

**Evaluating Effectiveness among Cooperatives vis-à-vis other Social Institutes –
A case study of NABARD's Rural Innovation Fund**

Author Name: Prof. Vrajlal Sapovadia
Qualification: Ph.D., F.C.A., M.B.A., LL.M.
Email address: prof_sapovadia@yahoo.co.in
Affiliation: B. K. School of Business Management, Gujarat University,
Ahmedabad, 380009, India
Phone: 91-79-26824501
Fax: 91-79-26304811
URL: www.bkschool.org
Status: Professor
Address: A-48 Snehdeep Society, Jivraj Park, Ahmedabad, 380051, India

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Prof. Vrajlal Sapovadia
B. K. School of Business Management
Gujarat University
Ahmedabad, India

Abstract

*Indian Government set up NABARD as apex Development Bank with mandate for facilitating credit flow for promotion and development of agriculture, cottage and village industries. Role of NABARD in overall development of India, especially in rural & agricultural sector is highly pivotal. Through international assistance, NABARD set up Rural Infrastructure Development Fund, it sanctioned 244,651 projects covering irrigation, rural roads, bridges, health, education, soil conservation, water schemes etc. Rural Innovation Fund is a fund designed to support **innovative**, risk friendly, unconventional experiments in these sectors that would have the potential to promote livelihood opportunities and employment in villages.*

The assistance is extended to Individuals, NGOs, Cooperatives, Self Help Group, and Panchayati Raj Institutions who have the expertise and willingness to implement innovative ideas for improving the quality of life in rural areas. This research report evaluates effectiveness of use of fund and repayment capacity amongst different types of borrower social institutes.

Introduction:

Government of India set up NABARD* as an apex Development Bank with a mandate for facilitating credit flow for promotion and development of agriculture, cottage and village industries. The credit flow to agriculture activities sanctioned reached Rs. 1,574,800 million in 2005-2006. The overall GDP is estimated to grow at 8.4 per cent. The Indian economy as a whole is poised for higher growth in the coming years. Role of NABARD in overall development of India in general and rural & agricultural in specific is highly pivotal.

Through assistance of Swiss Agency for Development and Cooperation, NABARD set up the Rural Infrastructure Development Fund. Under the RIDF scheme Rs. 512830 million have been sanctioned for 2,44,651 projects covering irrigation, rural roads and bridges, healthy and education, soil conservation, water schemes etc. Rural Innovation Fund is a scheme designed to support innovative, risk friendly, unconventional experiments in these sectors that would have the potential to promote livelihood

opportunities and employment in rural areas. NABARD has designed and implemented successfully many other schemes for innovative projects, rural & agricultural development and micro financing. The assistance is extended to Individuals, NGOs, Cooperatives, Self Help Group, and Panchayati Raj Institutions who have the expertise and willingness to implement innovative ideas for improving the quality of life in rural areas. Through member base of 250 million, 600000 cooperatives are working in India at grass root level in almost every sector of economy. There are linkages between SHG and other type institutes with that of cooperatives.

This paper seeks to address two key themes: the first, the role of NABARD in designing and implementing various schemes of agriculture & rural development. Secondly, to present overview of various schemes of rural development through innovative projects and the role of Rural Innovation Fund (RIF) and Rural Infrastructure Development Fund (RIDF) created by NABARD and the paper appraise whether type of institutions under the scheme determines fate of recovery of credit extended? Or does it make any difference if borrower is individual, member of Self Help Group (SHG) or a Cooperative Society?

