957 itself. And it was on the basis of that debate that, in 1995, we had the first progressive legislation: the Mutually Aided Cooperative Society Act was legislated in Andhra Pradesh.

Then came the Producer Company Act in 2002. This too was a legislation that came through a detailed process of deliberation. Cooperatives, started in India in 1904, had become prisoners of the very structure that had been created to serve them, namely the state government and the Office of the Registrar of Cooperative Societies. The Registrar of Cooperative Societies was supposed to be responsible for implementing the Cooperative Act, but had instead over a period of time become so powerful, that one did not have the freedom to manage one's organisation or business. For everything, one was dependent on the Registrar of Cooperative Societies. And one had no choice but to pay heed because the law provided that he had the powers to prescribe and give directions. It was in this background that people saw the producer company legislation as defining a new legal space, which otherwise was not available to small producers and to people who wanted to come together and organise themselves outside the purview of the state government and the Registrar.

One of the key facts we need to understand is that the Producer Companies Act is a Central Government Act, uniform across the country and, therefore, safe from the problems one sees with the State cooperative laws. The second is that it is also based on patronage, which means the extent of participation in a business activity, say, the amount of milk poured or amount of vegetable supplied by individual producers to the company.

Let us take a look at some of the key positive features of the producer company law. We have seen how the primacy of social purpose overtook the economic logic of cooperatives, leading to a large number of cooperatives languishing today. The producer company format is very clear in defining a private institution that is centered on members' interests, and membership is only for those who can provide patronage. Here, at the primary producer level, you can have membership of individuals or institutions or both. Producer institutions can come together and form a producer company. Ten or more producers can come together to form a producer company or producer institutions along with individuals can form such a company.

Another point is the special rights and their transferability. One of the issues with the cooperatives has been that patronage rights are not defined clearly. In the case of producer companies, the Act has tried to make a provision that equity participation or contribution to equity should be in proportion to the patronage rights. For example, in the producer company of vanilla producers, Vanilco, 1,000 kg of vanilla contributed by a producer is equivalent to one share. Patronage rights have been defined as special rights and these special rights are transferable.

One of the characteristics of the producer company is that of limited return. Since almost all the benefits accrued through a profitable marketing transaction are passed on to the members as 'withheld price' and 'patronage bonus', very little is left for distribution as dividend on equity. Thus even if the shares were to be available for trading, it would not attract investors. There are also the features of ownership, freedom to appropriate surplus and freedom to promote new initiatives, alliances, subsidiaries and joint ventures. One of the areas where this law is far superior to any other law is rotational membership, which gives one the advantage of continued wisdom, predefined terms and scope of continuation if eligible. It also allows co-option of expert directors. This is very important because one of the limitations of the small producers is their lack of expertise to either add value or link up with the market.

Positive Trends

Increasingly, we are seeing a partnership between the private/ public corporate sector with farmers' federations or community groups. These are emerging within the framework of profit-driven initiatives, governed on business lines, with CEO/partners accountable to a Board, in which both the sides, including the farmers' federations, CBOs and PRIs have representation.

Another interesting phenomenon is the emergence of farmer producer companies in different parts. For example, there are several producer companies in different districts, exclusively made up of small and marginal farmers. With membership ranging from 1,000 to 3,000 farmers, these institutions have broken new ground in aggregating productive assets such as land and machinery, as well as negotiating bargains for inputs, technology, etc., and leveraging collective output.

Many of these producer companies employ agriculture graduates to provide technological inputs and supervision. Three such companies have dealer licenses to sell fertilisers, seeds and other agri-inputs to their members as well as other farmers in the area in which they operate. Several of these institutions, and hundreds of individual farmers, have entered into contract farming arrangements with leading companies to custom produce seed, cereals, pulses as well as vegetables and spices. The risks associated with fragmented holdings have thus been successfully addressed by members of these producer companies through a combination of collaborative partnerships and market orientation.

Ensuring well functioning markets, facilitating competition, creating an enabling environment for direct producer-buyer linkages and institution building for farmers provide some recent examples of success of producer companies in the agricultural landscape. When added to the traditional approach of risk management in the form of moisture conservation, irrigation and technology transfer, there appears fresh hope on the farm front. At the policy level, the challenge before state agencies is to respond to the dynamism displayed by farmers with matching changes in the regulatory framework. If anything, it is policy that is lagging in sufficient flexibility to further reduce controls and create greater space for innovative risk management devices to emerge.

Abridged from the report of the Workshop on "Producer Companies—Linking Small Producers to Markets" held on December 20, 2007, in Delhi.

NREGA Pilot Project in Jharkhand, Chhattisgarh and Orissa - I

Alak K. Jana, Surjit Behera, Manas K. Satpathy

Creating awareness among people about their rights and entitlements, linking INRM-based activities to NREGA, and enthusing people with the belief that their power lies in organising themselves into collectives is the continuing endeavour of Pradan

NREGA: An opportunity

The Government of India (GOI) recently launched the National Rural Employment Guarantee ACT (NREGA). It guarantees 100 days of wage employment every year to every rural household, whose adult members volunteer to do unskilled manual work. The Act seeks to enhance the livelihood security of people in rural areas by generating wage employment through works that develop the infrastructure base of that area. The choice of works mentioned in the Act include all components of land and water resource development that help in addressing the causes of chronic poverty such as drought, deforestation and soil erosion.

Pradan has been involved for more than 20 years in promoting livelihoods for the rural poor in some of the poorest areas of the country, primarily in the central and eastern hilly regions. It is not surprising that a majority of the districts shortlisted initially by the Ministry of Rural Development (MORD) for implementation of the NREGA also happens to be in the same region (the notified area of NREGA includes 56 of the 65 districts in the eastern plateau and hilly regions also called as the Agro-climatic Zone VII) because these districts have been selected on the basis of the intensity of endemic poverty in the villages.

As has been Pradan's experience in these areas, the major cause of extreme poverty in these areas is not the lack of livelihood resources but rather the lack of quality of these resources. Landlessness is not as rampant as in some other parts of the country but there are millions of poor people here who are not food sufficient. Rainfall is quite high in these areas yet water is not available for irrigation. High rainfall and a complex ecology make these regions potential engines of future growth because a wide variety of trees and crops can be grown and complex farming systems are feasible. But this requires an integrated approach to resource management. Following such an integrated approach, Pradan has demonstrated ways to promote the development of natural resources, leading to equitable and sustainable economic growth, ensuring household food security and eliminating mass poverty in the region. Such an approach requires participatory planning at the hamlet and village levels, to develop production and management systems that meet people's needs and preferences and are suitable to the resource endowment. The technologies that Pradan have evolved are simple, labour intensive and, therefore, suited to the requirements of NREGA, generating wage employment opportunities and creating livelihood assets.

