Empowering lives through Collectivization

In the interview section of this issue we talk with core member of PRADAN, founder of BASIX group of companies, and one who holds the title of "Outstanding Social Entrepreneur" from the World Economic Forum. Mr. Vijay Mahajan, takes out his time for a lengthier interaction with Krishnagopal of Transforming India. They jointly explore the issues related to equitable and sustainable economic growth. He expresses his opinion on several significant issues related to livelihood promotion drawing comparison from the organised and unorganised sectors, producer companies and cooperatives & social entrepreneurship.

KG: What according to you are the major and successful interventions undertaken in promotion of livelihoods over last 50 years?

VM: Well, I guess the large projects like the Bhakra-Nangal under the third and fourth Five Year Plans have increased the area under irrigation and enhanced the use of ground water by reaching millions of acres of land, which in turn, transformed millions of lives. However, I don't deny the existence of problems around these large dam projects.

The second one which in some ways followed irrigation was green revolution: about 40 - 50 districts adapted to high yielding varieties of rice to meet the demands, which, apart from local employment, led to substantial large scale demand for agricultural labour and triggered migration in Bihar.

The third one is the white revolution initiated by the National Dairy Development Board. In the non-farm sector, except for industries like textiles and jute, large scale employment has not been created in this sector.

Unless the state spends on infrastructures like the dam and canal system, the poor in India would not benefit. Having said that, the household also needs to make their own efforts in terms of land development and improved water usage. The answer lies in Public Private Partnership (PPP), which is around 50 years old. Partnership has been already there for a long period between the Government and household sector. What we mean by PPP today is Government and corporate partnership. This would draw us closer to the corporate sector to have them contribute to livelihood interventions. We have already witnessed the IT and Telecom sectors having created large scale job opportunities particularly in the last 10 years, the STD and PCO cabins being living examples.

KG: If these are the major contributors, what lessons can be drawn by the people who want to work for livelihoods area? You have just mentioned the PPP. What other conclusions can be drawn taking more examples?

VM: First of all, promoting livelihoods requires concerted strategic attention to certain promising sectors or Departments, which further need to be translated into agencies with independent charge to implement them. These will be sector-leading agencies that translate the political strategic intent into operational momentum. It would require dynamic regional leadership.

KG : Sectoral approaches have their own limitations; they do not influence the lives of the vulnerable and poor. For example, it is well known fact that the green revolution benefitted the well-irrigated farm holders. Small and marginal farmers have not reaped much benefit. Similarly, dairy could benefit only those who could afford investment in the cattle. So how do we
Journey So Far...

Vijay Mahajan, an electrical engineer from IIT Delhi and an alumni of IIM, Ahmedabad is an Indian social entrepreneur, set up BASIX group as a "new generation livelihood promotion institution" in 1966 realizing the need to attract mainstream financial resources.

Till March 2008, BASIX which attract commercial debt and equity investments. Microfinance Company, first of its kind, has helped support the livelihoods of over a million poor households in agriculture, allied and non-farm sectors by extending micro-credit worth over Rs.1200 crores. BASIX goes well beyond micro-credit to offer a "triad" of livelihood promotion services including savings and insurance services, agricultural/business development services and institutional development services to rural producers and their groups.

Vijay Mahajan has been an advisor to the Planning Commission, Government of India, the state governments of Andhra Pradesh, Karnataka, Madhya Pradesh, Rajasthan and Sikkim, and to the RBI and NABARD. He has co-authored a book "The Forgotten Sector" on rural, non-farm sector in India and he has also published over 50 articles on rural livelihood, development and microfinance in international journals. He is a member of the Insurance Regulatory and Development Authority (IRDA). He serves on the Boards of ASSEFA, Gram Vikas, ARAVALI, DSC and the Executive Committee of the Consultative Group to Assist the Poor (CGAP) - a global microfinance body.

He received the prestigious Parin Award in 1997 for outstanding contributions to marketing research given by the American Marketing Association and The Wharton School. In 2002, Vijay Mahajan was selected as one of the 60 "Outstanding Social Entrepreneurs" at the World Economic Forum (WEF), Davos. He has given research presentations at more than 80 universities and research institutions worldwide. He has consulted for both government and industry, and offered executive development programs in the United States, Asia, and South America.