Genesis and Historical Background:

The Committee to Review Arrangements for Institutional Credit for Agriculture and Rural Development (CRAFICARD) set up by the RBI under the Chairmanship of Shri B Sivaraman in its report submitted to Governor, Reserve Bank of India on November 28, 1979 recommended the establishment of NABARD. The Parliament through the Act 61 of 81, approved its setting up. The Committee after reviewing the arrangements came to the conclusion that a new arrangement would be necessary at the national level for achieving the desired focus and thrust towards integration of credit activities in the context of the strategy for Integrated Rural Development. Against the backdrop of the massive credit needs of rural development and the need to uplift the weaker sections in the rural areas within a given time horizon the arrangement called for a separate institutional set-up. Similarly. The RBI had onerous responsibilities to discharge in respect of its many basic functions of central banking in monetary and credit regulations and was not therefore in a position to devote undivided attention to the operational details of the emerging complex credit problems. This paved the way for the establishment of NABARD.

CRAFICARD also found it prudent to integrate short, medium & long term credit structure for the agriculture sector by establishing NABARD. It was set up with an initial capital of Rs 1000 million, which was enhanced to Rs 2,0000 million, fully subscribed by the Government of India and the RBI.

Mission:

Promoting sustainable and equitable agriculture and rural development through effective credit support, related services, institution building and other innovative initiatives. In pursuing this mission, NABARD focuses its activities on:

Credit functions, involving preparation of potential-linked credit plans annually for all districts of the country for identification of credit potential, monitoring the flow of ground level rural credit, issuing policy and operational guidelines to rural financing institutions and providing credit facilities to eligible institutions under various programmes, Development functions, concerning reinforcement of the credit functions and making credit more productive, Supervisory functions, ensuring the proper functioning of cooperative banks and regional rural banks.

Objectives:

NABARD was established in terms of the Preamble to the Act, "for providing credit for the promotion of agriculture, small scale industries, cottage and village industries, handicrafts and other rural crafts and other allied economic activities in rural areas with a view to promoting IRDP and securing prosperity of rural areas and for matters connected therewith in incidental thereto".

The main objectives of the NABARD as stated in the statement of objectives while placing the bill before the Lok Sabha were categorized as under:

1. The National Bank will be an apex organisation in respect of all matters relating to policy, planning operational aspects in the field of credit for promotion of Agriculture, Small Scale Industries, Cottage and Village Industries, Handicrafts and other rural crafts and other allied economic activities in rural areas.
2. The Bank will serve as a refinancing institution for institutional credit such as long-term, short-term for the promotion of activities in the rural areas.
3. The Bank will also provide direct lending to any institution as may approved by the Central Government.
4. The Bank will have organic links with the Reserve Bank and maintain a close link within.

Major Activities:

- Preparing of Potential Linked Credit Plans for identification of exploitable potentials under agriculture and other activities available for development through bank credit.
- Refinancing banks for extending loans for investment and production purpose in rural areas.
- Providing loans to State Government/ Non Government Organizations (NGOs)/ Panchayati Raj Institutions (PRIs) for developing rural infrastructure.

- Supporting credit innovations of Non Government Organizations (NGOs) and other non-formal agencies.
- Extending formal banking services to the unreached rural poor by evolving a supplementary credit delivery strategy in a cost effective manner by promoting Self Help Groups (SHGs)
- Promoting participatory watershed development for enhancing productivity and profitability of rainfed agriculture in a sustainable manner.
- On-site inspection of cooperative banks and Regional Rural Banks (RRBs) and off-site surveillance over health of cooperatives and RRBs.

NABARD has the mandate to support other allied economic activities in rural areas, promote integrated & sustainable rural development and secure prosperity of rural areas. In discharging its role as a facilitator for rural prosperity NABARD is entrusted with:

1. Providing refinance to lending institutions in rural areas
2. Bringing about or promoting institutional development and
3. Evaluating, monitoring and inspecting the client banks

Besides this pivotal role, NABARD also:

