

# 9

## Fostering Grassroots Institutions

“Some sections may have to be approached as well-organised groups such as co-operative societies, some others will have to be dealt with as informal groups so as to facilitate group activity and group lending, yet others have to be approached individually.”

—CRAFICARD



- 9.1 Informal institutions
- 9.2 Formal institutions
- 9.3 Supporting rural entrepreneurs and start-ups
- 9.4 Community institutions as vehicles of development

Over the last 4 decades, NABARD has played a major role in building community-level institutions such as: (i) Vikas Volunteer Vahinis (VUVs) which transformed into farmers' clubs, some of which eventually became farmer and off-farm producers' organisations (FPOs and OFPOs); (ii) self-help groups (SHGs) to enable access of rural collectives (particularly women's collectives) to microfinance; and (iii) joint liability groups (JLGs) to enable access of non-creditworthy farmers to formal credit.

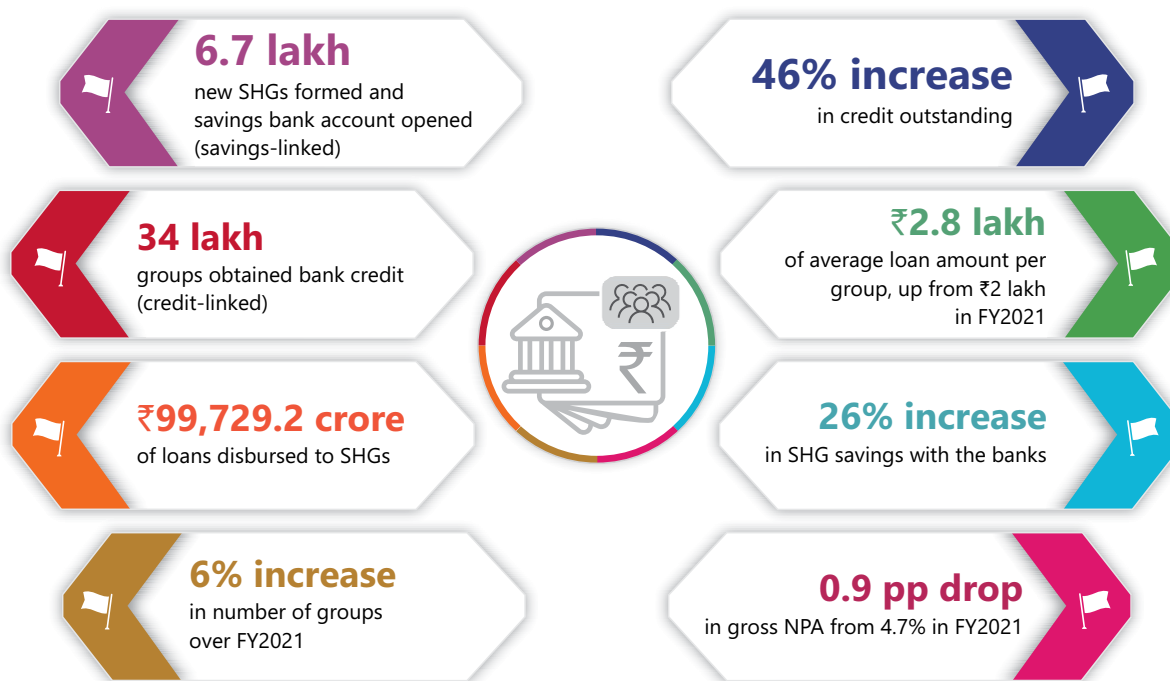
The value of these efforts was vindicated during the COVID-19 pandemic when these grassroots institutions provided succour and support to their members. The communities could tide over the crisis, drawing on member-savings and credit. Notably, SHG members did not lose their discipline as 91% of them repaid their loans on time.<sup>1</sup> Besides, they helped governments in distributing food and other relief material properly, and by supplying masks (made by members) and sanitiser bottles to the communities.

### 9.1 Informal institutions

NABARD started the formation of SHGs in the early 1990s to link the unbanked people to formal banking institutions and JLGs in FY2007 to enable tenant farmers, share-croppers, oral lessees, artisans, etc. to get access to credit.<sup>2</sup> So far, we have nurtured 118 lakh SHGs with cumulative savings of more than ₹47,240 crore, supporting livelihoods for 14.2 crore households. NABARD has also cumulatively sanctioned a grant of ₹255.8 crore to credit 12.8 lakh JLGs till date.