Among his inspirations, he includes Ravi Matthai of IIM Ahmedabad, Verghese Kurien of NDDB, Prof. Mohammad Yunus of Grameen Bank, Bangladesh and Ela Bhatt of SEWA.

VM: If we look at the dilemma between growth and equity, we can't deny the fact that our planners knew about equitable growth. For instance, as early as the second (Five Year) plan, I guess, the planners prioritised substantial trade off between equitable growth as well as investment in commercial ventures. But there was a third trade off which did not get noticed until the late '80s, which was the environment. It has led us to a growth, whether equitable or inequitable, that is somewhere at the cost of the environment.

I reckon, globally the humanity has learnt that it's not just growth we need, but equitable growth. Yet, I don't think we, as a humanity, have learnt how to have equitable and sustainable growth and in fact, more fundamental questions need to be asked on the objectives of sustainable and equitable growth.

So, it is interesting that we are having this conversation now in 2009, because exactly 100 years ago Gandhiji wrote "Hind Swaraj", that little pamphlet, which is a splitting critique of the Western civilization and material growth. I like that because it not only speaks about the material objectives but also the spiritual growth. However, for someone like me to say this might sound hollow - I have grown in a very different paradigm. Still I think we need to reinterpret "Hind Swaraj" and its message in a contemporary way; not exactly in the way of khadi kurta, rather how we could truly get into sustainable and equitable growth.

So, for me, that is confused intellectual past; we need to sit down together, construct new theory of development to address this and understand our limitations.

KG: Primarily when we talk about economy, there are two distinct halves, the organised and unorganised sector. By and large the unorganised part seems to cater to the needs of the poor much more than the organised. Most of the lessons that we have been drawing seem to be for the organised sector while in reality, the unorganised sector has somehow found answers to all the challenges; for example, the small enterprises have found some answer for the equitable growth which seems to be environmentally friendlier in their operation, simply because their growth paradigm and growth structures are quite different. What have you got to say about it?

VM: We should not overly romanticise the unorganised sector because there are many issues. I will put this the other way: there is subsistence economy as well as the exchange or market economy. The subsistence economy is massive because it uses fewer natural resources, less capital and is more dependent on social relations. Market economy is driven more by transactions and focuses on maximising transactions. Market economy, on the other hand, is deprived of production efficiency, which is not true with the subsistence economy. In other words, simply thinking of all the characteristics of the unorganised sector and applying them to organised sector is not the answer, and is not even possible and desirable. However, better solution lies in drawing symbiotic relationship between the two.

KG: If you look at the dairy industry, I think the entire organised sector today
doesn't handle more than 20 - 25% of the total milk production in the country. About 75% of the milk production is handled by the unorganised sector. By being unorganised doesn't mean they are not in the market pattern of transactions; in fact, they very much follow the market principles of exchange.

VM: Definitely, that's why I was saying that there needs to be collaborative approach between the organised and unorganised.

KG: In trading fish, there are about four intermediaries to ensure that the product reaches the end market at the consumption point. The entire marketing process is totally unorganised. But the processes they follow across value chain are efficient in terms of utilising and conserving resources.

VM: So I think, in sum, what I want to say is that the fundamental track the economy puts on the virtue of trade is questionable. Trade necessarily requires specialisation, and specialisation necessarily requires many different aspects, which then leads to negative prosperity in the long run. If you want to become holistic you are necessarily less specialised.

I would like to recall Adam Smith's chapter from "Illusional labour". Due to assembly lines and specialisation, each person in the market is more efficient, but the result is that it leads also to elimination of some work, monotony, overproduction, dumping and all that.

Good ideas can be converted into laws only when there is no negative feedback. Much of the experience of 20th century has not yet been conceptualised into adequate knowledge for the 21st century. We have got various schools and colleges for environmental economics, institutional economics and transaction economy but they seem to be none on developmental economy which is pretty sidelined.

