DEVELOPMENT PROCESSES AND THE DEVELOPMENT INDUSTRY

Ever since independence, development of the country and the community has always been the top priority of the government. The Constitution of India mandated the Government to establish an egalitarian social order by securing to the people social, economic and political justice. And, the nature of the state was to be a welfare one. Hence, the country embarked onto a path of planned socio-economic development to attain the goals of justice. However, the paradigms of development have changed over time based on experiences. The thrust in the development process has also shifted accordingly. While the experiment with development continues, real development seems to be elusive even after over six decades of governance.

During the initial decades, development was conceived in terms of economic development and the emphasis was on a growing public sector with massive investments in basic and heavy industries. Objectives of development were formulated and prioritized by a centralized planning system. In fact, it was essentially a 'government-led, bureaucracy managed and expert-guided' enterprise. And, the core concern of development thinking was achieving material prosperity through economic, industrial and infrastructural development. This basic approach to development continued to guide policy makers for the next few decades until new realizations started dawning upon them.

Though, the constitutional mandate was to build an egalitarian social order based on the principle of social equity, all attempts towards the same failed miserably. Growth happened without justice. Surely, the planning process was able to create social and economic infrastructure, provided an industrial base by fostering the development of heavy and basic industries, it failed to provide adequate employment, eliminate poverty and bring about institutional reforms aimed at reduction in concentration of wealth and income. Moreover, the benefits of social and economic infrastructure have accrued largely to the relatively affluent and those living in urban areas, meaning thereby that only urban India saw some semblance of development. Rural India remained as backward as ever. While the bureaucracy and the social elite flourished, the vast underbelly of the nation remained impoverished. The literacy level was still very low. Education continued to be the privilege of social elite. Masses had no access to basic health care system. They did not have access to safe drinking water. Infant and maternal mortality rate was very high. People lived in abject poverty, meaning thereby that they were without land, without water, without shelter, without food and without employment.

In other words, while the economic growth model that focused on GDP growth and infrastructure development did chose agriculture and industry as priority areas for development, the social sectors, such as education, public health, rural infrastructure etc. remained, by and large, neglected. Failures on the social development front not only resulted in the vast growing population being looked at as a problem or liability, but also made the development process highly unsustainable.

In view of these fundamental failures of development planning, the 6th Plan document (1980-85) emphasized the need for reappraisal of developmental strategy. In the meantime, there were other issues that also posed new challenges before the development planners, such as issues of gender development, sustainable development, environmental preservation, social and economic exclusion of certain social groups, rights issues, etc.

So, a serious rethinking as to what constitutes development and how development should take place was called for. Gradually, therefore, a new developmental thinking emerged on the scene. Moreover, by the end of 1980s there also emerged the concept of 'human development'… According to Mahbubul Haq, the founder of the UN's HDR, "The basic purpose of development is to enlarge people's choices…" It means creating an enabling environment for them to exercise choices. Any development strategy, therefore, must aim at human development by focusing on –

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- Facilitating greater access to knowledge;
- Better nutrition and health services;
- More secure livelihoods;
- Security against crime and physical violence;
- Satisfying leisurely hours;
- Political and cultural freedoms; and
- A sense of participation in community activities.

Similarly, for Prof. Amartya Sen, development meant 'expansion of human freedoms', i.e., enhancement of the capacity of individuals to fully lead the 'kind of lives they value'. This could be possible if certain basic rights of the individuals, such as right to elementary education, right to basic health care, right to work, etc, are secured. In other words, development must move beyond economic growth. It must encompass major social goals such as reducing poverty, enhanced opportunities for better education and health and in general improved quality of life.

In the same way, **Joseph Stigliz**, the eminent modern American development economist and whose views are expressed basically in the context of 'globalisation' looked at development as **'transformation'**. He argues, 'development is about transforming societies, improving the lives of the poor, enabling everyone to have a chance at success and access to health care and education'.

Thus, the new development thinking was now characterized by the following –

- Development was to be based on people's felt needs and aspirations, and this had to be in consonance with the country's diversity and pluralism. In other words, development was **no more treated as a homogenous concept**. It may mean different things to different populations;
- **Sustainable Development,** i.e., development process must be in consonance with our concern for environmental preservation;
- **Human Development,** i.e., the focus was to be on "well-being" of the people rather than on "well-having", i.e. now development would mean raising the standard of living of the masses by addressing their nutritional, educational and other such needs;
- **Inclusive Development**, i.e., development of all, particularly those who are living on the margins; Development was to have an **empowering effect** on individuals and social groups;
- **Participatory Development**, i.e., development process must involve primary stakeholders in decision making at all levels. In other words, it must treat the primary stakeholders as agents of development and not merely as beneficiaries or objects of development. This necessitates a decentralized planning system instead of a centralized one.

Hence, under the new paradigms of development thinking, development was to be a "community-led, community managed and local resource-based" process, instead of a "government-led, bureaucracy managed and expert guided" development enterprise. To achieve this holistic vision of development, the state requires the constructive and collaborative engagement of the civil society in its various developmental activities and programs. This led to the growth of NGO, SHGs, various groups and associations, donors, charities to act as a linkage between government and citizen and act as a driver to development.