#### 9.1.1 Self-help groups

Self-help groups have financially included and empowered women while building financial, social, economic, and technological capital in rural India. NABARD, as a pioneer of the SHG movement in India, has upheld its commitment to strengthen SHGs through FY2022 and achieved significant milestones (Figure 9.1).

**FIGURE 9.1:** Major milestones for NABARD-supported SHGs in FY2022

Note: NPA = Non-Performing Asset; pp = percentage point; SHG = Self-Help Group.

Also, during the year, a NABARD-chaired committee—represented by commercial banks, regional rural banks (RRBs), district central cooperative banks (DCCBs), and Sa-Dhan—recommended the adoption of SHG grading norms of the National Rural Livelihoods Mission (NRLM) universally. The committee recommended several other measures for improved credit delivery, process simplification, and ease of compliance.

### SHG capacity building

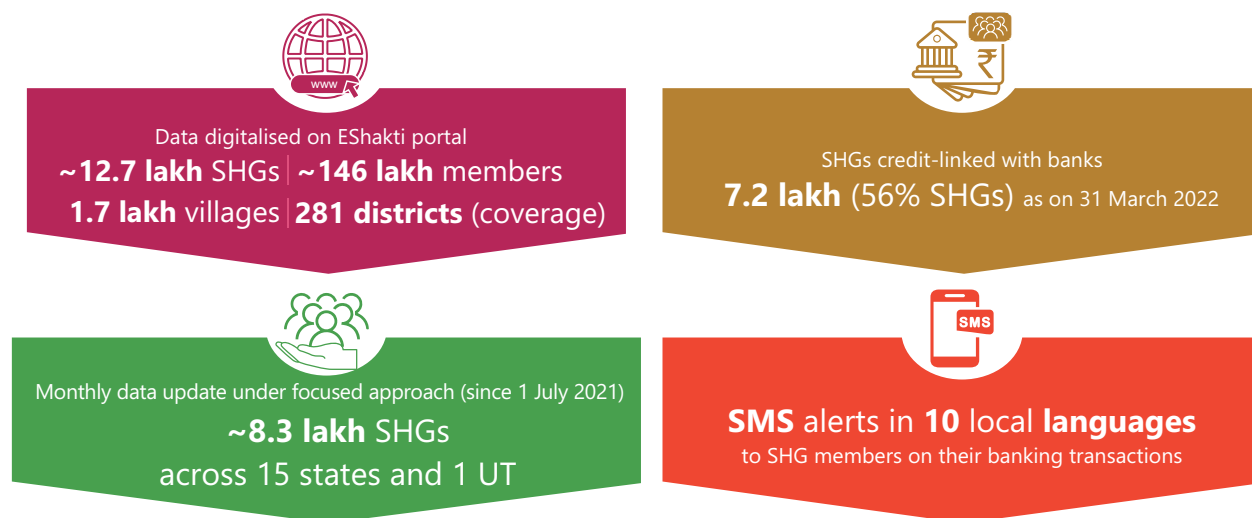
NABARD conducted a series of workshops to improve project management skills of SHGs to ensure attainment of project objectives. During FY2022, 2,100 training programmes (including virtual learning programme or VLPs) were conducted, covering 45,440 SHG participants. The aim was to increase stakeholder awareness about (i) various government and NABARD

schemes, (ii) current economic and banking scenario, and (iii) sources of funding for various projects. Cumulatively, 22,974 training programmes have been conducted since FY2016, covering 11.3 lakh participants.