The Pilot Project

The MoRD, through United Nations Development Programme (UNDP), contracted Pradan to implement a pilot project for capacity building of Gram Panchayats (GPs) in implementing integrated natural resource management (INRM) activities under NREGA. The six-month project, from October 2007 to March 2008, was to be implemented in 10 select GPs of each of the following five districts: Khunti and Dumka in Jharkhand, Mayurbhanj and Kandhamal in Orissa and Raigarh in Chhattisgarh. Poverty, prior social mobilisation by Pradan, a favourable administration and opportunities for natural resource-based livelihoods promotion for poor were the criteria for the selection of the GPs.

Objectives

The main objective was to enhance the capacities of the NREGA implementation machinery at the block, GP and Gram Sabha levels, in planning, executing and monitoring INRM activities under NREGA. It also included the setting up of a sound demonstration of INRM-based livelihoods enhancement under NREGA to create sustainable livelihood assets for poor NREGA workers in select villages.

The following activities were planned to fulfil these objectives:

1. Orientation of the personnel at district, block and panchayat levels on INRM-based livelihoods for the poor and the relevance of these to NREGA
2. Creation of awareness among Gram Sabha members about their entitlements under NREGA
3. Identification, skill building, deployment and monitoring of local resource persons (LRPs)
4. Helping members of the Gram Sabha get jobs under NREGA through LRPs
5. Building the capability of the Gram Sabha in planning INRM-based activities under NREGA
6. Preparation of INRM plans for each Gram Sabha
7. Organising workers' collective for the implementation and monitoring of planned works
8. Ensuring transparent processes for quality execution of activities

Table 1 : Number of Events and Participants against the Plans in Each District

Events	No. of Events (E) and Participants (P)										Total		Plan	
	Kandhamal		Mayurbhanj		Raigarh		Khunti		Dumka					
	E	P	E	P	E	P	E	P	E	P	E	P	E	P
District-level meeting	1	45	1	49	1	50	0	0	2	150	5	294	10	500
Block-level orientation	0	0	2	60	1	60	4	312	2	200	9	632	10	250
Exposure of block-level officials	1	8	2	60	0	0	0	0	1	23	4	91	10	250
Panchayat-level orientation	14	200	10	460	55	5,000	49	2600	24	2,000	152	10,260	25	625
Exposure of panchayat-level personnel	4	170	10	150	20	120	2	200	0		36	640	25	625
Orientation of engineers	1	6	1	15	0		0		0		2	21	10	250
Training of NREGA assistants	0	0	0	0	0		5	5	0		5	5	30	600

After studying our Works Manual, the district collector of Kandhamal asked us to make a presentation on Pradan's INRM approach to create livelihood assets for poor under NREGA at a meeting of relevant line department officials in the district on 10 April 2008. This was followed by a discussion on the proposed models. A multidisciplinary team constituting representatives from agriculture, soil conservation, forest and Panchayati Raj departments visited the project where Pradan demonstrated the approach and submitted an action plan for having it done in the district. A decision was taken that the INRM approach would be followed under NREGA and Pradan would act as the resource agency to support it.

9. Helping villagers use the assets created effectively
10. Documentation of experiences and sharing the learning through regular reports

Orientation of the Personnel

First, Pradan professionals met the respective state secretaries and presented the proposals. On our request, they wrote to the collectors of the proposed districts to extend the necessary support to us for the implementation of the project in the selected ten panchayats each in Khunti, Dumka, Mayurbhanj, Kandhamal and Raigarh districts. We subsequently organised district- and block-level workshops to present the proposal and action plans with the district, block and PRI personnel and incorporate their suggestions. We used these workshops to create awareness among participants on the possibility of INRM-based livelihoods assets creation under NREGA by screening a video documentary and showing them the Works Manual.

We organised one workshop in each district. In Dumka, we organised two district-level workshops. In Khunti, the district administration could not be convinced to organise it in spite of our repeated requests. However, the team went ahead to orient officials in block-level meetings. In Kandhamal, due to a communal riot, it was difficult to organise district- or block-level meetings. Towards the end of the project period, our work drew the attention of the district administration in Kandhamal. The collector called a meeting of 45 district- and block-level officials to understand the Works Manual for promoting the INRM approach under NREGA. Subsequently, plans were drawn up to adopt the strategy.

The maximum focus has been on the orientation of the panchayat-level personnel. Training and dissemination events were attended by more than 10,000 Village Level Workers (VLWs), secretaries, ward members, sarpanches, etc. The documentary was screened and the concept of the INRM, the NREGA provisions and the roles of the villagers were also discussed in detail. The villagers were interested in knowing about the provisions under the Act, which they were not aware of.

As planned, we also took the block- and panchayat-level personnel to the nearby places where we had demonstrated the approach with support from other sources. Though fewer officials from the block-level participated in the exposure visits, more than 600 panchayat personnel, who participated, were convinced about the approach.

Awareness among Gram Sabha Members about their Entitlements under NREGA

While conceiving of the proposal, we had not thought that the training of the Gram Sabha members would be difficult and hence had not budgeted adequate time for it. However, when we met the villagers to enhance their appreciation for INRM-based livelihoods assets creation under NREGA, we realised that the people needed precise knowledge on NREGA to claim what they deserve. A communication drive was undertaken in nearly 260 villages of the identified panchayats to make the villagers aware about their entitlements under NREGA. Through rallies, street plays and posters, we informed people about NREGA and the prospect of livelihoods assets creation through INRM. In addition, pamphlets portraying the important features of NREGA and the pilot project in the local language were distributed among the villagers. The PRI members and contractors were apprehensive in the beginning and tried to dissuade us. However, with support from SHG members, we were able to overcome their resistance and reach the people.

Earlier, some families were not able to get job cards for various reasons, including the demands for bribes by the VLWs, the limit set by the VLWs on the number of cards issued, the lack of information on the procedure, outside migration and so on. Following the awareness programmes, things have improved. Nearly 5,000 families have received job cards. The villagers had assumed, earlier, that only BPL families were eligible for cards. The following table shows the number of events organised in each district and the participation.

Almost the entire population of the selected panchayats was covered under the above programmes. About 7,000 villagers were taken on exposure visits to appreciate the INRM approach for livelihoods enhancement. They were very excited and started planning for similar assets under NREGA. Posters on INRM were exhibited in noticeable places.

In the last week of February 2008, one of the Pradan executives in Saraiyahat block of Dumka district saw a crowd of about 30 villagers gathered at the bus stop. Out of curiosity she asked one of them why they were there. The person replied, "This is the result of your programme that made us aware of NREGA. We are from Saraiyahat village and it is not covered under your programme. However, we learned about our entitlements under NREGA from the villagers associated with your programme. Now we are going to meet the BDO to demand jobs."

Identification, Skill Building, Deployment and Monitoring of LRPs

Recognising the need of the community, the villagers with us identified the capable youth. We groomed them as local resource persons (LRPs) for sustainable support to villagers. They were first given information on the provisions of NREGA and on how they can support the community. They were trained in filling up different forms such as job card application forms, job application forms, etc.