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Role of Self Help Group in Development

Self-Help Groups are informal associations of people who choose to come together to find ways to improve their living conditions. They help to build Social Capital among the poor, especially women. The most important functions of a Self-Help Groups are (a) to encourage and motivate its members to save, (b) to persuade them to make a collective plan for generation of additional income, and (c) to act as a conduit for formal banking services to reach them. Such groups work as a collective guarantee system for members who propose to borrow from organised sources. Consequently, Self-Help Groups have emerged as the most effective mechanism for delivery of micro-finance services to the poor. The range of financial services may include products such as deposits, loans, money transfer and insurance.

Characteristics of a Good Self Help Group

Well-functioning SHG should have following structural features:

- An ideal SHG comprises 15-20 members
- All the members should belong to the same socio-economic strata of society specifically poor.
- Group should have strong bond of affinity.
- Rotational leadership should be encouraged for distribution of power and to provide leadership opportunities to all the members.
- Members should attend meetings, save and participate in all activities voluntarily.
- To provide gainful employment and to involve the poor in productive activities.
- An SHG should be socially viable institution.
- The procedure of decision-making in SHG should be democratic in nature.
- It should be non-partisan in nature.
- The group frames rules and regulations which are required for its effective functioning.
- To involve women in decision making and to promote leadership qualities among them.

SHG contributions to Development are Analysed as follows

a) SHG and Poverty Alleviation

The formation of SHGs has benefited its members by increasing their assets, incomes and employment opportunities and there has been a significant shift in the use of the loans from personal consumption to their being used for income generating purposes. In addition, members have been able to increase savings and accumulate capital and in doing so, are now more financially stable. This has helped people in moving out of the vicious circle of poverty and unemployment.

b) SHG and Financial Inclusion

One of the reasons for rural poverty in our country is low access to credit and financial services. As per a survey report of the NSSO (59th round), 45.9 million farmer households in the country (51.4%) out of a total of 89.3 million households do not have access to any form of credit from institutional or non-institutional sources. Overall, 73% of the households do not have credit links with any financial institution. Micro finance

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encourages access of SHGs to banks both as means of savings and providers of loan services. The borrowers are able to reduce their dependence on informal sources of finance and a certain degree of loyalty towards SHGs, which can work towards permanent or effective inclusion of these borrowers into the formal banking network.

c) SHG and Human Resource Development

SHG has enabled households to have access to it to spend more on education than non client households. Families participating in the programme have reported better school attendance and lower dropout rates. The financial inclusion attained through SHGs has led to reduced child mortality, improved maternal health and the ability of the poor to combat disease through better nutrition, housing and health – especially among women and children.

d) SHG and Women Empowerment

It has empowered women by enhancing their contribution to household income, increasing the value of their assets and generally by giving them better control over decisions that affect their lives. **It has also** increased involvement in Decision-making, awareness about various programs and organisations, increased access to such organisations, increased expenditure on Health and Marriage events. Within family the respect and status of women has increased. Children Education has improved significantly. Especially girl education was very low but now SHG members are sending their children including girls to school.

Success Story

a) SHG in Tamil Nadu

The development of cottage and agro-based industries is vital towards generation of employment opportunities in rural areas and rural development in general. To meet this end SHG was proposed in Palampalayam in Odathurai village panchayat. A progressive SHG was Annai Indhira SHG formed on 16.05.1998 with the initiative of its 13 members as well as that of the block development officials of Bhavani Panchayat Union.

13 members started conducting regular weekly meetings and contributing small savings, which led to the gradual increase of their group corpus, maintained in their savings bank account with Indian Overseas Bank, Odathurai. Simultaneously, they started withdrawing small sums of money as internal loans in order to meet their consumption and other needs. They soon realized that the development of micro-enterprises in their village was very essential in order to provide the people a source of regular employment. They were already involved in mulberry cultivation and silkworm rearing. However, most of them were landless and did not possess the financial capacity to secure lands on lease or to construct rearing sheds. Therefore, they approached their block development officials for guidance.

Accordingly, the block development officials forwarded a proposal for Economic Assistance under SGSY for sericulture. This proposal was sanctioned and a project cost of Rs. 2,40,000 (comprising of subsidy of Rs.1,20,000 and a matching bank credit) was disbursed to the SHG members. Utilizing this amount, several members procured land on lease basis for mulberry cultivation. The members bought rearing appliances and constructed rearing sheds. Diesel engines were also purchased for operating motors for irrigation purposes. Thus, this strengthened their existing skill and resource base for the occupation and now, all the members are involved in this trade on a full time basis.

They generate 7 to 8 harvests in a year and since all the family members are involved in the trade, each family is able to earn a weekly wage of Rs. 1,500. Their main sources of raw material procurement and marketing

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are Kollegal and Ramnagar in Karnataka, Palacodu in Dharmapuri and sometimes they also directly procure eggs from Tamil Nadu Agricultural University, Coimbatore.