### Digitalising SHG accounts through EShakti

Digitalising books of accounts of SHGs through EShakti (online portal) has ensured standardisation, transparency, and regularity in record keeping and operations of SHGs (Figure 9.2). This has made it easier for institutions to extend credit based on online applications and the inbuilt grading system. Banks can also identify non-linked groups (for first-time credit) and manage post-credit repayment. Such strengthening of digitalisation can lead to effective credit delivery and targeted public welfare schemes, as suggested by the BRICS Digital Financial Inclusion Report 2021.<sup>3</sup>

**FIGURE 9.2: EShakti milestones in FY2022**



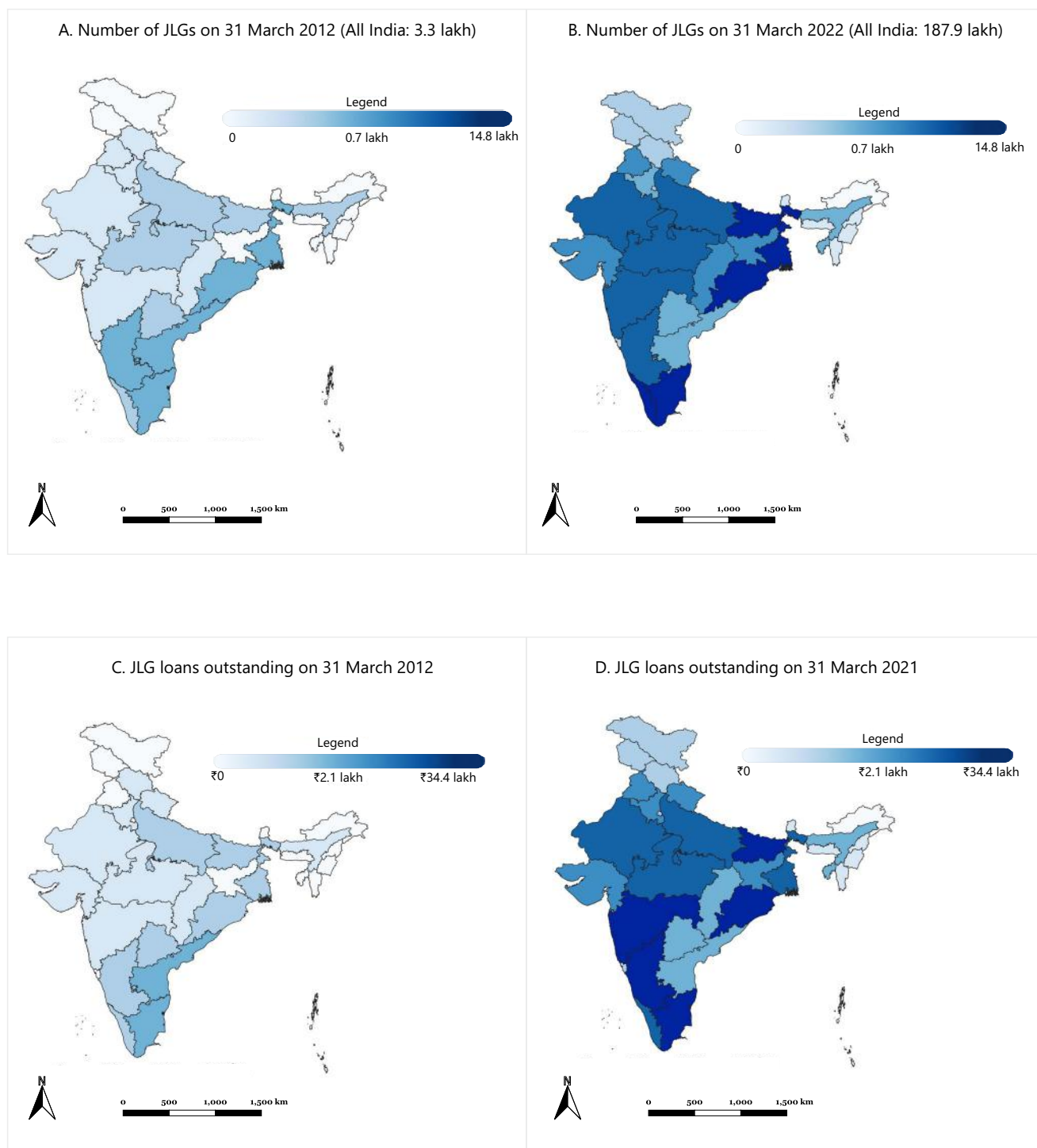
Note: SHG = Self-Help Group; UT = Union Territory.

### 9.1.2 Joint liability groups

With NABARD's unflagging focus on JLGs from FY2012 through FY2022, their numbers increased pan India at a CAGR<sup>4</sup> of 49.7% and outstanding loans by 54%. Evidence also shows that interregional disparities in both JLG numbers and loans disbursed have come down over the years (Figure 9.3).