- Act as a coordinator in the operations of rural credit institutions
- Extends assistance to the government, the Reserve Bank of India and other organizations in matters relating to rural development
- Offers training and research facilities for banks, cooperatives and organizations working in the field of rural development
- Helps the state governments in reaching their targets of providing assistance to eligible institutions in agriculture and rural development
- Acts as regulator for cooperative banks and RRBs Some of the milestones in NABARD's activities are:
 - As on 31 January 2007 through the Rural Infrastructure Development Fund (RIDF), Rs. 59,7953.5 million have been sanctioned for 2,31,702 projects covering irrigation, rural roads and bridges, health and education, soil conservation, drinking water schemes, etc. Developing among hosts of other infrastructures, RIDF will create 20971 schools, 6239 primary health centres and provide drinking water supply in 7267 villages
 - Watershed Development Fund, with cumulative sanctions of Rs.578.95 crore for 427 projects in 124 districts of 14 states, has created a People's Movement in rural India.
 - Farmers now enjoy financial access and security through 58.250 million Kisan Credit Cards, which are issued through vast rural banking network.
 - District Rural Industries Project (DRIP) has generated employment for 23.34 lakh persons with 10.95 lakh units in 105 districts.

Table 1
NABARD at a Glance

(Rs. Crore)

	Funds a on March		Net accretion		Uses of Funds As at end - March		Net utilization
	2005	2006			2005	2006	
Capital	2,000	2,000	-	Cash, Bank Balances	5,478	4,296	-1,182
Reserves and Surplus	6,199	6,974	775	Investment in			
NRC (LTO) Fund	13,152	13,183	31	a) GoI Securities	4,755	2,472	-2,283
NRC (Stabilisation) Fund	1,511	1,522	11	b) ADFC Equity	16	16	-
Deposits	56	77	21	c) AFC Equity	1	1	-
Bonds and Debentures	17,204	20,813	3,609	d) SIDBI Equity	48	48	-
				e) AICI Ltd.	60	60	-
Borrowings from GoI	404	400	- 4	f) NCDEX Ltd. and MCX Ltd.	4	6	2
				g) Nabcons	5	5	-
				h) Mutual Funds, BVF, APIDC	248	452	204
Borrowings from RBI	3,927	2,998	- 929	i) Bills rediscounted	-	216	216
				Loans and Advances			
Borrowings from Commercial Banks	4,300	2,500	- 1,800	a) Production and Marketing Credit	8,307	9,617	1,310
				b) Conversion of Production Credit into MT Loans	365	267	- 98
Foreign Currency Loan	297	294	- 3	c) Liquidity Support	808	2,492	1,684
				d) MT Investment Credit (non- project)	3	1	-2
RIDF Deposits	9,169	13,975	4,806	e) MT and LT Project Loans	27,942	30,167	2,225
				f) LT Non- project Loans	406	387	- 19
Other Liabilities	1,616	1,676	60	g) Other Loans	11	15	4
				h) Loans out of RIDF	10,513	15,142	4,629
				Fixed Assets	235	225	- 10
Other Funds	944	1,193	249	Other Assets	1,574	1,720	146
Total	60,779	67,605	6,826	Total	60,779	67,605	6,826

Source: NABARD

‘ORG MARG’ Study:

Social Audit of RIDF supported Gokul Gram Yojana by ORG-MARG was carried out. Social Audit refers to a process of measuring and improving the social performance of a project. It attempts to assess the people's interest, priorities and perceptions to make the implementation process open and accountable to the people. The benefits of certain rural infrastructure projects had to be necessarily viewed from society's angle and for that matter RIDF supported Gokul Gram Yojana projects implemented in Gujarat was subjected to social audit by an external agency, viz., ORG-MARG. Gokul Gram Yojana (GGY) providing 16 basic amenities, within a time period of five years (1995-2000) was conceptualized to seek people's participation right from its planning to monitoring and maintenance of the assets created under the scheme. NABARD sanctioned a loan of Rs.700 million in March 2000 under RIDF-V for implementation of GGY where state government proposed construction of rural roads and primary schools.