Shortcomings and Recommendations to Improve Self Help Group

a) Politicization of SHG

The strength of a Self-Help Group lies primarily in its solidarity-based participatory character, and in its ability to survive without any significant external support or involvement. In the early phases of its existence, the intent behind the cooperative movement too focused on stakeholders' participation. The government and banking institutions were thought of as some sort of catalyst which would provide support to the sector. But gradually these primary institutions became subordinate to Cooperative Banks, Apex Unions, and Marketing Federations. Election of the office bearers of these large organisations became big ticket events. Very soon, the cooperative sector became a springboard for political aspirants. Though the SHG movement is relatively new, government interventions and subsidies have already started showing negative results. The patronage and subsidies provided to the SHGs by government and the Panchayats often lead to their politicization. Therefore, due care must be taken to ensure that government initiatives do not erode the fundamental principles of self-help and empowerment of the poor.

b) Credit Mobilization

Mobilizing bank credit is a major challenge of the program, due to which the governments at centre and states could not increase the allocations over the years. In total, the target of credit mobilization is Rs. 29,831 cr. But little over half of that amount was mobilized during the last 10 year. However, the proportion of actual mobilization to target is increasing over the years. It is a healthy sign. Because of lower than targeted mobilization of bank credit and allocation of a relatively higher proportion of funds for subsidy, the ratio of credit to subsidy was about two during the period and did not vary much from year to year. Thus, the credit subsidy ratio remained much below the target ratio of 3:1. It also resulted in less than planned investment per Swarozgar.

c) Self-Help Groups are Developed in Rural Area only

According to the 2001 census, 314.54 million persons changed their place of residence (vis-à-vis the situation in the 1991 census) within the country and out of this 29.90 million or 9% changed their place of residence in search of better prospects elsewhere. This migration can be divided into two broad categories: (i) movement from villages to the neighbouring middle grade towns; and (ii) movement to metropolitan cities. In the absence of any documentary proof, this class of people do not have access to organised financial services. Thus for a holistic development of urban areas, all round efforts should be made to increase income generation abilities of the urban poor. There is need to organize this class of people into Neighbourhood Groups (NHGs) on the same pattern as has been adopted for the rural poor.

d) Poor Area Coverage

Since a large number of rural households in the North-Eastern States and Central-Eastern parts of the country (Bihar, Jharkhand, Uttar Pradesh, Uttarakhand, Orissa, Madhya Pradesh, Chhattisgarh and Rajasthan) do not have adequate access to formal sources of credit, a major thrust on the expansion of the SHG movement in these areas should be facilitated. The presence of NABARD should be much more pronounced in these places.

e) Working Attitude of Staff

Special steps should be taken for training/capacity building of government functionaries so that they develop a positive attitude and treat the poor and marginalized as viable and responsible customers and as possible entrepreneurs.

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Role of NGOs in the Development

NGOs are defined as the "formally registered not-for profit association of groups or individuals founded on the principles of equality, altruism and voluntary work spirit to promote human development (including environment and biodiversity) and nation building".

In India the state policies have significantly influenced the formation of NGOs and their activities. The government sponsored and aided programmes provided financial assistance to NGOs either as grants or as matching grants to support the implementation of social development projects. In the Sixth Five Year Plan (1980-1985), the government identified *new areas* in which NGOs as *new actors* could participate in development. The Seventh Five Year Plan (1985-1990), envisioned a more active role for NGOs as primary actors in the efforts towards self-reliant communities. This was in tune with the participatory and empowerment ideologies, which was gaining currency in the developmental discourse at that time.

Government support and encouragement for NGOs continued in the Eighth Five-year plan, where a nation-wide network of NGOs was sought to be created. The Ninth Five-year plan proposed that NGOs should play a role in development on the public-private partnership model. Also, the agricultural development policies of the government and its implementation mechanisms provide scope and space for NGOs. A case in point is the watershed development program, which has led to the growth of NGOs working for rural development. This has also been acknowledged in the Tenth Five-year Plan Document.

Such proactive state support to NGOs has also brought in the element of reporting and regulations. This is being done through a series of legislative and administrative measures, which are often considered by NGO workers as affecting the performance and efficiency of NGOs. However, the Constitutional provision for right to association ensures that the NGOs enjoy adequate autonomy in terms of their management and governance. In the words of Prof. **Amartya Sen,** the relationship between the state and NGOs is one of **"cooperative conflict".**

With the increasing role of the NGOs in development activities they are now attracting professionals from various other sectors, and capacities are being built in support areas such as **financial management, resource mobilization, human resources, leadership development, governance procedures and practices and institutional development.**

The Functions of NGOs are discussed below:

- **Development and Operation of Infrastructure**

Community-based organizations and cooperatives can acquire, subdivide and develop land, construct housing, provide infrastructure and operate and maintain infrastructure such as wells or public toilets and solid waste collection services. They can also develop building material supply centres and other community-based economic enterprises. In many cases, they will need technical assistance or advice from governmental agencies or higher-level NGOs.

- **Supporting Innovation, Demonstration and Pilot Projects**

NGO have the advantage of selecting particular places for innovative projects and specify in advance the length of time which they will be supporting the project - overcoming some of the shortcomings that governments face in this respect. NGOs can also be pilots for larger government projects by virtue of their ability to act more quickly than the government bureaucracy.

- **Facilitating Communication**

NGOs use interpersonal methods of communication, and study the right entry points whereby they gain the trust of the community they seek to benefit. They would also have a good idea of the feasibility of the projects

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they take up. The significance of this role to the government is that NGOs can communicate to the policy-making levels of government, information about the lives, capabilities, attitudes and cultural characteristics of people at the local level.