During FY2022, 54.1 lakh JLGs were promoted and loan amount of ₹1.1 lakh crore disbursed by banks. Cumulative as on 31 March 2022, 187.9 lakh JLGs have been promoted and credit linked with a loan amount of ₹3.3 lakh crore. During FY2022, promotional grant support of ₹614.3 lakh was disbursed to JLG promoting institutions with 57,744 being JLGs credit linked.

NABARD has been taking several measures to scale up JLGs. It launched the 'Business Model Scheme on Financing JLGs' in 2017 under which it signed 91 memoranda of understanding (MOUs) with RRBs (58), SCBs (26), StCBs (9), and JLG promoting institutions/NGOs (9) to increase credit flow to JLGs. Its grant to small finance banks (SFBs) and private banks is expected to further scale up JLG financing. Studies have shown that approaches to financing JLGs vary across banks and the lack of standardised procedures often results in inadequate credit flow; therefore, greater sensitisation of banks is envisaged.

**FIGURE 9.3: Change in distribution of joint liability groups**

Note: JLG = Joint Liability Group.

## 9.2 Formal institutions

Our experience indicates that informal institutions may eventually coalesce into formal registered entities such as producers' organisations (POs) to benefit from economies of scale and scope. FPOs and OFPOs are established to bring the small producers (farm or non-farm) together to benefit from the power of aggregation. Up to FY2022, NABARD has cumulatively formed 6,295 FPOs and sanctioned ₹953.1 crore for their handholding and capacity building. In the off-farm sector, across 24 states, 58 OFPOs (46 registered already) covering 18,825 artisans and weavers, have been supported with grants of ₹29.3 crore till date.

### 9.2.1 Farmer–producers' organisations

The FPO as an organised entity is better placed to access credit, create market linkages, and obtain farm inputs than a lone farmer. By collaborating through FPOs, farmers acquire better capacity for and access to technical know-how on crop planning and management, inputs, credit, post-harvest management, value addition, etc. It is expected that there will be 10,000 additional FPOs under Government of India's (GOI) Central Sector Scheme soon. To meet the growing aspirations of farmers, providing an enabling environment for FPOs is a priority (Box 9.1).

#### Box 9.1: Creating a robust ecosystem to strengthen FPOs

A NABARD-supported research study identified strategies to tackle internal management and governance issues of FPOs besides making the following recommendations:<sup>a</sup>

##### Policy-related

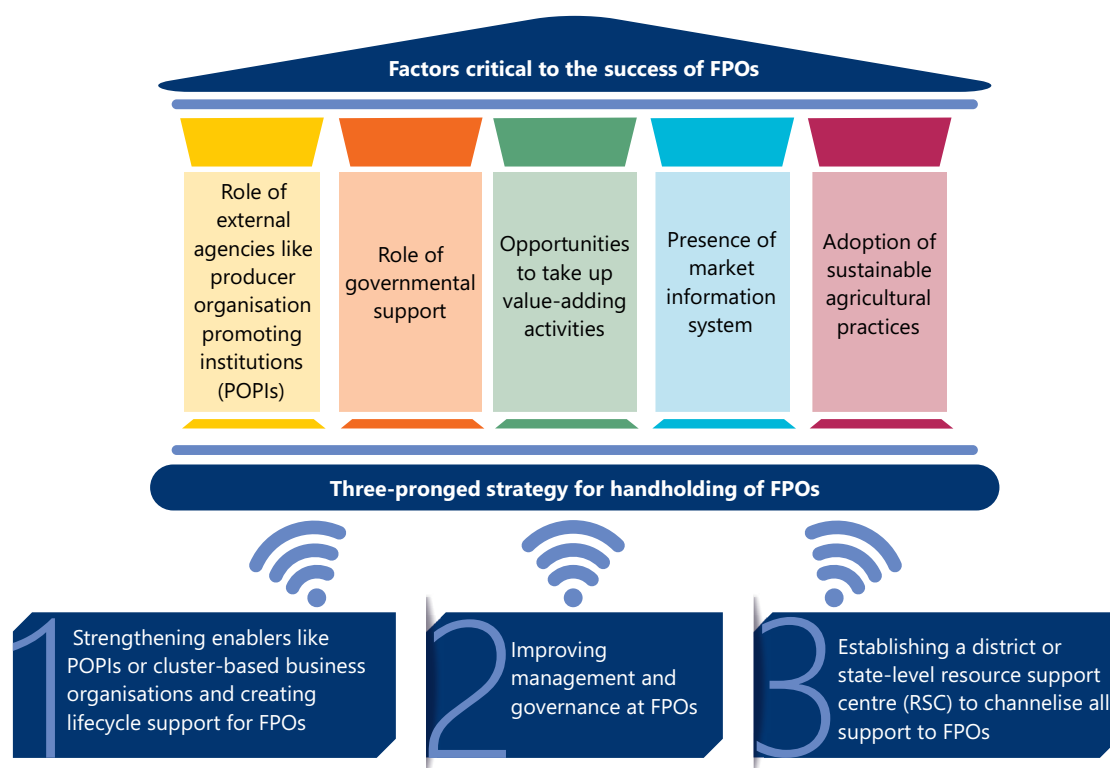
- Developing clear operational guidelines
- Ensuring coordination between central and state governments
- Aligning FPOs to local food consumption patterns
- Leveraging economies of scope (linking the 'one district–one product' campaign to the FPO scheme of GOI)
- Creating FPO architecture at different levels