The main components of Gokul Gram Yojana being rural roads and primary schools, these infrastructure facilities supported under RIDF were selected for the study. The Agency covered six rural roads (3 each from Banaskantha and Rajkot districts) and eight primary schools (2 from Amreli, 3 from Banaskantha and 3 from Rajkot districts). The major findings and suggestions of the report submitted by ORG MARG are as follows:

A major proportion of the total expenditure was met through budgeted provision of Rural Development Department and the rest through funds of other ongoing schemes in Banaskantha and Amreli districts. Most of the sample projects were completed within the proposed time. However, a few projects, which got delayed, late receipt of funds and internal conflicts at the village level emerged out as the main reasons for the time overrun. Also for a few of the projects, cost overrun due to additional number of works undertaken was observed. People in the project area appreciated the quality of roads by and large. Majority of people were satisfied with the present condition of the schoolrooms and the quality of construction.

Impact - Perceived benefits from schoolroom projects:

New schoolrooms provided sitting space to children and protection from heat, rains and cold. The attendance of children during hot and rainy seasons increased by 20-25 per cent, schoolroom also helped children to concentrate on studies without disturbance and distraction, thereby improving the environment of education. Necessary books, equipments, maps, etc. could now be safely stored in schoolrooms.

Perceived benefits from road projects:

The new roads provided clean look to the village, facilitated movements of commuters/vehicles during rainy season, facilitated frequent visits of vendors supplying vegetables, crockery, cloth, newspaper, milk, etc. Road has improved accessibility of people to the village resources like, dairy, cooperatives, post office, health center, shops, etc. Internal road also saved time and efforts during rainy season by improving the portion of internal roads, which was not usable earlier.

Suggestions/Action Points:

DRDA as nodal agency may fix some standards for prioritising the project sites for the various phases of scheme implementation as to make the selection procedures more efficient and transparent. There is a need to involve women in the process of need identification to make the selection procedures participatory to greater extent and free from gender bias. Voluntary groups/women groups at the village level may bring awareness among the people to sustain the assets on long-term basis. Gram Panchayat may collect revenue from the community for maintaining the assets. Implementing agencies may maintain separate financial accounts by activities and sources of funding. A common platform to facilitate the different departments in converging all the programmes of the Government related to Rural Infrastructure is warranted to make the villages really 'Gokul Grams'. NABARD may continue to monitor these programmes at field level regarding physical progress of the schemes on quarterly basis and entrust the evaluation of the programme to a national level organisation to get an outsider's view.

The Genesis of RIDF:

In the Union Budget Speech 1995-96, Hon'ble Finance Minister announced that-"Inadequacy of public investment in agriculture is today a matter of general concern. This is an area, which is the responsibility of States. But many States have neglected investment in infrastructure for agriculture. There are many rural infrastructure projects, which have been started but are lying incomplete for want of resources. They represent a major loss of potential income and employment to rural population.

Corpus and Sources of Funds:

RIDF-I was launched in 1995-96 with an initial corpus of Rs.2000 crore through contributions both from public and private sector having shortfall in the agricultural lending subject to a maximum of 1.5% of the shortfall of the net bank credit to agriculture. Since 1996-97 i.e. RIDF-II, sources of deposits from commercial banks has been broad-based by including shortfall either in direct finance to agriculture and/or shortfall in priority sector lending. The tranche-wise size of corpus has been as under:

Activities for Loans under the RIDF:

Earlier, only ongoing Irrigation, Flood Protection, Watershed Management projects were financed under RIDF-I as a 'last mile approach' to facilitate completion of the projects delayed on account of financial constraints. Primary and Secondary Schools, Primary Health Centers, Village Haats, Joint Forest Management, Terminal and Rural Market/Godowns, Rain Water Harvesting, Watershed development, flood protection, drainage, Cold Storage, Riverine Fisheries, Fishing Harbour & Jetties, Mini/Small Hydel Projects in Power Sector, Rural Drinking Water Supply Schemes, Village knowledge Centres etc. are being financed.

Disbursements & Outstanding:

Total sanctions as on 31 March 2006 aggregated Rs. 512830.1 million. The total cumulative disbursements as on 31 March 2006 were Rs. 313373.4 million.