NGOs can facilitate communication upward from people to the government and downward from the government to the people. Communication upward involves informing government about what local people are thinking, doing and feeling while communication downward involves informing local people about what the government is planning and doing. NGOs are also in a unique position to share information horizontally, networking between other organizations doing similar work.

- **Technical Assistance and Training**

Training institutions and NGOs can develop a technical assistance and training capacity and use this to assist both CBOs and governments.

- **Research, Monitoring and Evaluation**

Innovative activities need to be carefully documented and shared - effective participatory monitoring would permit the sharing of results with the people themselves as well as with the project staff.

- **Advocacy for and with the Poor**

In some cases, NGOs become spokespersons or ombudsmen for the poor and attempt to influence government policies and programmes on their behalf. This may be done through a variety of means ranging from demonstration and pilot projects to participation in public forums and the formulation of government policy and plans, to publicizing research results and case studies of the poor. Thus NGOs play roles from advocates for the poor to implementers of government programmes; from agitators and critics to partners and advisors; from sponsors of pilot projects to mediators.

Role NGO's can play in Rural Development

The following are the important role NGOs can play in rural development:

1. **Agricultural Related Programs:** Numerous activities can be undertaken under agriculture sector. The jobs/projects like distributing planting materials, cattle, poultry, minor irrigation, free medical care for cattle's, safe drinking water for animals, etc.

2. **Health Programmes for Human and non-human beings:** The works like pit drainage, housing, creation of smokeless environment, good drinking water for animals and human beings, regular health checkup camps, etc. will improve the health conditions of the human and non human beings.

3. **Community Development Programs:** The community development programs like adoption of villages for development, moral support during flood and famine period, supply of food and drinking water during flood, common well, training programs for the rural youths, housing projects, repair and renovation of houses, etc will satisfy the basic necessities. The important program like training programs for the rural poor will hold the youths from rural exodus. Even this type of training programs may also be extended for the rural women, so that we can expect self sustenance among this community.

4. **Human Resource Development Programs:** The personality development programs, skill development programs, educational programs, integrated development projects, etc., will enable the rural poor to earn bread and butter.

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5. **Trade and Industrial Promotion:** The important problem in the present context is availability of the market for the products of rural enterprises. Therefore, an NGO has a direct link with the government for marketing of the goods. Apart from this, NGO can also go for training the rural youths in fabrication works, wood works, beedi rolling, agarbathi manufacturing, printing press etc.

6. **Government Support:** The government (central, state or local) support at all level is inevitable for rural development. NGOs alone cannot do miracles over night. Therefore, the government should watch and ward the working of NGOs at phase wise manner. Thus, the fund or whatever may be directly should move to beneficiaries. The NGOs should accountable for the funds.

Some Success Stories

Self-Employed Women's Association (SEWA) of Ahmedabad had begun its journey as a trade union in 1972; but gradually it has been able to expand its activities and serve as a true representative of self-employed women in the unorganized sector. Today its membership has crossed 2.2 lakh and it has been able to come close to achieve two of its basic goals of full employment and self-reliance. SEWA now provides diverse opportunities to the families of its members including food security, income security and social security. In the initial years, SEWA attempted to collect loans for its members from nationalized banks; but faced with several difficulties to do so. Then the organization under the leadership of Ila Bhatt was formed SEWA Bank in 1973. Each of 4000 Seva members then paid Rs 10 as capital share. Initially, it acted as an intermediary to enable its depositors to secure loan from nationalized banks. But later on, SEWA Bank has begun advancing loan from its own fund. It has encouraged women to form groups in different localities and work as a team to cultivate the culture of continuous savings for withdrawal of loans for domestic and productive needs. The Bank has charged interests between 12 per cent and 17.5 per cent per annum for loans taken for a maximum period of 36 months. It has simultaneously provided technical assistance to its members for the use of loan money and closely monitored progress. As a result, the Bank has achieved 96 per cent repayment rate leading to improved income, employment and access to social security for its members. In the 2002–2003 fiscal year, SEWA had a working capital of nearly 85 crores and its audit classification has been consistently 'A' grade. SEWA has successfully linked micro-finance movement with much needed support services like insurance, health care, child care, legal aid, and training to reduce women's vulnerability. This micro-finance movement has now become a model for others to follow and one can refer to some other successful experiences of empowerment of poor and the needy through micro-finance.

The experience of Swadhyaya, an NGO started by Pandurang Shastriin 1958, depicts yet another success story of a socio-spiritual movement in organizing two million poor people and mainly dalits and fisherman in Gujarat and Maharashtra. It has propagated the concept of 'impersonal wealth' generated through collective efforts. It has organized collective projects such as fishing cooperatives, deepening of wells, collective farms and orchards on which members of neighbouring villages work with a spirit of harmony and brotherhood. Thus, the members of Swadhyaya Parivar could achieve the twin goals of social transformation and community development with one stroke. A notable feature of this movement was to uplift the 'transformers', the elites, as well as the 'transformed', the poor and the deprived. The elites as motivators and catalysts had to maintain discipline and spend a part of their wealth, talent and time for rural development. Many Swadhyayis have given up smoking, drinking and other harmful habits. Apart from spiritual activities, the organization also utilized science and technology for economic and social development of rural people. As a result of improved farming practices, better environment and sustainable resources, the Swadhyaya movement has gained popularity and crossed its geographical limitations by inspiring even people of other countries to initiate similar movements.