##### Execution-related

- Factoring in the needs of producer members
- Prioritising member interests
- Linking public investment to smallholder empowerment
- Building equity
- Ensuring minimum geographic cluster size for long-term performance
- Saturating nearby markets before expanding further

The study identified factors, processes, and methods to build an FPO ecosystem within a gram panchayat (GP) to increase the sustainability of farming communities.<sup>b</sup> It came up with a process to support GP-level FPOs along with a blue-print to handhold them.<sup>c</sup>





### GP-level FPOs as a single-window institution

Systemic interventions and convergence can make the GP-level FPO a single-window institution with lower transaction costs and improved delivery efficiency. However, there are challenges in aligning multiple departments and functionaries at district and state levels.

<sup>a</sup> Amar K.J.R. Naik (lead researcher), 'Studies of FPOs in India', research conducted in 2019-2021 by Xavier Institute of Management, Bhubaneswar.

<sup>b</sup> Amar K.J.R. Naik (lead researcher), 'Comprehensive Action Research on GP-Level Farmer Producer Organisations', research conducted in 2019-2022 by Xavier Institute of Management, Bhubaneswar.

<sup>c</sup> Rakesh Arrawatia (lead researcher), 'Handholding (Capacity Building and Facilitation of FPOs): Framework to Implementation', research conducted in 2019-2022 by Institute of Rural Management, Anand.

Note: GOI = Government of India; GP = Gram Panchayat; FPO = Farmer-producers' organisation.

FPOs are not only enhancing the socioeconomic resilience of farmers but also driving several sustainable development goals that India has committed (Box 9.2).

### Box 9.2: NABARD actions for FPOs in FY2022

#### Activities

- Promoted 517 crop-based FPOs and 148 animal husbandry- and fisheries-based FPOs during FY2022
- Disbursed ₹107.1 crore for FPO formation
- Extended credit guarantee cover to eligible lending institutions for collateral free credit to FPOs via NABSanrakshan<sup>a</sup> under GOI's Central Sector Scheme (CSS)
- Engaged with APEDA to promote agri-exports
- Extended credit guarantee cover to eligible lending institutions for collateral free credit to FPOs via NABSanrakshan
- Collaborated with GiZ to develop a mobile application to conduct a baseline survey for the CSS and an auto-rated grading tool for FPOs (FPO Manak) in partnership with GiZ<sup>b</sup>

- Supported training programmes at BIRD, Lucknow on
  - ◊ business plan development,
  - ◊ capacity building of chief executive officer and directors on the FPO Board,
  - ◊ hi-tech agriculture for FPOs and bankers,
  - ◊ FPO financing for agro-processing,
  - ◊ value chain development, etc.