Table 2: Number of Events and Participants in Each District

Events	No. of events (E) and participants (P)										Total		Plan	
	Kandhamal		Mayurbhanj		Raigarh		Khunti		Dumka					
	E	P	E	P	E	P	E	P	E	P	E	P	E	P
Rally	0		65	4,500	7	5,000	2	5,000	1	400	75	14,900	5	2,500
Skit	125	12,500	51	18,922	60	6,000	50	5,000	13	1,300	299	43,722	0	0
Exposure on INRM	12	1,100	40	3,600	22	350	18	1,234	12	600	104	6,884	0	0

Once they started mobilising the community to claim their rights under NREGA, we identified their further training needs and addressed these. Subsequently, they were trained in the INRM approach for livelihoods assets creation under NREGA. They learnt about the hamlet-level participatory planning processes, documentation of such plans, and the estimation and implementation of different components of INRM.

> Following the awareness generation programme and the capacity building of LRPs, 234 villagers in Budrukia panchayat of Kandhamal district have opened their zero balance bank accounts in UGB, Balliguda with support from, LRPs. Now they are receiving their wages in these accounts. This has ensured full payment to them.

Helping Members of the Gram Sabha Get Jobs under NREGA through LRPs

The practice of applying for jobs, as per the provision in the Act, is not presently encouraged by the administration. Normally, job applications are filled up by the people. The trained LRPs had helped the Gram Sabha members to fill job applications and submit them in the Gram Panchayat (GP) office for jobs when available. The villagers then learnt that they should have taken receipts with dates, against their applications. More than 10,000 people had applied for jobs; however, either the applications were not accepted or the receipts were not issued. Only about 30 per cent of the applicants were issued receipts. The villagers, who had been issued receipts but did not get jobs in the stipulated time, could claim unemployment allowance and the LRPs helped them to do so. But the applications for unemployment allowance were not accepted in the GP office or in the block office. Work availability to villagers as per their demand, therefore, is still a problem everywhere. The non availability of funds with the panchayat is a genuine problem and it is not able to engage all the job-card holders at any point in time.

Table 3: Number of Events and Participants in Each District

Events	No. of events (E) and participants (P)													
	Kandhamal		Mayurbhanj		Raigarh		Khunti		Dumka		Total		Plan	
	E	P	E	P	E	P	E	P	E	P	E	P	E	P
Identification and training of LRPs	5	160	7	439	8	75	18	800	4	48	42	1,522	50	1250

> Jibilong and Kherkhai villages of Torpa block in Khunti district have 40 to 45 Munda households, each living in abject poverty unable to utilise their lands properly. Migration of the villagers is a routine phenomenon. Under the pilot project and helped by the LRPs, the villagers became aware of NREGA and applied first for job cards and then for jobs. By persisting with their demands in the block office, they were issued receipts for their applications as well as jobs on time. This was happening for the first time in the block. Villagers were surprised to get the work order for the long pending tank construction and road construction. They are now quite hopeful about executing more INRM-based livelihood assets under NREGA.

Home-Based Broiler Farming-A Pro-Poor Approach to the Modern Poultry Sector -I

Anish Kumar, Dr. Harekrishna Deka and Pawan Ojha

Overcoming initial hurdles, the rural poor women find a viable option in rearing poultry commercially by organising themselves into cooperatives and supporting each other in a volatile market

Introduction

Poultry has been the fastest growing agri-allied sector activity over the last two decades. About 1.8 million tonnes of poultry was consumed in 2007. This is expected to grow to 2.3 million tonnes in 2010. Most of this growth has happened in the urban and peri-urban areas. Today, the poultry industry is pegged at 1,500 m broilers, and the participation of the small farmer is minimal. The poor, particularly the women, have natural advantages in this activity because of the criticality of 'husbandry' in the production process. If additional growth happens in rural areas, one estimates that this sector could create opportunities for 35,000 primary (small farming) livelihoods and another 50,000 subsidiary livelihoods, primarily in the villages. This, possibly, makes poultry one of the best bets for rural workforce diversification. However, most of the efforts in the past have failed miserably.

The small-holder poultry model, described in this case, emerged in Kesla block of Hoshangabad district in Madhya Pradesh from Pradan's experience of various interventions in upgrading and enhancing the income from backyard poultry.

Today, Pradan works with 5,306 women broiler farmers, organised into 16 cooperatives, with a total annual expected turnover of about Rs 60 crores in 2009-2010 (FY 2008-09: Rs 27.25 crores). This is the largest conglomeration of small-holder poultry in India.

Evolution of the Small-holder Broiler Farming Model

Intervention Context: Area and the Poor

The poultry project is concentrated in the southern part of Kesla block, comprising 80 per cent tribal population. The area is undulating with less than 9 per cent irrigated area; agriculture is mostly rainfed with rudimentary agricultural practices, resulting in low productivity. Most families are unable to produce grain for more than six months. The typical participant family from disadvantaged communities is dependent for its sustenance on rain-fed agriculture, the collection of minor forest produce and wage earnings, totalling to about Rs 15,000–18,000 per annum.

Backyard Country Fowl Rearing

The rearing of country fowl is common in many poor households. A household will typically rear 5–15 fowl, which survive by scavenging on household waste, etc. This activity, 'backyard country fowl rearing', uses little family resources, both in terms of labour and cash. It provides, in a good year, Rs 1000–1500, mainly meeting the emergency cash requirement; about 20–30 eggs are consumed by the family. Though valued, the activity is not seen as a significant income source by the family.

The total opportunity cost in rearing the marketable bird, including the egg cost and the family labour, is estimated to be Rs 20 per bird. In the terminal market in urban areas, these birds are a small portion of the retailers' business, providing, thus, for a scarce supply in a small, niche market. Although the per bird return to a farmer is high, the annual return from the activity for a family keeping 15-20 birds is Rs 1,200–1,800.

Experimentation

In 1988, Pradan started work on augmenting the incomes of the tribal poor in Kesla through the poultry enterprise. This effort, over the years, has actually created another cluster that produces three lakh birds per month, of which 50 per cent is by the cooperative and the rest by other private producers. Today, it is rivalling the four existing established poultry clusters in M.P., organised around the industrial boiler farming, both in size and efficiency. The Bhopal cluster is the largest and captures about 60 per cent of the market share.

Initially, work started with intervention in backyard poultry. The idea was to enhance the efficiency of backyard poultry by introducing improved breeds such as cockerels and dual purpose birds, and by intervention in marketing. Cockerels are the male species of layer birds and, thus, not required for laying purposes These breeds required low investment (the chick price of cockerel was 30-50 paise whereas the broiler chick price was Rs 5–7 in those days), and were perceived to be 'hardy' by nature. Broiler farming was thought of as belonging to the domain of 'large' farmers and not suitable for small farmers.

Soon, however, we realised that cockerel, or improved bird, production would cater to a very small niche market. The production cycle is long—3 months or more, not making it, therefore, a viable option for poor families that require quicker returns. Moreover, risk reduction would require some sort of insulation from pests and predators, necessitating the creation of 'confined' spaces. The availability of food on the homestead is limited; as soon as there is an increase in the number of chicks, beyond say 20-25, the birds require more feed than what is freely available, requiring it to be bought from the market. We had started thinking in terms of sheds and buying feed. This made us think of introducing the broiler, an improved breed—the best breed—for these conditions. The feed conversion ratio of the broiler is the least, that is, it converts the maximum amount of feed into meat.