Challenges faced by NGOs in India

- **Lack of Funds:** NGOs are expressing difficulty in finding sufficient, appropriate and continuous funding for their work. They find accessing donors as challenging as dealing with their funding conditions. They

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perceive there to be certain cartels of individuals and NGOs that control access to donor funds. They have limited resource mobilization skills and are often not looking for funds that are available locally, preferring to wait for international donors to approach them. There is a high dependency of donors and a tendency to shift interventions to match donor priorities. There is a lack of financial, project and organizational sustainability. Poor Governance was recognized within the sector as a whole, within the NGO Council and within individual NGOs. Many NGOs mismanage their resources, quite often with the involvement and encouragement of their Boards that eat their NGOs resources.

- **Absence of Strategic Planning:** Few NGOs have strategic plans which would enable them to have ownership over their mission, values and activities. This leaves them vulnerable to the whims of donors and makes it difficult to measure their impact over time. Poor networking was identified as a major challenge. It is the cause of duplication of efforts, conflicting strategies at community level, a lack of learning from experience and an inability of NGOs to address local structural causes of poverty, deprivation and under-development. Negative competition for resources also undermines the reputation of the sector and the effectiveness of NGO activities at community level. As a result there is a great deal of suspicion among NGOs, secrecy and lack of transparency. Many NGOs, large and small, intervene at community level without any community mapping and implement projects without due regard to ongoing community initiatives.

- **NGO Politics:** One fighting another, one with resources but no community presence, another with community presence but no resources.

- **Poor Communication:** There is very poor communication within the sector. The majority of NGOs have little or no access to reliable email and internet connections, they receive almost no literature on development issues and are generally out of touch with issues of global, regional and national importance. There lack of understanding of the difference between the Board and Council is just one example of the knowledge gaps that exist.

- **Limited Capacity:** NGOs recognize that many of them have limited technical and organizational capacity. Few NGOs are able or willing to pay for such capacity building. Weak capacity was identified in fundraising, governance, technical areas of development, and leadership and management. Some NGOs felt that the existence of quality standards would assist them to develop the required capacities. The speed of technology changes is also a challenge particularly in areas of IT capacity.

- **Development Approaches:** Many NGOs are still focusing upon what some refer to the ‘hardware’ approach to development, i.e. the building of infrastructure and the provision of services; rather than what some refer to as the ‘software’ approach of empowering people and local institutions to manage their own affairs. Other NGOs seem unaware of changes in the role of government, the changing aid paradigm, and the effectiveness of a “right’s based” rather than “welfare” approach. While it is becoming harder to fund and sustain service delivery interventions, most local NGOs persist with them. Community poverty and illiteracy rates remain significant. NGOs are acutely aware of the increasing and enormous needs of poor people and feel at a loss as to how they can respond to all these needs. There is a lack of sustainability and ownership of development interventions by communities. Some communities have been spoilt by dependency creating interventions and are not inclined to do things for themselves. It is difficult to keep our programmes relevant to changing situations and the culture of handouts is hard to counter. There is no accepted code of ethics and conflicting approaches.

- **Relationships with INGOs:** There is considerable concern among local NGOs that the giants, mainly INGOs, occupy so much space that it is very difficult to find room for themselves. INGOs often intervene without any concern for the building of sustainable local CSOs. They pay government and community members to participate in their projects while local NGOs have no facility for doing so. INGOs are also perceived to be driven by short-term project approaches that are not locally sustainable. They pay high salaries and attract local NGO personnel. They are also responsible for creating the high cost image that undermines the credibility of the sector. It is difficult and inappropriate for local NGOs to compete with the international and national giants. Many external organizations are not working with local CSOs, they simply provide unfair competition and hold back the development of our sector and cost effective development interventions. International NGOs should not be allowed to work on the ground, they pay allowances and manipulate the people; cannot run this nation on the whims of international NGOs; they suppress local NGOs.

- **Political Interference:** In some regions, in particular South Rift and North Eastern, NGO leaders identified the interference of local politicians and civic leaders as a major hindrance to their work. Where NGOs are involved in sensitive issues, such as land disputes, local leaders can threaten NGOs with de-registration. NGOs are not aware that the Board - and potentially the Council - are there to protect them from such intimidation. Many participants were poorly informed of the difference between these two institutions, NGO Coordination Board and the National Council of NGOs; and unaware of their roles and responsibilities in relation to them.