### Output >> Outcomes >> Impact

- Reduced dependence on informal sources of credit
- Higher crop yield, saving on input cost, and reduced cost of cultivation
- Greater value addition through post-harvest processing
- Better price realisation
- Increased net income to farmers—improved access to inputs, transport, agro-services, and direct marketing; informed decision making
- Improvement in farmers' social engagement along with increased awareness about issues related to health, sanitation, hygiene, education, etc.
- Greater inclusivity—83% FPO members are small and marginal farmers and 46% are women
- 339 FPOs on-boarded on NABFPO portal during FY2022, cumulating to 4,196 till date
- 450 FPOs market-linked during FY2022 cumulating to 2,887 till date
- 334 FPOs credit-linked during FY2022, cumulating to 1,152 till date
- 7.3 lakh farmers across 22 states from 1,455 FPOs received ₹449.8 crore (cumulatively)<sup>c</sup> through the innovative financial (loan) products of NABKISAN—now the leading lender to FPOs<sup>d</sup>

<sup>a</sup> Set up a Credit Guarantee Fund for FPOs under the trusteeship of NABSanrakshan, which is a wholly owned subsidiary of NABARD.

<sup>b</sup> GiZ, or Gesellschaft für Internationale Zusammenarbeit or Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH (German Corporation for International Cooperation), funded by the German Government, has been working in India on sustainable economic, ecological, and social development for over 60 years.

<sup>c</sup> As on 31 March 2022.

<sup>d</sup> NABKISAN Finance Limited (NKFL) is a NABARD subsidiary that has the mandate to directly lend to FPOs to bridge gap in ground-level credit left by existing institutions (see Table A12.1: Seven subsidiaries of NABARD).

Note: APEDA = Agricultural and Processed Food Products Export Development Authority; BIRD = Bankers Institute of Rural Development; FPO = Farmer-Producers' Organisation; GLC = Ground Level Credit; GOI = Government of India.

### Designing integrated solutions for FPOs

Realising the full potential of FPOs will require access to cheap credit and much more. Enabling member centrality, ownership, good governance, and business planning capabilities are equally important. Infusion of technology; well-developed backward and forward linkages, with focus on export; and improving business orientation, clarity on compliance needs, and assimilation of market preferences are other necessities. Towards these ends, the following strategies have been identified:

1. improving the ease-of-doing-business parameters for FPOs, such as priority approvals to enter new agri-businesses, reservation in public procurement, etc;
2. ensuring that banks report their lending to FPOs;
3. classifying NBFC<sup>5</sup> lending to FPOs as priority sector lending;
4. encouraging banks to design niche and tailored products for FPOs and their members;
5. leveraging innovations driven by agri-start-ups to make agriculture more productive, profitable, and sustainable; and
6. providing farm mechanisation, quality material inputs, technical advice, and extension services to members by recasting FPOs as customised hiring-cum-agribusiness centres.

### 9.2.2 Off-farm producers' organisations

NABARD has been promoting OFPOs to deliver the benefits of collectivisation and economies of scale to the rural non-farm sector. During FY2022, 18 OFPOs were sanctioned with grant support of ₹12.1 crore. It has simplified operational procedures; devolved more powers to regional offices to speed up OFPO support; refined the release schedule of OFPO grants; and, started a scheme to support mini-OFPOs with less than 200 members.

There have been several OFPO success stories, for instance, Ramlai Handloom PO (Showcase 9.1) and Kraftribe PO (Showcase 9.2) which modernised the traditional weaving practices to improve incomes. Before the intervention, low-income weavers suffered due to the absence of product aggregation, poor bargaining power, obsolete designs, and limited market in remote areas.

#### Showcase 9.1: Ramlai Handloom Producers Organisation, Mizoram

##### Objectives:

- Mobilising 800 women into the Ramlai Handloom Producers' Organisation
- Capacity building, introducing better technology, skilling (new designs), and marketing

**POPI:** Cod Nerc

**Grant assistance:** ₹47 lakh

##### Outcomes

- 1,700 women weavers mobilised
- ₹8.5 lakh profit from ₹2 crore sales registered by OFPO
- ₹16 lakh mobilised as share capital from the members (₹2.4 crore loan from NABARD financial services)

##### Impact

- ₹9,000 average monthly income of weaver members (an increase from ₹3,000–₹4,000, three years ago)
- ~300 days of employment in a year for members

##### Underpinnings of success

- Continued handholding by NABARD
- Active support from Cod Nerc
- Vibrant leadership



*Note:* OFPO = Off-Farm Producers' Organisation; POPI = Producer Organisation Promoting Institution.