Pilot Testing and Demonstration of Broiler Farming

In 1992-93, sixty tribal poultry farmers organised themselves into an informal group named Kesla Poultry Samiti KPS and shifted to broiler production with the help of inputs from a hatchery owner from South India, the team in Kesla We converted the existing sheds made for cockerel production to broiler farms. This necessitated many difficult years of learning the intricacies of the technology—broiler production being a highly sophisticated/technology intensive production process. It meant getting the correct unit size, shed design, material for shed construction, the production technology of broiler birds and the method of organisation. For many years, some farmers would do the brooding (which is the most critical part of the production) and supply the chicks to other farmers. This was then decentralised after we realised that the brooders did not have a 'stake' in producing quality brooded chicks in the absence of any verifiable indicators of measuring quality. Also, we struggled to contain disease—Ranikhet was a major killer during those days. All this took the better part of the years from 1992-1997.

Table 1 : The experiences over the years and salient features, milestones and lessons.

Phase	Salient Features	Lessons/Issues
First phase: 1988-1992 **Experimentation:** Introduction of improved breeds in backyard poultry setting; interventions in the market for better price realisation.	1. Marketing 2. Cage rearing of cockerels 3. Brooding and rearing done separately	✓ Little industry interaction; experimentation on one's own ✓ High return on investment but low absolute income fails to excite and bring intensity to the activity. ✓ 25-30 birds cage rearing failed miserably.
Second phase: 1992-1997 **Pilot testing and Demonstration of broiler farming**	1. Broiler rearing on deep litter initiated 2. Brooding and rearing done by the same family 3. Rigorous training 4. Standardisation of production prototype	✓ Adequate financing: units were underfinanced. ✓ Criticality of unit size: lower unit size did not adequately provide for debt servicing. ✓ Absence of factoring financial implications of market volatility and creating a risk mitigation system made the intervention fragile.
Third Phase: 1997-2002 **Scaling up:** Expansion, Systems setting, Institutionalising producers' cooperatives	1. Rapid expansion 2. Producers organised as cooperative 3. Intervention in other components of value-chain marketing—establishment of warehouse cum wholesaling	✓ System to address market volatility key to success: de-linking of production and enterprise risks. ✓ Creating ownership of the enterprise cannot happen through mere systems; it requires investments in people.
Fourth Phase: 2002 onwards **Prototype Development:** Documentation, Developing systems for large scale marketing, Lobbying, Setting up projects in new locations	1. Modern retail outlets. 2. Feed production 3. Replication by other NGOs and by Pradan	✓ Creating margins to take care of establishment costs. ✓ Creating a good governance structure, which is able to exercise ownership and control on the operating structure managed by professionals, is the biggest challenge. ✓ Integration of all the cooperatives through a producer company dedicated to growth of small-holder poultry farmers.

Scaling up

From 1997 to 2002, the attempt was to scale up the activity. 200 new members were added. The major focus was also on setting systems—critical among this was the de-linking of the production and enterprise risks. The poultry industry is a highly volatile industry, with daily changes in prices. Producers, who were otherwise rearing good batches, would incur losses just because the day on which they sold their batches, the price would have crashed. This would wipe out the individual producer's working capital and it would be very difficult for the producer to make up for the loss in subsequent batches. Information asymmetry led farmers, who had more 'contacts'/information, to dispose off their birds on days of favourable market prices. Farmers who did not have access to this information would be liquidated by the low market price for their produce. Good producers among these would lose their motivation because they could exercise little control over these market fluctuations.

In 1998, the cooperative came up with the idea of de-linking production risks from enterprise risks. A system of fixed pricing was evolved, in consultation with producers. Initially, the idea met with resistance, especially from the 'beneficiaries' of the existing system; however, a majority of the producers accepted the idea. Simultaneously, the idea was also applied to inputs since these also tended to vary along with the market prices of ready birds.

In 1992, the monthly traded output of table birds in the area was only 2,500 birds. In 2005, this area—a 60-km stretch between Itarsi and Shahpur—emerged as the second largest broiler cluster in Madhya Pradesh producing over 3 lakh table birds every month. Other large farmers have also found it expedient to set up broiler farms as more bird traders come to the area.

After many travails related to technology, unit size and institution model, Pradan took close to a decade to create a small farmer-centric model for broiler farming.

Creating market for broilers was the first big hurdle faced. In 1986, Pradan started with premise that there exists a large market in Bhopal. In first few years itself, it was clear that the production volume and the transaction costs in reaching Bhopal market makes it an unviable proposition. The local table meat market was essentially of goat-meat (sold fresh-cut in convenient quantities) and chicken sold was mostly country fowl (sold by numbers not weight). It took two years to establish broiler as an alternative meat product, sold by weight in this market. The township around Satpuda Thermal Power Station and the Western Coalfields at Sarni-Pathakheda is 60 km away from Kesla, with a large base of consumers with high disposable income. The growth of Kesla Poultry is closely linked to growth of chicken market in Sarni-Pathakheda. It remained the mainstay till 2000, consuming almost two-thirds of the produce.

Organising the supply of quality inputs at competitive prices with little production was another challenge that took many years to solve. The initial struggle with transportation of chicks by rail with problems in one-out-of-five consignments looks remote now but is still a reality in any new area.

Financial Performance of the Cooperative

The cooperative was registered in 2001. Since then, its books have been separately kept and audited. Today, the net worth of Kesla Cooperative is Rs 33.4 lakhs; in addition, it has created a price-risk mitigation fund of Rs 10 lakhs.

The annual turnover of the cooperative has doubled in the last three years. The surplus is distributed to members and only a small portion is kept by the cooperative. The total amount distributed to members has increased

Box 1 : The Kesla Poultry Cooperative

Kesla Poultry Cooperative is predominantly a women's society. It has 445 tribal and dalit women members from 18 villages. Each member has a production unit in her own backyard, in which 300-500 birds can be reared. She takes 5-6 batches in a year, each of a 30-45-day duration. The average earning is between Rs 1,500 and Rs 2,500 per batch (Rs 9,000-15,000 a year).

A member gets chicks, feed, medicines and litter material from the co-operative. Each member is provided with a production card, on which all the transactions with the cooperative, and performance variables such as mortality, weight gain, feed conversion, etc., are recorded. In a village of 25-30 producers, a trained para-vet (or supervisor) in the producers' families (either a son or husband) provides round-the-clock production support. The supervisor is also responsible for distribution of inputs to members, as per requirements. He supervises the disinfection of the shed, the vaccination and the lifting of the birds. Every week, the supervisor takes the weight of the bird and records the mortality of the birds. The cooperatives' veterinary doctor and the Supervisor analyse the production performance and suggest corrective measures for any variances. In the weekly meeting, production scheduling and lifting schedules are also decided.