Arguments Against NGOs

The fact that NGO movement has not been able to become a true alternative to the state or private sector is increasingly being recognized in different quarters. While it is logical to argue that in a democratic society the state should not be asked to do everything, it is equally true that NGOs should have their own limitations. NGO advocacy often fails to grasp the fact that 'if every soil is not equally conducive to the growth of open and secular institutions, it is not equally conducive to the growth of civil associations'. In spite of very high credible achievements of many NGOs in India in the fields of health, education, childcare and so on, 'the question of what they contribute to the creation of civil society, and in what way, still remains open'. Like the state, NGOs, barring a few exceptions, 'have failed at making a substantial impact upon the perceived beneficiaries they were expected to benefit'. The reasons for the failure of a large number of NGOs to come up to the desired level of expectation are numerous. The major argument against many NGOs is: they are the creation of funding agencies and hence 'their entire existence, not merely dependency, is on donor money, almost always from above. Being a 'favoured child' of western donors, they are capable of exerting pressure on national governments with enormous power in terms of money, technology, cyber strength and knowledge. Hence, they are argued to be the 'handmaidens of global imperialism'. A UN sponsored publication has warned about the 'potential of INGOs to undermine the sovereignty of constitutional democracies'. The publication has also documented that 'in countries newly independent of the Soviet Union, and in Russia, the NGOs are often perceived as covers for organized crimes, in Bangladesh and Pakistan, NGOs are sometimes seen as fronts for fundamentalist causes and in Central Asia they can serve as platform for failed politicians'. Expert has noted that tribal insurgents in the Northeastern Indian state of Tripura have utilized foreign donations send to Baptist church for ethnic mobilization and insurgent activities. There are nearly 40,000 INGOs in the world today and some of them have annual budgets worth billions of dollars.

Further, several retired government official, politicians and people with vested interests have formed NGOs or GONGOs (Government-Operated NGOs). This extraordinary mushrooming hardly enhances the ideology of civil society activism as NGOs now are formed 'to compromise with donor's likes and dislikes and even to fudge data to suit the clients needs'. It is unfortunate to learn that many of the new generation of Project NGOs create hypothetical beneficiaries say, AIDS patient, for meeting targets within a stipulated period. A World Bank study has acknowledged that in 57 per cent cases, NGOs have worked like 'technical transfer agents'.

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The patron-client relationship emerging out of such a model of development raises numerous questions about the accountability and legitimacy of NGO activity. A 'puppet' NGO, in spite of its best records, is bound to betray the very spirit of civil society activism and replace accountability by accountancy. This also reduces NGOs to the position of mere 'sub-contractors' who have to rely to external agencies including the government for launching and managing a project and shift from one problem to the next.

The pressure to reach the magic figures quickly often leads to sacrificing quality of the output. If an NGO or a group of NGOs seek to continue spreading awareness among say, prostitutes, even after ten years of continuous campaign, doubts about earlier credentials are validly raised.

It appears that reliability and sustainability of NGO activities, the two distinguishing criteria for their success, are hardly fulfilled in many instances. This may also be due to the fact that a NGO totally relies on the quality of leadership provided by its founder member. As a result, NGOs often fail to maintain the zeal after the demise of its charismatic leader. Again, the very specific and local factors that led to the success of NGO activity in any region may not be replicable in a different region due to changes in socio-cultural and political aspects of life.

Anna Hazare could not create another Ralegan Siddhi in Maharashtra in spite government support. Similarly, the Amul experience at Anand in Gujarat could not be replicated in any other part of the country even with the help of foreign funding.

It has been argued that new generation of NGOs are more concerned with programme implementation than policy and political critique. This may be due to the fact that they now seek 'safe' and non-controversial issues including the delivery of government programmes for their existence. Becoming an extension of the government or donor agencies may lead to dependencies of various types including any forced compromise with ideology. If NGOs merely become an agency for 'non-party political work' for some, it may lead to growth of opportunism and corrupt practices. Even the political party sponsored NGOs today seek to play the 'safe game'. Unlike the NGOs of 1960s and 1970s in many parts of Latin America and Third World, who vigorously fought for curtailment of civic and political rights, the new Project NGOs hardly work to enhance the space for civil society. Moreover, not all people working for NGOs are volunteers. Today the NGO sector provides enormous employment opportunities to young social scientists and to those who merely work as paid employee of an NGO, the 'service' is nothing more than an 'occupation' for a living. The PRIA survey (2002) had revealed that as many as 20 million people are associated with the NGO sector in India and 15 per cent of them are paid staff. One should not expect these paid employees to be either committed to the goal of social reconstruction or even to the particular task on which a project is launched. In other words, the vocation of social welfare has now got transformed into an occupation of social work to suit individual interest.

This also contributes to increasing doubts and disillusionment about the way NGOs utilize their fund. Hence, NGOs should not be romanticized as one of the most effective organizationsin alleviating poverty and bringing social transformation in society. One should, therefore, not compare the policies and perspectives of Project NGOs with the idealistic notion of altruistic, value based, people centric or non-profit voluntarism. Since NGOs are being formed with the singular objective to trap and manage money that is flowing in the names of corporate responsibility, sustainable development, equitable growth or grassroots development. As a corollary, non-remunerative societal tasks do not attract their attention.

Further, the corruption in fund management is another major argument against NGOs. They very often become defaulters for not submitting grants utilization certificates. It is only expected that in the contemporary world, market-driven NGOs would prefer to sacrifice their ideology for prudence. While commenting on the functioning of human rights NGOs, has alleged that they cannot always be trusted in promoting human rights, as they have become market oriented. On the whole, many NGOs lack transparency, as they are not open to scrutiny by

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others. The leaders never disclose their balance sheet to the public or even to its employees though they talk about the current and future programmes of the organization. The need for transparency in dealings, democratic accountability in transactions, and sensitivity to the concerns and aspirations of the people they serve has forced some to argue for a code of conduct for NGOs. It seems that NGOs often indulge in a double standard. Thus, on the one hand, they argue for transparency and democratic participation while criticizing the state/ bureaucracy for their failure to do so. But, while discharging their duties, they themselves fail to observe such norms. It is worth mentioning here that authority structure of NGOs is highly idiosyncratic, paternalistic and authoritarian in nature and it is almost difficult, if not impossible, to penetrate into that structure.