Economy is still largely focused on growth because of the fixation with single variable. There are lot of collective efforts, that which is truly valuable. But, I want to very quickly come down to operating level because we are talking about micro economy - I mean to do that. What is the indication of all of this on day-to-day work of development and rural livelihood practices? Interestingly, I have used the three statements, first is that while growth is not development, there is very little development without growth.

Secondly, we have to ensure that there is reasonable degree of equity within the family and community so that everyone actually benefits from it. The present collectives should function in a manner that is not eating up renewable resources, only then it will become sustainable.

Thirdly, we need capital for growth. We need to find a way for different level of economy to access reasonably adequate level of capital, which is in proportion to their true rates of return, not today's distorted rate of return, which does not take into account negative externalities caused by inequitable or unsustainable method of production.

I want to assure that I am not an anti-Nano. What I want to say is that there is something wrong with today's economy and so it is fundamentally wrong. Unless we realise this, we would be making bigger mistakes. It is like doing physics without understanding the theory of gravity.

Economy does not take into account the negative externalities of inequitable growth or unsustainable growth. So, then we need equitable and sustainable growth, capital for growth for which we would require a balance among the four types of capitals: financial, Natural, Social and Human capital; and all these should be balanced.

For equitable and sustainable growth, we need four types of capitals and a balance among them: Financial, Natural, Social and Human Capital.
Out of the six billion people, more than half are already exposed to an unimaginable level of aspiration. So, for the first time in the planet history, too many people have become consumers!

When there is a balance among these types of capitals, you will be up against all types of inequities and unsustainable economic development. For instance, when there is excess value for financial capital, it gets overvalued. Undervaluing natural capital and social capital, finds environmental degradation and those resources go overused and social breakdowns begin. So, the next generation of interventions should be sensitive about balancing needs.

KG: From your interaction I get a sense that optimising returns implies considering the externalities due to overvaluation of certain capital resource. For example, a dry land farmer in traditional agriculture will be optimising returns because he uses about three to four varieties of crops as against people who grow one particular crop whose externalities are very high. So, does that mean we have got solutions somewhere lying within?

VM: This is where I differ from what I call romance of the traditionalist. Unfortunately, we have to recognise that there are six billion of us. Out of this six billion people, more than half the population has already been exposed to an unimaginable level of aspiration. So, for the first time in the planet history, too many people have become consumers! If we look from the point of view of ecosystem as well as connect to the fact that too many people with aspirations are far out of the proportion, where is the intrinsic ability to produce? So it cannot be handled by economic framework alone; neither by resource scarcity nor institutions of Carbon Credit. All those are fine, but eventually, I think, it requires new concepts on how we actually are on this earth. Here I am talking of post-modern spirituality that takes into account too many aspirations of many of us and that we have a history of which we are conscious of and we are both blessed and condemned with for relying on nuclear energy.

So, it is not possible. It cannot revert to those days where everybody can become a grandpapa - an artisan, fisherman or a livestock bearer. In today’s situation, can we have the world with six billion people with equity? This is the single abiding question of the 21st Century and we have to find the answers to it, otherwise there will be no 21st century for humanistic reasons.

All these are sound awful abstract. You know what I do on a day-to-day basis. I am very concrete and very specific but unless we are willing to rethink on a whole purpose at level which I am talking about, specific action will be actually quite meaningless.

KG: In fact, the points which you now mentioned are about valuation. What do we value? You were talking of khadi not being valued as Nano car. I guess there are certain realities: why do we value physical labour lesser than the white collar ones? May be, there is an answer in that. Do you have anything more to add on the valuation context?

VM: There is answer in the question itself. Value has got replaced with valuation. What is the difference? As regards values, though they deeply help to lead life, how would you like the world to be? Valuation is useless unless it is monitored. So, part of the problem is that values have got replaced with valuation. There are collective errors when we see it in terms of rise of terrorism or the financial meltdown. I am talking about trade efficiency, equity and the environment as well as all the three models of the trade dealt with unprecedented crisis and the efficiency of the financial market of the US, particularly. It was considered as world’s most efficient example of trade until it broke down.