The cooperative ensures the lifting of the ready birds at a pre-determined rate. At the end of each batch, the producer visits the cooperative office where her accounts are reconciled with the books, payments are made and she is helped to analyse the reasons for her high or low profits. The birds are marketed by the cooperative through local traders, strategically located warehouses in nearby cities, and state-of-the art retail outlets in Bhopal. The cooperative, today, produces 1,25,000 birds every month, making it one of the largest production houses in Madhya Pradesh. In the last financial year, the cooperative placed 7.15 lakh chicks and sold 1,360 tonnes of live birds worth Rs 5.36 crores.

The accounts of the cooperative are maintained through customised software, which also generates Management Information System (MIS) reports for the management. Each month, the Governing Board of the cooperative meets to discuss the performance of the cooperative, input procurement, the marketing and the profits earned by the members. The producer representatives and the supervisors then hold a village-level meeting to discuss the decisions taken in the Governing Board. The business performance of the cooperative is presented by the Chief Executive Officer, (CEO)

The CEO, assisted by village-level supervisors and veterinary doctors, manages the day-to-day operations of the cooperative. The cooperative, today, has 37 staff mostly drawn from the village youth, and it meets the costs of its entire staff and other establishment expenses. The market interface is handled by the cooperative—all inputs are procured and the birds are sold by the cooperative. This provides the growers with the means to even out the market fluctuations. An Annual General Meeting (AGM) of all the members, convened once a year, discusses issues such as patronage bonus and dividend, and ratifies the annual report.

Table 2 : The financial status of the cooperative, over the years.

Particulars	2007-08	2006-07	2005-06	2004-05
No. of members	459	376	354	276
Margins distributed to members	6,722,219	4,053,373	2,680,242	1,931,271
Total sales (Rs)	58,441,163	38,195,184	33,917,392	27,061,784
Gross profit	1,527,175	2,071,622	1,152,429	2,510,402
Profit before non-cash charge	373,950	314,291	253,632	271,411
Net profit	247,850	110,000	-60,078	45,623

four-fold since 2004-05 to Rs 67.2 lakhs now. Bringing producers together in a collective around pre-determined service norms was another challenge. The effort at Kesla has tried to systematically create disincentives for individual delinquency such as selling a few birds at high prices to local traders in periods of cash stress. The biggest incentive, though, has remained good member profits.

Adapted from the Best Practice Note on Home-Based Broiler Farming, originally written for South Asia Pro-Poor Livestock Policy Programme (SAPPLPP).

Ten Years to 2000: Reminiscences - II

Vijay Mahajan

Ten years after leaving Pradan, one of the founders of Pradan looks at his experiences in promoting micro-finance and rural livelihoods

In the first part of this article, I had, in the Hitopadesa style of telling stories within a story, described what I did in the first five years after I left Pradan in early 1991. In this part, I will talk about the next five years, which I continued to devote to the development and promotion of rural livelihoods. Central to this, of course, was the establishing of BASIX, 'a new generation livelihoods promotion institution'. I continued also, however, to do a lot of policy work in the field of rural livelihoods and micro-finance.

The liberalisation of India's economy since 1991 generated both the need as well as the opportunity for promoting sustainable livelihoods for a large number of rural people. Yet, capturing this opportunity was not easy, particularly for the rural poor. Developing access for the poor to the minimum wherewithal for livelihoods—ideas, motivation, skills, credit, infrastructure, and market linkages—was difficult to conceive of and even more difficult to deliver. Even credit, for which a vast network existed in the form of rural banks, was difficult to raise.

So, why not reform the existing rural credit system? The examples of Indonesia, Thailand and Bangladesh that I had a chance to study showed this eminently possible. Indian rural financial institutions have not done well on the twin criteria of outreach to the poor and financial sustainability. The most important reason for this indifferent performance is that these institutions are not customer driven; for them, serving rural customers is more of a 'social obligation' than a business proposition. Their ownership by government and thus lack of a performing culture were major impediments. The study that Bharti Ramola and I had done on the rural financial sector had convinced us that the rural credit system of India could be reformed. However, we felt the need to establish an 'action research' laboratory, in which we could try out many of the policy prescriptions and innovations.

It was with this background that I decided to set up BASIX in 1996. The idea of BASIX evolved from reflecting on the earlier work I had done in Pradan, the livelihood promotion work with the Tibetan refugee community between 1992 and 1995, and the studies in the same years on the Rural Non-Farm Sector (RNFS) and on Financial Services for the rural poor and women. The following propositions underlay the BASIX idea:

- There is a need to generate a large number of sustainable livelihoods in India. (The planning commission estimates in 1991 in the range from 10 to 11 million per year).
- If certain design principles are followed, it is possible to run a rural financial institution, which can both enable high access by rural customers and remain financially sustainable.
- Credit is a necessary but not sufficient condition for the promotion of rural livelihoods. Particularly poor borrowers need technical assistance and support services.
- If a dent has to be made in the problem of under-employment and unemployment in rural areas, attempts to support or promote new livelihoods should be planned on a large scale. This requires their being able to access capital and human resources from the mainstream in the long run.

Based on these ideas, I wrote up an 'Initial concept paper' in January 1995. It described BASIX as 'a new generation rural livelihood promotion institution'. Because we were pursuing sustainability as the key idea, we had to run as a 'for-profit' modality. Thus, I proposed to set it up as a bank to ensure that credit was readily available. But in 1993, the Government of India (GOI) allowed new private sector banks to be established, with a minimum of Rs 1,000 million equity. I had Rs 1 million from Savita's and my accumulated savings and my share of the sale of family property. I thought I could arrange the remaining Rs 999 million on the strength of the idea!

I met Dr SA Dave, then chairman of the Unit Trust of India (who knew Pradan from the times he was in the IDBI and had supported the Kesla project); Mr. Vaghul, then chairman of the ICICI (who also knew Pradan as ICICI has supported us with a Rs 1 million endowment), and Mr. Kottaiah, then NABARD chairman, whom I came to know during the rural non-farm sector study. Dr Dave even suggested I join the UTI and try the idea as a division of the UTI. Mr. Vaghul passed the idea on to his 'development' group with a nod. Mr. Kottaiah thought he could somehow put some money in the venture, out of the Swiss Agency for Development and Cooperation (SDC) promotional funds lying with NABARD. But it became quite clear, after a while, that there was no possibility of raising Rs 1000 million as equity, even though I was willing to put up the first one million! Therefore, we could not set up a regular commercial bank.

Having written the concept document, I did not have the courage to start actualising it alone. I asked various friends and colleagues in early 1996 if they would like to be co-promoters. All except Nagarajan declined to work full-time on the idea, but offered to support in various ways. The understanding with Nagarajan was that I would start and he would join by April 1997, after winding up his CA practice. However, he decided to continue with his practice and stepped down from the role of co-promoter. Bharti had accepted to be a co-promoter, but while staying on in Pricewaterhouse. She sought special permission from her firm to be a co-promoter. When Nagarajan opted out, I decided to find a balance between the developmental and financial sides in the promoter group, and requested Deep Joshi to become the third co-promoter. Between Bharti, Deep and myself, we put Rs 1.1 million as equity in the holding company.