**Table 2
RIDF a glance**

(Rs in Crore, crore is equal to ten million)		
RIDF Tranche/ Year	Year	Corpus
RIDF I	1995-1996	2000
RIDF II	1996-1997	2500
RIDF III	1997-1998	2500
RIDF IV	1998-1999	3000
RIDF V	1999-2000	3500
RIDF VI	2000-2001	4500
RIDF VII	2001-2002	5000
RIDF VIII	2002-2003	5500
RIDF IX	2003-2004	5500
RIDF X	2004-2005	8000
RIDF XI	2005-2006	8000
RIDF XII	2006-2007	10000
TOTAL		60000

Source: NABARD

The financing of rural Road & Bridge projects was started under RIDF. Subsequently, coverage of RIDF was broad-based in each tranche and at present, a wide range of activities is covered under the RIDF, such as Rural Roads; Rural Bridges; Minor Irrigation Projects/Micro Irrigation; Soil Conservation; Flood Protection; Watershed Development/Reclamation of waterlogged areas; Forest Development; Market Yard/Godown, Apna Mandi, rural haats and other marketing infrastructure; Cold storage, Public or Joint sector cold storage at various exit points; Seed/Agriculture/Horticulture Farms; Plantation and Horticulture; Grading and certifying mechanisms such as testing and certifying laboratories etc.; Community irrigation wells of irrigation purposes for the village as a whole; Fishing harbours/jetties; Riverine Fisheries; Animal Husbandry; Modern Abattoir; Medium Irrigation Projects; Mini Hydel Projects; Drinking Water; Infrastructure for Rural Education Institutions; Public Health Institutions(including mobile health clinics); Construction of toilet blocks in existing schools, where necessary, specially for girl students, so as to improve the amenities available in schools; "Pay & use" toilets in

rural areas; Major Irrigation Project (only those projects already sanctioned and under execution); Village Knowledge Centres; Desalination plants in coastal areas; Small Hydel Projects; Infrastructure for Information Technology in rural areas Construction of Anganwadi Centres. The union budget also indicated that Rs. 4000 crore would be made available from RIDF for funding rural road component of Bharat Nirman Programme. And Specified prospects under Public Private Partnership (PPP) model will have access to RIDF. All new "project concepts" received from various State Governments are placed before the PSC for approval before accepting detailed projects from State Governments for financing. The rate of interest on various loans were ranging from 12 to 13 % before 2002 but now the rates of interest have been reduced and at present they are 6.5% per annum.

Differential Rate of Interest to Banks:

With a view to encouraging commercial banks to enhance flow of direct credit to agriculture, it is decided by RBI to link interest on bank contribution to RIDF to the extent of the shortfall of their agriculture lending vis-à-vis the targets of priority sector of 40 percent in general and 18% to agriculture sector in particular. The commercial banks get the interest on the parking of funds in kitty of RIDF funds. The Finance Departments of the State Governments act as Nodal Departments for operationalising RIDF. The project proposals are routed through the Finance Department only and no proposals are accepted directly from any other Department of the State Government. All other related items of work like submission of drawals applications under sanctioned projects, Release of loan, execution of documents, repayment of loans, etc., are attended to by Finance Departments of the State Governments.

The repayment period of 5 years including a 2-year grace period was provided under RIDF scheme. The repayment period has, however, been extended to 7 years including a grace period of 2 years since RIDF and the same policy is continuing. The normal phasing (Project implementation Period) under RIDF-I was 2 years whereas under subsequent tranches of RIDF, it is 3 years. However, due to operational constraints, phasing has to be normally extended for the tranche as a whole or for specific projects to enable the State Governments to complete the projects. NABARD sanctions the loans to the state Governments under RIDF Scheme and also monitor the loans, but the responsibilities of the monitoring the projects at grass root level is the responsibility of the State Governments.