The following suggestions and policy implications have been made for the further improvement in their working of NGOs:

1. A short term training programme for strengthening the managerial capabilities of NGOs will go a long way in improving their performance and effectiveness significantly.
2. The overdependence of NGOs on funding agencies and the syndrome of dependency should be reduced by involving the government directly in funding activities.
3. Donor agencies should also take active initiation in selecting the funding projects and even selecting of NGOs too.
4. The donor agencies should go for surveying the viable projects for NGOs and the needs of the people.
5. NGO should also accept the truth that, the funding agencies are no longer available for the projects which are not viable.
6. Proper monitoring the activities of the NGOs and the enterprises run under the umbrella is the need of the hour. Therefore, the NGOs should also accountable for the funds on the one hand and the beneficiaries on the other.

Role of Microfinance Institutions in Development Process

*"**Microfinance** is the provision of financial services to low-income clients or solidarity lending groups including consumers and the self-employed, who traditionally lack access to banking and related services."*

Microfinance is not just about giving micro credit to the poor rather it is an economic development tool whose objective is to assist poor to work their way out of poverty. It covers a wide range of services like credit, savings, insurance, remittance and also non-financial services like training, counseling, etc.

Salient Features of Microfinance

- Borrowers are from the low income group
- Loans are of small amount – micro loans
- Short duration loans
- Loans are offered without collaterals
- High frequency of repayment
- Loans are generally taken for income generation purpose

Microfinance sector has grown rapidly over the past few decades. Nobel Laureate Muhammad Yunus is credited with laying the foundation of the modern MFIs with establishment of Grameen Bank, Bangladesh in

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1976. Today it has evolved into a vibrant industry exhibiting a variety of business models. Microfinance Institutions (MFIs) in India exist as NGOs (registered as societies or trusts), Section 25 companies and Non-Banking Financial Companies (NBFCs). Commercial Banks, Regional Rural Banks (RRBs), cooperative societies and other large lenders have played an important role in providing refinance facility to MFIs.

Role Played by Microfinance Institutions

According to the latest research done by the World Bank, India is home to almost one third of the world's poor (surviving on an equivalent of one dollar a day).

About half of the Indian population still do not have a savings bank account and they are deprived of all banking services. Poor also need financial services to fulfill their needs like consumption, building of assets and protection against risk. Microfinance institutions serve as a supplement to banks and in some sense a better one too. These institutions not only offer micro credit but they also provide other financial services like savings, insurance, remittance and non-financial services like individual counselling, training and support to start own business and the most importantly in a convenient way. The borrower receives all these services at her/his door step and in most cases with a repayment schedule of borrower's convenience. But all this comes at a cost and the interest rates charged by these institutions are higher than commercial banks and vary widely from 10 to 30 per cent. However in the past few decades it has helped out remarkably in eradicating poverty.

Some Examples

- **Microfinance Programme of SIDBI**

Small Industries Development Bank of India (SIDBI) launched its micro finance programme on a pilot basis in 1994 using the NGO / MFI model of credit delivery wherein such institutions were used as financial intermediaries for delivering credit to the poor and unreached, mainly women. Learning from the experience of the pilot phase, SIDBI reoriented and upscaled its micro finance programme in 1999. A specialised department viz. 'SIDBI Foundation for Micro Credit' (SFMC) was set up with the mission to create a national network of strong, viable and sustainable Micro Finance Institutions (MFIs) from the informal and formal financial sectors. SFMC serves as an apex wholesaler for micro finance in India providing a complete range of financial and non-financial services to the MFIs so as to facilitate their development into financially sustainable entities, besides developing a network of service providers and advocating for appropriate policy framework for the sector.

SFMC is implementing the National Micro Finance Support Programme (NMFSP). The overall goal of NMFSP is to bring about substantial poverty elimination and reduced vulnerability in India amongst users of micro-finance services, particularly women. The NMFSP is being implemented in collaboration with the Government of India, the Department for International Development (DFID), UK and the International Fund for Agricultural Development (IFAD), Rome.

SIDBI is also focusing on development of microfinance in the weaker States which have inadequate access to formal financial services such as Uttar Pradesh, Bihar, Jharkhand, Orissa, Chhattisgarh, Madhya Pradesh, Rajasthan and the North-Eastern States.

- **SHG – Bank Linkage Programme**

This is the bank-led microfinance channel which was initiated by NABARD in 1992. Under the SHG model the members, usually women in villages are encouraged to form groups of around 10-15. The members contribute their savings in the group periodically and from these savings small loans are provided to the members. In the later period these SHGs are provided with bank loans generally for income generation purpose. The group's members meet periodically when the new savings come in, recovery of past loans are made from the members and also new loans are disbursed. This model has been very much successful in the past and with time it is becoming more popular. The SHGs are self-sustaining and once the group becomes stable it starts working on its own with some support from NGOs.