Whether it is communism that wanted to attack the top-down model of equity or Islam that attempts to create equity in their own system, none of them seems to have delivered equity and environmental concerns.

KG: In a way, multi stakeholder institutional models are going to be more stable. We won’t take cares of externalities unless we value it much lesser than the share value of company. Can we say that, we as humanity, should start valuing and supporting both the Nano and the dry land agriculture or any other efficient model equally?

VM: No, I think the State support is huge in case of Nano. However, if any State supports something like Sulabh Sauchalaya, traditional agriculture system and renewable energy would be doing a tremendous job.

KG: Talking of agricultural subsidy, running into Rs.1.2 lakh crores, in terms of valuation, it does not actually support the agricultural pattern of the smaller marginal farmers.

VM: We need to invest Rs.1,000 - 2,000 crores to generate our livelihoods. We cannot expect micro-credit or household-level action for this to be achieved. We need to work at the collective level.

KG: A large section of people for whom we are promoting livelihoods are labourers. Do we need to look at the construction industry and agriculture sector for solutions?

VM: Look at this statistics: even when agriculture share has come down, the share of labour in cultivation or agriculture as main activities is much higher. The transformation from agriculture is lower and we badly need to adopt new economic growth model. China is able to export goods and products helping them to significantly earn back foreign exchange.

We need to promote large number of domestic markets and small towns, continuous growth for all with infrastructure and basic facilities like electricity, road, telecom and market yards.
Agriculture or non-agriculture production systems do not matter. We need to have dispersed and decentralised domestic market. Basically, what I am saying to promote is large number of domestic markets and small towns, continuous growth for all with infrastructure and basic facilities like electricity, road, telecom and market yards.

We are contemplating on an average of 50 villages being catered by one town, think of 1000 - 2000 such towns! To provide livelihoods to all the households, we need to provide all the services. In that sense, we need to learn all about efficiency, at the same time we need to figure out that growth has to happen equitably in nearby villages and towns. Then what will we do? We have to question it later. So, people have to move from agriculture to non-agriculture for which they need to develop skills.

We need to invest five lakh crore on natural resource base and as many in building human capital. Indian GDP is nearly trillion dollars. I am talking about 10% of that. It cannot be done overnight, so share the 2% of GDP in micro-resources and 2% for building social institutions. We need community co-operatives or Panchayats. I am not saying exactly about this model, but about general investment, social capital and natural capital. The next issue is that the world requires capital and the capital should be balanced, which requires time. We need to balance between our ability to manage resources and ourselves. We manage our resources as transactions and manage ourselves with HR. These two need to be balanced. Once we focus too much on transactions, the HR activities get neglected.

Our social fabric needs to be strengthened, otherwise you will have situation of the kind that we have in Punjab and Haryana, high GDP and lots of pesticide, lower female-male ratio and less sanitation facilities. Right now, there is too much emphasis on financial capital and little of institutional capability or interaction and therefore things build up. Whether or not we are working at the level of SHG, it's not just a question of how it will finance but once you finance it how it will be managed. Management does not imply the MBA style, rather how all the stakeholders will be affected by it and whether or not it will be able to come together and consequently ensure positive outcomes. In my opinion, we need a very punctual process, participation including and leading the excluded.

KG: Then what is the problem with Producer companies?

VM: Once again, institutional development! Problem comes from atomising and dispersing producers' company. The moment we organise and collectivise them, (not in a communist sense), our ability to deal with input market, common facilities and output market goes up.

KG: In fact, in the case of dairy co-operatives, AMUL integrates value chain services and ensures enough returns for the producers. This cannot be said in the similar way to any of the successful private sector model. Why are we not able to do that in private sector model?

VM: You know private sector is designed to maximise profit and profitable return to capital. So, returns to capital can be maximised only at the cost of returns on other capitals and resources producing negative effects. Even though the AMUL model is able to transfer maximum consumer rupee

Sometimes I feel that the cooperative institutions will eventually be capital starved as they are confined to capital from its members.
to producer, we are not sure whether the entire model has been efficiently promoted as the capital invested is out of donations obtained from outside. And therefore, I say that we need to compare life with life.

KG: We know private sector also gets lots of subsidy?