#### Showcase 9.2: Kraftribe Producers' Company

The Mahali tribe and Sabars (a particularly vulnerable tribal group) living in the Left-wing extremism-affected Seraikela-Kharsawan district of Jharkhand produce traditional utility handicraft (baskets, boxes, etc.) from Kanshi grass and bamboo. An NGO, Ambalika, with a support of ₹94.8 lakh (2019–2022) from NABARD, mobilised 212 members, registered the Kraftribe Producer Company (as an OFPO), and sold the produce through e-commerce platforms to improve artisans' incomes.

*Note:* NGO = Non-Governmental Organisation; OFPO = Off-Farm Producers' Organisation.



### 9.3 Supporting rural entrepreneurs and start-ups

For the Stand-Up India Scheme, extended till 2025, NABARD continues to be the connect centre (along with Small Industries Development Bank of India). Best practice sharing, programme review, problem solving, and handholding are undertaken in the pre- or post-disbursement phases of the scheme that targets Scheduled Castes/Tribes and women entrepreneurs.

NABARD set up a ₹100-crore Catalytic Capital Fund in FY2020 and in FY2021, a high-level Catalytic Capital Support Selection Committee was formed with the mandate to select eligible technology start-ups in the 'Death Valley' funding phase that are engaged in solving the challenges of rural India. This high-level committee not only assessed the readiness of potential client institutions for fund uptake by evaluating identification and selection parameters but also defined the mode of funding (equity, debt, etc.) and milestones for phased disbursements.

With the aim of boosting the investment ecosystem for agri- and food-tech systems, NABVENTURES, a wholly owned subsidiary was seeded by NABARD with ₹500 crore in FY2019 to invest in early to mid-stage start-ups.<sup>6</sup>

### 9.4 Community institutions as vehicles of development

1. An all-India study on the impact of EShakti is under active consideration. NABARD will incentivise SHGs through revolving fund assistance to digitalise operations and reporting.
2. In the coming years, we will promote self-reliance and economic empowerment of rural women (mahila aatmanirbharta) via JLGs with a focus on small credit activities such as sheep-, goat-, and pig-rearing, bee-keeping, fisheries, etc. Augmenting credit to women engaged in the non-farm sector will help enhance their family income.

3. We will continue to focus on animal husbandry, fisheries, and other niche areas by driving membership and business operations for new FPOs under the GOI's CSS for FPOs. We also aim to build technology-infused smarter operations with stronger credit and market linkages.
4. On the anvil is follow-up support and digital marketing to make OFPOs effective and visible. Deploying numerous mobile vans (instead of stationary brick and mortar marts) to market OFPO products will expand their reach and gain significance as grassroots organisations, helping them diversify risks and ensure sustainable livelihoods. Focus will be on states such as Bihar, Uttarakhand, Goa, Manipur, and Tripura to help them step up their OFPO numbers with the goal of 'One OFPO per District.'

### Notes

1. The study on the impact of the Covid-19 pandemic on SHG performance in Maharashtra, Meghalaya, and West Bengal (conducted in research partnership with Centre for Research on Financial Inclusion and Microfinance, Bankers Institute of Research and Development, Lucknow and Meghalaya State Rural Livelihood Mission) also found that during the pandemic, SHG members sold their assets perforce; lost jobs; discontinued businesses; spent less on education; and suffered due to the impairment of the SHGs' overall functioning. The study recommended digitalisation for smoother SHG operations during future crises.
2. JLGs are a strategic intervention to augment the flow of collateral-free credit to landless farmers including tenant farmers, oral lessees, sharecroppers, small and marginal farmers, and other poor individuals for taking up farm, off-farm, and non-farm activities.
3. Reserve Bank of India (2012), 'BRICS Digital Financial Inclusion Report, India 2021', Mumbai. BRICSDIGITAL7330275ABFoC4198B581897DF2C131 CA.PDF (rbi.org.in)
4. CAGR = Compounded annual growth rate.
5. NBFC = Non-banking financial company.
6. Details on successful start-ups supported by NABVENTURES are available at <https://www.nabventures.in/Portfolio.aspx>.