We decided to constitute a Board representing both the developmental and the financial sector. Thus, we requested Loganathan*ji* of ASSEFA, Joe Madiath of Gram Vikas and Jayashree*ben* of SEWA Bank to join the Board. Mr. Palia, formerly an Executive Director of the IDBI and the founder of the Rashtriya Gramin Vikas Nidhi; Prof Malcolm Harper, one of the global *gurus* of small and micro-enterprise promotion; Mr. Dilip Pendse, Managing Director of Tata Finance; and Mr. Anoop Seth, my banker friend, also agreed to serve on the Board. At our request, Nagarajan continued to be involved in the design and became our Auditor and financial advisor.

Vasimalai, then Executive Director of Pradan, agreed to my proposal that I could use Indian Grameen Services IGS (since the company was dormant for the previous few years) as the initial start-up entity of BASIX. Since we wanted to try out many operational innovations, irrespective of the legal form, we decided to start operations under IGS. The first thing I did after taking over IGS in December 1995 was to raise some money to produce the Feasibility Report of BASIX. This was carried out largely by me with the help of Parthasarathy and Ashok Singha (who had worked with me on the rural non-farm sector study), and Nagarajan and Bharti, on the financial and legal sides. The document was presented to a group of investors on January 28, 1996, in Hyderabad.

The founding document stated that the mission of BASIX is to promote a large number of sustainable livelihoods, including for the rural poor and women, through the provision of financial services and technical assistance in an integrated manner. BASIX will strive to yield a competitive rate of return to its investors so as to be able to access mainstream capital and human resources on a continuous basis.

The emphasis on attracting mainstream finance and human resources in the mission statement came from a concern for long-term institutional sustainability. We designed a corporate structure for BASIX, which was partly inspired by Shorebank's adroit use of for-profit and non-profit subsidiaries to address a complex mission. This led to establishing BASIX as a group of for-profit companies along with the non-profit IGS.

Over numerous rounds of discussions with Bharti and Nagarajan, we tried to evolve an appropriate corporate structure. It became clear that we could not be a bank, though we could become a non-banking finance company (NBFC). In those days, NBFCs were not well-regulated and there was no requirement of minimum equity, RBI registration, rating and so on. Even as we began to work towards this design, we tried to persuade the RBI to consider our proposal (based on the Indonesia experience) of establishing a new category of banks—The Local Area Banks (LABs). Fortunately, at around that time, the then Finance Minister, Dr. Manmohan Singh, made many references to the Grameen Bank of Bangladesh and, learning from its experience, to redesign our rural credit system. Bharti, Nagarajan and I met him and he assured us that if the Narasimha Rao government came back (it was already about to collapse due to parliamentary minority), he would consider setting up LABs. The Deputy Governor, Mr. RV Gupta, who had got to know Bharti and me during our rural financial sector work with the World Bank, personally pushed the LAB policy, with the able support of Mr. Yashwant Thorat, the dynamic General Manager, Rural Planning and Credit Department. The RBI Governor, Dr. Rangarajan (who was my Economics Professor at IIM, Ahmedabad, but who only remembered Savita as a bright student!) was also favourable to the idea.

Well, Dr. Manmohan Singh never came back as Finance Minister (FM). Instead, Mr. Chidambaram became the FM under the coalition government of Mr. IK Gujral. One of the points in the common manifesto of the then coalition was the 'doubling of rural credit in five years'. The new FM asked RBI if they had any concrete ways of doing this. This RBI hurriedly sent the proposal for setting up the LABs and before we could blink, the policy was announced in the August 1996 delayed Budget speech by Chidambaram. We immediately put in an application from BASIX. After about six months, we were among the first three organisations to be awarded an 'in principal' approval by the RBI to start a LAB. This was within eight months of starting lending operations in Raichur. What luck, we thought! Well, we spoke too soon.

A large, aggressive NBFC called CRB Capital Markets went bankrupt and the scam hit the financial sector badly. The RBI became pre-occupied with that. The regulatory regime for NBFCs was tightened, registration was made mandatory and the RBI decided to put LABs on hold for a while. Meanwhile, Mr. RV Gupta and Dr. Rangarajan both retired. The Gujral government fell and Mr. Chidambaram was gone. Thus, there were no champions left for the LAB idea. The choice for us was to wait, perhaps endlessly, or work as an NBFC.

In January 1996, when the concept document was presented, BASIX was an untested idea, which needed to be tried out on the ground. The idea required a substantial amount of support, in the form of operating support as well as long-term capital, before the idea could be said to have been established. I requested the Ford Foundation (FF) and the SDC, both of which I had known during my previous work, to come together to support the testing of the idea. We sought loans from them but Indian law did not permit foreign equity investment in NBFCs then. The RBI required NBFCs to have a minimum equity of Rs 2 crores and maintain at least the equity level at 12.5 per cent of their loans. We decided to set up a two-tier structure, with a holding company borrowing from FF and SDC, and using the proceeds to invest in the equity of the operating NBFCs. This rather sophisticated design was the only way to overcome the key constraints that we as promoters did not have Rs 2 crores equity, and the organisations (FF and SDC) willing to support us were unable to put in the equity directly because they were foreign. No Indian institution was ready to put in equity.

As it was going to take at least a year to establish the companies and get various government permissions, we decided to start pilot operations under IGS. For this too, we needed funding and we requested the Sir Ratan Tata Trust (SRTT), for which I had made a five-year strategic plan in 1995 to give us a loan of Rs 1 crore. This was an unprecedented request in the 80-year history of this venerable Trust! However, with the unstinted support of their Programme Advisor, Deanna Jejeebhoy, and a series of 'interviews' with Mr. Soonawala, the Tata's Finance Director, Mr. Nani Palkiwala, and finally Mr. Ratan Tata himself, we were granted the loan @ 1 per cent interest and repayable in a year's time. This was in May 1996.

We did not lose any time and started pilot lending on June 6, 1996. Our first three loans were made to two women's Self Help Groups and a men's lift irrigation group, all organised by PRERANA in rural Raichur. BASIX (in those days, just IGS) began operating from an office in Raichur's agricultural market yard, lending in Raichur district and the neighbouring Kurnool district of AP. Vijay Kulkarni was our first Unit Manager, and his joining is another story!

As it was difficult to hire people for a new organisation, I requested many of those who had worked with me on the non-farm sector study—Partha, Ashok, Ravi and Dileep to join. Kuldeep, Raja and Vijay Madhwal, who were part of the admin team from the RNFS study, also joined. I also persuaded Sankar Datta, former colleague, who had left Pradan in 1988 to join IIMA and who then taught at IRMA for five years, to join BASIX. With Partha and Sankar joining, we had two good Vice-Presidents—one for Operations and the other for Resources.