VM: Yes, there is lot of subsidy for the private sector. But what I mean when I say to compare life with life is that we have to fully understand the total investment requirement within the dairy sector to take it upon the cost of capital.

KG: For instance, Mulkanoor Dairy in Karimnagar District, Andhra Pradesh (with 18,000 members managing 50 thousand litres market has earned more than one crore rupees as surplus last year) did not get any subsidy but rather depended on the bank loan. May be they got some interest subsidy but the interest rate was similar to that of the prime lending rates.

VM: That's the whole point. In cooperative enterprise, there is the ideal structure to carry out economic worth because it is reasonably equitable, participatory and is proactive way of aggregating capital, which is necessary to organisation. In this context, right now in the whole economy, there are very few "Triple A" graded financial institutions. Most have been wiped out in the economic crisis. City Bank is gone; so is Bank of America. Large credit lending agencies have all gone and the Swiss Banks are in trouble. Only Rabo, a Dutch bank, is strengthened against market recession and is the only bank in the whole world, which is run on cooperatives. We need to re-create a new economic sphere; we need to relearn the economics of cooperatives.

However, I sometime feel that cooperative institutions will eventually be capital starved as they are confined to the capital from its members.

I am very conflicted about economics. It is a great science but lot of good ideas have been prematurely converted into laws and, as a result, it is really inadequate for the changing times.

KG: Taking all these in view, what does social entrepreneurship mean? How do they contribute to the livelihood practice as well?

VM: Well, social entrepreneur, according to me, is first somebody who is addressing those challenges which neither the state nor market are addressing adequately. Secondly, he/she is doing business with concern for efficiency, equity and the environment. So, if one fulfills these criteria, I think he/she is a social entrepreneur. That can even be something as small as recycling of social waste in a locality.

KG: In that sense, sometimes it looks to be very blurred. For example, a pharmaceutical company manufacturing drugs or medicines used for diarrhea can be considered a social enterprise as they also address the needs of poor.

VM: We need to distinguish between good will services, which fulfill the needs of the masses and the services targeted at the bottom of the pyramid. On the one hand, just because the social growth is needed, it doesn't mean that all the voluntary organisations are social enterprises. It also does not mean because something is loosing money and therefore been subsidised by the Government or through corporate financial scheme does not make it social.

The important condition therefore are meeting the unmet needs which neither the Government nor the market can take care of. My argument is that if somebody is able to make a car which is narrow but is far more environmental friendly and economically efficient, it is possible that we could think of that person as social entrepreneur.

KG: Most of the social entrepreneurs today are governed by private equity funds, venture funds which are equity funds in a different way. Internally, it does not respect all the capitals and returns they talk about, and are much different from what you have been saying all through.

VM: What happens is that large number of social enterprises is working at the bottom of pyramid and they have learnt how to do that profitably with high growth. The two characteristics of high profit and high growth with subsidies attract equity. But all the private equity is not changing the standards of households.

KG: So, how do you find support for the enterprises which are based on values you are talking about?

VM: Of the three points I have mentioned before, the point number two talks of the need for capital. The capital is not going to come from private equity. Rather, it should come from other alternatives. But we know the problems of capital from State, primarily related to control, bureaucracy and politics. We also know the problems of pure financial capital, which comes with a tag of maximising returns and shows inadequate concern for efficiency, accountability to the customers and producers. The third possibility is community capital. Of these three, community capital seems to be most attractive.

Indeed, then the question will be raised as to why BASIX is not a community-owned NBFC. Well, when we started it, there wasn't favourable legal framework for these institutional structures to flourish with community capital at the centre.

KG: As we draw to the close of the interview, what is your message to the young social entrepreneurs?

VM: An entrepreneur should be intellectually rigorous. A big note of caution is not to fall in love with one's own ideas. Remember that intellectuals can come from both highest and grassroots levels. Do not become slave of finance capital; know how to master the world of capital, rather than throwing the capital out of the window. Be straight in life. We need to believe and examine our experience of civilisation at individual, organisational and collective levels. Moreover, high degree of open mindedness is needed in linking with the world.