Rural Innovation Fund (RIF):

NABARD in association with Swiss Agency for Development and Cooperation (SDC) has constituted the "NABARD-SDC Rural Innovation Fund (RIF) " to, inter alia, support innovative projects in Farm, Non-Farm and Micro-Finance Sectors leading to creation of livelihood opportunities for the poor. NABARD invites proposals for funding support to innovative projects having the above objective. An illustrative list of areas is given below:

- Biological & Engineering measure/techniques that improve productivity of water.
- Design of economic and efficient water harvesting structures.
- Efficient water use systems: low cost micro-irrigation technology/ micro tube irrigation technology, etc.
- Diversification of farm activities - agro-forestry, silvipasture, agro-horticulture and animal husbandry etc.
- Organic farming - bio-fertilisers and pesticides.
- Development of location specific crops and agronomic practices.
- Extension of technology- Agri-clinics, Agro Service Centres, e-Service Centres, including the feasibility of commodity trading/ Village Knowledge Centres.
- Community farming.
- Contract farming.
- Insurance products for rainfed agriculture.
- Banking through SHGs, VWCs and user teams, Joint Liability Groups, etc.
- Portfolio approach to lending - basket of activities.
- Development of small hand operated/ power operated tools/ implements that will support system diversification in rain fed farming/ crop husbandry.
- Support for design, development, plan and adoption of traditional efficient water harvesting systems.
- Support for documentation of farmers' innovations/indigenous technological knowledge.
- Innovative rainwater harvesting for rural dwellings.
- Rural energy from biomas, agri waste.
- Techniques for increasing value of crop residues and non-crop biomass.
- Community regulation of distribution and use of waste and energy.
- Storage devices for agricultural and rural products.
- Innovative methods of managing Common Property Resources.
- Materials and designs for rural roads.
- Rural sanitation and waste disposal.

1. What is RIF?

Rural Innovation Fund (RIF) is a fund designed to support innovative, risk friendly, unconventional experiments in Farm, Non-Farm and micro-Finance sectors that would have the potential to promote livelihood opportunities and employment in rural areas.

2. What are the guiding principles for operations of RIF?

The activities must have the rural poor in their focus and must be innovative, experimental and demonstrative in nature leading to replicability and commercial viability.

The activities funded may involve development of new products, processes, prototypes, technology, patenting and extension support.

Appropriate action research and studies contributing to better understanding of rural development issues, policy and process implementation may be undertaken.

3. What type of projects can be supported under RIF?

All innovations and related activities in the Farm, Rural Non-Farm and Micro-Finance sectors can have access to the RIF. Assistance from RIF will be available for all activities which are in keeping with the guiding principles of RIF and specifically those which provide technology and skill up gradation, inputs supply and market support leading to promotion of viable enterprises, sustainable employment, infrastructure development, improved flow and access of credit to rural entrepreneurs.

Undertake innovations so as to improve efficiency of credit delivery and other support services to the rural resource poor.

Patenting innovations leading to commercialization of the idea through licensing or otherwise.

- a) These would include innovative proposals which aim at increasing productivity and profitability of operations of the farmers, artisans, handicraft persons and rural people in general, projects that help in reducing drudgery, improving access to market, projects that help better sanitation, health and hygienic conditions and environment in rural areas.
- b) Proposals, which improve rural credit, outreach.
- c) Proposals, which help in creating sustainable employment opportunities in rural India
- d) Proposals that improve farm practices & help in conserving land fertility.
- e) Research studies for documenting the innovations already taking place in rural areas and examining issues concerned with rural cottage & village industries /farm sector / farming practices.