To run our first unit in Raichur, Pramod Kulkarni, due to whose PRERANA I had decided to start BASIX in Raichur, suggested I ask Vijay Kulkarni, his friend in Canara Bank. I had met Vijay a couple of times earlier. I wrote to Vijay and he, characteristically, sent me a letter saying he is joining, and had submitted his resignation to Canara Bank! I asked Vijay to hold on till we were sure of getting the lending funds. By May, 1996, he joined in Raichur, just a week before we got the SRTT funds. Vijay worked as our Unit Manager in Raichur and was very creative in translating the BASIX ideas on the ground.

Living up to our ideas of seeking commercial funds and collaborations, in the very first year, we raised a loan from the Small Industries Development Bank of India (SIDBI). We also persuaded ITC Agrotech Ltd, an agro-processing company active in Kurnool district, to extend credit to sunflower farmers through IGS and repay the loans after buying back the farmers' produce. Together with the SRTT funds, we were able to lend Rs 1.7 crores in the very first year to small farmers, Self Help Groups, agri-commodity brokers and a few non-farm enterprises. IGS returned its loans from ITC Agrotech, SIDBI and SRTT after collecting repayments from its borrowers by July 1997.

BASIX extended credit to the rural poor, particularly the landless and women, for self-employment, on or off-farm. We also lent to rural commercial farmers and non-farm enterprises, which generate the much-needed wage employment for the rural poor. We decided to serve the needs of different segments of customers through different channels. We used various lending methodologies aimed at reaching the poor at reasonable transaction costs. Our motor-cycle borne Customer Service Agents go to the villages and originate loans and collect repayments. This was inspired by Bank Rakyat Indonesia. Our farmer borrowers are organised into five-member, 'joint liability' groups, a *la* BAAC, Thailand. We also increased our outreach to farmers by lending to them through fertiliser dealers and seed production companies. Unlike anywhere else, but inspired by an academic paper by Clive Bell, a former ICRISAT economist, we also lent to small farmers through *arhatiyas*, or commission agents, who have long-standing relationships with them. We lent to poor women through SHGs, a *la* Pradan and MYRADA. We innovated the concept of SHG assessment and, thereafter, lent to federations of SHGs. In just a year, we had more methodological diversity than any other MFI.

Sankar and I had learnt after working in Pradan that while credit is necessary, it is not a sufficient condition for generating and sustaining livelihoods. Due to infrastructure disadvantages, remoteness from markets and lack of exposure of rural producers, it is necessary to extend technical assistance and support services for effective support/ promotion of livelihoods in rural areas. BASIX has made efforts to build up a network with input suppliers, produce buyers and training providers. Technical assistance and support services to borrowers are provided in collaboration with a range of both informal and formal organisations, private traders, agri-business companies, commodity cooperatives, NGOs and extension agencies. Experimenting and developing these linkages is now the key function of IGS. Where we went beyond the Kesla experience was in searching for economic actors operating in the rural areas, who extend a variety of technical assistance to their customers as an integral part of their own business.

The year 1996–97 was also used to establish the holding company and the two subsidiary companies and undertake negotiations with FF and SDC for long-term loans to the holding company. In April 1997, BASIX Ltd. received a loan of $ 1 million from FF. The regular credit operations were from then on performed by Samruddhi, the finance company, whereas technical assistance and support services continued to be provided by IGS. BASIX received a further loan of SFR 1.25 million from the SDC in late 1997, and in 1998, a further $ 1 million was received from the FF and a further SFR 1.25 million from SDC. This added up to approximately Rs 14.5 crores and was enough to take us through the 'pilot stage'. In pursuit of funding approvals and GOI and RBI clearances, I had to make so many trips to Delhi and Mumbai that I earned over 2 lakh miles on my frequent flier plan with the Indian Airlines! I even had to go to the US and Europe four times in two years.

Raising commercial finance from banks and institutions was the biggest challenge for BASIX since its initial years. Our growth plans required that we tap commercial financing especially from India. We realised that no bank was going to lend to us because we were an NBFC. After the CRB scam, banks became extremely averse to lending to any NBFC, and we were new, as yet unregistered with the RBI, not rated and to top it all, were engaged in the 'risky' business of lending to the 'weaker sections' in rural areas! Even SIDBI, which had lent to IGS during the pilot year, refused to extend a loan to Samruddhi, the NBFC, on these grounds.

Bharti and I made trips to Lucknow to persuade SIDBI to lend to us, and to Mumbai to do the same at the ICICI. Anoop tried to help with the HDFC and SBI in Mumbai. I have to confess that eventually my frustrations with the financial institutions led to my attacking them and some of my well-wishers in the financial institutions. It was at such moments that the sage presence of Board members such as Deep, Malcom, *Annachi*, Joe, and Jayshree*ben*, was helpful in restoring my sense of balance. Alas, I may have lost some good friends in this process of learning.

Ever since its launch in June 1996, the operations in BASIX grew by the day; we realised that we would run out of lending funds unless we made some more arrangements. Sriram, on a sabbatical from IRMA in mid 1997, joined BASIX as our VP, Finance and IT. Together, we made at least a dozen trips to Mumbai in 1998 in search of bank loans. Eventually, we gave up and decided to focus on Hyderabad-based banks since it would amount to wasting only auto fares instead of air fares! By that time, we had decided to look for funds abroad and had put in application to the Canadian CIDA, the Dutch Bilance, a British DFIF and the Australian Aussaid. We also requested the FF for an additional $ 2 million loan. We were also aware that the company would need additional equity funding as its borrowings go up, so we approached the IFC, Washington, the HDFC and ICICI for equity funds.

We decided to continue our work on the policy front. We wrote to the RBI to consider bank lending to micro-credit NBFCs as part of the banks' 'priority sector' lending. The RBI accepted our letter but said that it was for the banks to approach the RBI, not us. We tried to persuade the new private banks, the Development Credit Bank (DCB), the ICICI Bank, and the Global Trust Bank (GTB) to write to RBI. They never did. However, in the process, we got to know the senior managers of these banks. We wrote to the RBI again after six months and this time they replied in the negative.

Our efforts paid off when, in mid 1999, the Hyderabad-based Global Trust Bank approved a loan of Rs 20 million for lending to SHGs. We persuaded NABARD to refinance GTB for it. This was a breakthrough, because not only was it the country's first bank loan to a Micro-Finance Institution (MFI) but also, the NABARD refinance did not put onlending interest rate restrictions on us. Around the same time, we also received an approval of a loan of Rs 2 crores from SIDBI for lending to non-farm micro-enterprises. This money was badly needed and enabled us to take our cumulative disbursements beyond Rs 20 crores. Sankar was valiantly running the show as VP, Operations, since Partha left that position in 1997. He was ably supported by DRK Rao, who joined us after a 20-year stint in agri-commodities business in the government, cooperative and private sectors. Between Sankar's developmental and DRK's commercial background, we had a senior team fit to support the growing number of Unit Managers, who were considerably less experienced than our first, Vijay Kulkarni.