4. Preferred Sectors

The following areas/ sectors will be considered for support from the Fund, to start with:

Dry land / rain fed farming, Innovative rainwater harvesting for rural dwellings, Rural energy from biomass/ agricultural wastes, Techniques for increasing the value of crop residues and non-crop bio mass, Community regulation of distribution and use of water and energy, Storage devices for agricultural and rural products, Innovative methods of managing Common Property Resources, Materials and designs for rural roads and Rural sanitation and waste disposal. Apart from this, activities trying to bring in more innovative approaches/ ideas with greater focus on the following areas will also be supported:

Rural Entrepreneurship/ skill Development, marketing Strategy and Networking, Rural Housing and Habitat Development- Low cost and natural calamity resilient housing structures for providing safe habitat to rural population, Rural service sector, Financial inclusion, micro-Finance to micro-Entrepreneurship, Financial and technological model for Health Care and Hygiene, Evolving package of products on Rural Tourism and Culture, Rural Sanitation and Rural Haats in collaboration with Panchayat Raj Institutions

5. Who are eligible to apply under RIF?

Individuals, NGOs, Community Based Organisations, SHGs, Farmer's Club, Panchayati Raj Institutions and Corporates who have the expertise and willingness to implement innovative ideas for improving the quality of life in rural areas may apply.

6. What type of financial support is available under RIF?

Support available under RIF can be in the form of loan / grant/ incubation fund support, or a mix of all the three components. The support would be need based, cost effective and dependent on the requirement of the project, also taking into account some financial involvement by the proposer.

Evaluating Effectiveness among Cooperatives vis-à-vis other Social Institutes:

Following ways may do the evaluation of the schemes of RIF & RIDF financing:

- Evaluating impact on Cooperative/SHG members of the financing scheme
- Evaluate the role of financing institutions in financing to SHGs/Cooperatives and the comparative study of the financing agencies i.e. commercial banks vs. cooperative banks.
- Comparing repayment record amongst various borrower on basis of type of institutes

Facts & issues in credit extension

It is found that more than 95 % SHGs are formed by the women members. The SHGs formed by the women are managed well than the male SHGs. There is more than 98 % recovery ratio of loans in case of women SHGs, where as it 90 to 95% in case of male members. It is to be noted that more than 60% SHG under the SGSY scheme, wherein government has provided subsidy, have failed to repay the loans to the financing agencies, whereas the SHGs without subsidy schemes have more than 95% recovery. More than 50 % women SHGs have utilized the funds in entrepreneurial activities, whereas less than 20% SHGs have started the entrepreneurship activities. The women SHGs are well managed than the male SHGs. The women SHGs have higher saving rate and regular payment habits, on the other hand the men SHGs are most mismanaged. Higher rate of interest i.e. 12% to the SHG groups by the banks, on the other hand the banks get the refinance from the NABARD at 6%. For taking loans the

banks insist collateral securities. For making documentation for loans the SHGs have to register the loan documents, wherein they have to pay the stamp duty on the loan amount. The most of the members are unaware about the benefits of SHGs. The Cooperative Banks and Cooperative societies have played more powerful role in the development of SHG and micro finance than the commercial banks.

Role of Cooperatives:

Cooperatives are century old movement with massive network and have provided access to banking facilities to the sizeable section of rural and the urban poor. Cooperatives have been revolutionary institutions in providing credit to farmers at a cheap rate and substituting the role of moneylenders and other non-institutional supplies of credit from the rural scene. The development of cooperatives has been in leap and bounds. Considering their long history and their existence in India for more than hundred years, cooperatives institutions have served its customers significantly. The Urban Cooperative Banks have shown their mushroom growth and established themselves as peoples bank. Today these banks basically work towards providing cheap, easy and smooth credit access to the poor people and have contributed significantly in the shaping the life of the urban poor. As far as rural areas are concerned, the cooperatives have hundred percent penetrations in rural India through their network of Primary Agricultural Cooperative Credit Societies, meeting not only agricultural needs but supplying other allied and not agricultural requirements to the rural poor and the farmers as well. They enjoy unique selling proposition and that is their relationship banking. The managers of cooperatives know their customer personally and well aware of their need and aspirations from the institutions.