By mid 1999, Sriram decided to go back to academics (he now teaches at the IIM Ahmedabad) and Prasad joined us as VP, Finance and IT. Coming from the mainstream, Prasad brought the much-needed skills of how to pursue deals with banks and FIs. By that time, our custom-made financial accounting management information system (FAMIS) began to produce useful statements after two frustrating years of software development. We could monitor the company's portfolio and other performance using systems rather than just landing up in the field.

Despite a frenetic pace of work due to growing and streamlining operations in BASIX, and trying to raise additional debt and equity funds from Indian and foreign institutions, I continued to work on the policy front. Elaben, the visionary leader of SEWA, was supportive of the idea of establishing an association of micro-finance institutions of India, to undertake policy work jointly and promote the overall growth of the sector. We held a series of meetings on this issue since 1996 and even received support from the GOI in the wake of the Micro-Credit Summit 1997. But we had too many false starts, and it was very difficult to get NGO/ MFI leaders to come together on a common platform. We sought every opportunity to work towards this goal and the big one came in early 1998, when Women's World Banking (WWB), New York, of which Elaben is the global chair, decided to hold a Policy Forum in late 1998 in India.

Around mid 1998, I met Mathew Titus. He had just returned from the UK after an M. Phil in micro-finance. I explained to Titus that Elaben and I were trying to set up an association of micro-finance institutions, and asked him if he would be interested in working on it. Titus agreed, and within the next few months, we held the founding meeting in Hyderabad, of what was eventually named Sa-dhan, the association of community development finance institutions of India. All the major MFIs became its founder members, and Elaben was elected its Chair and I, the Co-Chair. Titus became the Executive Director of Sa-dhan, with headquarters in Delhi.

Around this time, Sukhwinder Arora of the British DFID told us that he had requested BIRD to organise a workshop called 'Kick-Starting Microfinance in India'. The dates were conflicting between this 'big event' and the WWB's planned November 6, 1998, Policy Forum in Ahmedabad. Fortunately, due to Sukhi's adroit persuasion, the dates were fixed a week away from each other. Titus, Bharti and I wrote the thematic paper for the Lucknow workshop, and gave it the memorable title "Dhaka Starting Micro-Finance in India", punning on the workshop's title. The paper was a big hit and hurt the mainstream banker's ego a lot to the point that they decided to teach us MFIs a lesson or two in micro-finance. I loved the heightened tension and decided to build on it in the following week's Policy Forum in Ahmedabad.

Thanks to the persuasive powers of Elaben and Nancy Barry of WWB, the RBI Governor, the chairmen of SIDBI, SBI, Canara Bank, Punjab National Bank and Andhra Bank and the Managing Directors if NABARD and HDFC, and a host of Chief General Managers from the RBI and commercial banks attended it for the full day. I made the lead presentations on behalf of the sector and ended by asking the RBI to appoint a Task Force to establish a supportive regulatory framework for micro-finance. Before he left for Mumbai, Governor Jalan announced the setting up the Task Force, in which 6 out of 15 members were also Sa-Dhan members, the rest being bankers and NABARD/RBI officials.

We were ready for the Task Force, having done an enormous amount of policy analysis work over the previous three years. The Task Force submitted its report within six months. It took RBI another six months to process its recommendation. Eventually, among other things, the RBI declared micro-finance as a part of the priority sector and foreign equity investment was permitted in micro-credit NBFCs. Banks immediately warmed up to BASIX. Within a month, we negotiated a Rs 4-crore line of credit from the ICICI Bank for its agricultural loan portfolio.

The year 2000 showed results of our efforts on the funding front. Samruddhi, the NBFC, received approvals for equity investments, enhancing its equity from Rs 4 crores to Rs. 20 crores. Samruddhi also successfully negotiated additional borrowings from India and abroad. We now have enough funding commitments to cross cumulative disbursements of Rs 100 crores and to achieve Rs 50 crores of outstandings by 2003. By then, this would mean about 50,000 active borrowers, a fourfold increase from the present. More importantly, because it was the first in every single type of financial deal for micro-finance, whether from Indian or foreign sources, for debt or equity, BASIX helped to get the policy change made, for all MFIs. Growing steadily, BASIX as on 31 January 2001, works in over 1,400 villages spread over 17 districts in western AP, northern Karnataka, eastern Maharashtra and southern Orissa. Since its inception, BASIX has disbursed over 40,000 loans worth Rs. 45 crores. The ratio of performing loans assets was 93 percent of the outstanding. A substantial portion of the delayed instalments is received subsequently, though with a delay of over one year, as a majority of dryland farmers get only one crop a year. The loan loss ratio is less than 2 per cent. We now disburse loans worth Rs 2 crores, with over 13,000 borrowers served by nearly 80 staff and over 65 Customers Service Agents.

While I can go on and on (like a boring commercial) about BASIX and it's 'achievements', let me step back a little and remind all of us of the magnitude of the livelihoods problem. In the current decade, we perhaps need 12-14 million new livelihoods every year to reach near full-employment. Thus, the country, could do with a thousand BASIX.

I continue to promote the livelihoods agenda in a variety of other ways. I served the Rajasthan government on its rural non-farm sector promotion policy and the AP Government on the Vision 2020 exercise. I continue to be on the AP government's Employment Generation Mission; the MP government's Rajiv Gandhi Mission on Livelihoods; and on the planning commission's Working Group on Poverty Alleviation for the Tenth Five Year Plan. I serve on all the these bodies without any illusion that I make any more than a marginal contribution to policy change but even that is worthwhile. Though the contribution of any individual to such a gigantic task can only be small, I remain engaged in this combination of ground action and policy work.

I do this, despite significant personal costs, of losing good friends in the fury of trying to move the livelihoods agenda forward, of almost getting into clinical depression, of neglecting my children and my mother, and most of all of continuing, without being able to reciprocate, to use the goodwill and patience of Savita, my wife, who has supported me through all this at the cost of her career.

Hopefully, it will change to some extent, the answer to my naïve question to a Bihar quarry worker, about how his life had improved over the previous ten years? His heart-breaking answer was "*Ek hee kismat, kamaitey khaitey*". (It's the same fate as earlier: we eat if we work). And that my friends, is the moral of the story. We have a long way to go!

This article was first published in February 2001.

PRADAN (Professional Assistance for Development Action) is a voluntary organisation registered under the Societies' Registration Act in Delhi. We work in selected villages in 7 states through small teams based in the field. The focus of our work is to promote and strengthen livelihoods for the rural poor. It involves organising them, enhancing their capabilities, introducing ways to improve their incomes and linking them to banks, markets and other economic services. PRADAN comprises professionally trained people motivated to use their knowledge and skills to remove poverty by working directly with the poor. Engrossed in action, we often feel the need to reach oput to each other in PRADAN as well as those in the wider development fraternity. NewsReach is one of the ways we seek to address this need. It is our forum for sharing thoughts and a platform to build solidarity and unity of purpose.

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