The share of cooperatives in financing the rural India and their growth trajectory shows that there are huge potential for this sector to expand their reach and cater the poor people especially in rural India through the massive network of cooperative societies. Today when commercial banks, private banks and foreign banks are moving from conventional banking to service based non-fund banking business; cooperatives enjoy a strategic position as far as catering the unbanked are concerned. Cooperatives can target the unbanked population and move forward from their member centric activities to public center activities without losing the ideology of cooperation and achieving the much needed viability. If this ideology which is considered as a root cause that has involved and given cooperatives their identity and is contributing significantly towards their sustenance. The lending targets for cooperatives are still directing credit to priority sectors of agriculture and the weaker section of the population. The NSSO has identified the very group for financial inclusions. If cooperatives are already catering the same group and why they are still out of the purview of banking facilities? The reason lies in the structure of cooperatives in India. Cheap and affordable credit is given by the PACS (Primary Agriculture Credit Society) in rural area but does not help in extending banking services and UCBs (Urban Cooperative Bank) are giving banking services but not extending cheap credit to the customers. Since the application of priority sector lending to cooperative banks from

1983, the sector has played a significant role in credit dispensation to the lower and middle-income groups. Linkages between members in form of SHG or PACS, cooperative bank & NABARD can play positive & developmental role. Recovery of assistance extended in case of cooperative society (90%) is substantially higher than NGOs (71%), individuals and firms (85%).

Suggestions:

The development agencies should promote innovation in farm, non-farm sector which contribute overall rural & agricultural development. The innovation may be about system, managerial, business process or technical related issues. The credit should be extended on commercial basis, but should build program that enhance capacity of the participating members.

Micro Enterprise/SHGs should undertake any legitimate economic activity and try to increase the income level as a micro enterprise. Only mature groups who are undertaking savings and lending activities regularly and smoothly - need to be covered for promotion of micro enterprises. A checklist needs to be prepared for identification of such groups. The special training programmes for Entrepreneurship development & skill building and exposure and role of technology should be organised. The facilities for linking to local and distant markets and help in providing backward and forward linkages should be provided by the NGO, Government or NABARD. Special Provision for business counseling and capacity building should be undertaken by Self Help Group Promoting Institutions (SHPI) and micro enterprise promotion agencies (MEPAs) partners.

Resource mapping of the region covering physical, financial and human resources, feasibility studies for identification of economic activities that are technical and financially viable in the region. Adopting participatory methods for helping the group members in selecting right type of economic activities (e.g., participatory assessment of what comes in and what goes out of a village). Many of the cooperatives are getting refinance form NABARD to lend at affordable rate however, this situation may not sustain in future. In due course the Cooperative Act should be amended and the entire cooperative banking would be brought under one umbrella and the problem of dual control would be solved. Low cost credit can only be given when low cost deposits are available. Some cooperatives are facing reputation risk in collecting deposits from public however; government should intervene and help cooperatives in meeting the credit needs of the poor and the unserved population and bring them under the ambit of banking services. Most people who are deprived from the banking services are forced to resort to non-institutional expensive and exploitative credit, paying very high interest rates. If such people were targeted they would comprise a good market for the cooperatives. There is a need for identifying such target group and meeting their needs for attaining better inclusions in future. Government's role should be improving the fairness, transparency and efficiency of the cooperatives institutions and coordinate efforts to revitalize a powerful institution in future.

Involvement of participating member in any type of organization is the most crucial factor in success of the entity. Peer pressure in SHG acts as catalyst in repayment of a loan. Subsidized loan tends to higher failure rate. It therefore suggests that loan should be granted on commercial basis, but the bank or developmental agency should support business process of the enterprise that increase efficiency and effectiveness of the social enterprise like cooperatives/SHGs. It should also design & deliver training program that motivate members to involve in the activities of the parent organization. Therefore credit should be extended to group of people incorporating a social formal or informal institute rather than an individual.

* NABARD - National Bank For Agriculture & Rural Development

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