Issues Related to Microfinance Institutions

- **Financial Illiteracy**

One of the major hindrances in the growth of the microfinance sector is the financial illiteracy of the people. This makes it difficult in creating awareness of microfinance and even more difficult to serve them as microfinance clients. Though most of the microfinance institutions claim to have educational trainings and programmes for the benefit of the people, according to some of the experts the first thing these SHG and JLG members are taught is to do their own signature. The worst part is that many MFIs think that this is what financial literacy means. It can be dangerous when one doesn't know how to read but he/she knows how to accept or approve it (by signing it).

- **Inability to Generate Sufficient Funds**

Inability of MFIs to raise sufficient fund remains one of the important concern in the microfinance sector. Though NBFCs are able to raise funds through private equity investments because of the for-profit motive, such MFIs are restricted from taking public deposits. Not-for-profit companies which constitute a major chunk of the MFI sector have to primarily rely on donations and grants from Government and apex institutions like NABARD and SIDBI. In absence of adequate funding from the equity market, the major source of funds for MFIs are the bank loans, which is the reason for high Debt to Equity ratio of most MFIs.

MFIs receive debt from banks against their equity and in order to increase their portfolio size they need to increase their debts for which they further need to increase their equity. The problem of inadequate funds is even bigger for small and nascent MFIs as they find it very difficult to get bank loans because of their small portfolio size and so they have to look for other costlier sources of fund.

- **Dropouts and Migration of group members**

Majority of the microfinance loans are disbursed on group lending concept and a past record of the group plays an important role in getting new loans either through SHG-Bank linkage or through MFIs. The two major problems with the group concept are dropouts (when one or more members leave the group) and migration (when one or more members move to another group). Most MFIs lend on the basis of the past record of the group i.e. SHG or JLG and also on the individuals repayment performance. In absence of a decent past record, members are deprived of getting bigger loan amounts and additional services.

- **Transparent Pricing**

Though the concern about the transparent pricing in the microfinance sector has been an older one, it is gaining significance with the growing size and the increasing competition in the sector. Non-transparent pricing by MFIs confines the bargaining power of the borrowers and their ability to compare different loan products, because they don't know the actual price. In absence of the proper understanding of the pricing, clients end up borrowing more than their ability to payback which results in over-indebtedness of the borrower.

MFIs, in order to make their products look less expensive and more attractive, are disguising their actual/effective interest rates (better known as the Annualized Percentage Rates – APR) by including other charges like service charge, processing fee, etc. Some MFIs even take interest free deposits for lending microloans. There have been

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cases where the interest rates are linked with the loan amount, which means a higher interest rate for smaller loans (because of higher transaction cost). This is resulting in highest interest rate being charged to the poorest clients, which contradicts with the social aspect of microfinance.

Ambiguity in the pricing by MFIs is inviting regulatory bodies to implement strict measures like interest rate caps. But simply putting an interest rate cap may encourage MFIs to look for clients with larger loan requirements. This may deprive the clients with smaller loan requirements who are supposed to be the actual beneficiary of microfinance.

- **Cluster formation – fight to grab established market**

MFIs' drive to grab an established market and reduce their costs is resulting in formation of clusters in some areas leaving the others out of the microfinance outreach. By getting an established microfinance market, MFIs reduce their initial cost in group formation of clients, educating them and creating awareness about microfinance. This is one of the reasons for the dominance of the microfinance sector in the southern states. Now the problem is that a similar trend is being followed in the northern states as well.

This cluster formation is restricting MFIs from reaching to rural areas where there is the actual need for microfinance. People in urban and semi-urban areas are already having access to microfinance through SHG-bank linkage or individual lending, but in rural areas people don't have access to banks and so SBLP is not much active in such areas. Because of the initial cost involved in serving a new location, MFIs are not willing to go to such remote locations. This is the reason most of the MFIs have their branches in urban and semi-urban areas.

It is high time for the MFIs to understand that though microfinance is a resalable product, increasing the outreach of the microfinance sector by including new clients and serving new locations is what which is needed the most at the moment.

- **Multiple Lending and Over-Indebtedness**

Both of these are outcome of the competition among the MFIs. Microfinance is one such sector where the Neo-liberal theory of free market operation fails, at least to some extent. Though competition is good for many sectors but in this case it is going against both the parties. In order to eat away each others' market share, MFIs are ending up giving multiple loans to same borrowers which in some cases is leading to over-indebtedness (a situation where the borrower has taken loans more than her/his repaying capacity) of the borrower. MFIs are getting affected because borrowers are failing to make payments and hence their recovery rates are falling, while over-indebtedness is making the borrower go to depression and in some cases forcing them to commit suicide.

Some experts advocate that multiple lending is not but over-indebtedness is dangerous. This may be true but multiple lending is eating away the opportunity of new borrowers, and in a country where it is believed that the microfinance sector is able to cater to only 10-15 percent of its potential clients, even multiple lending proves out to be a big concern.

Recommendations

1. **Proper Regulation:** The regulation was not a major concern when the microfinance was in its nascent stage and individual institutions were free to bring in innovative operational models. However, as the sector completes almost two decades of age with a high growth trajectory, an enabling regulatory environment that protects interest of stakeholders as well as promotes growth, is needed.

2. **Field Supervision**: In addition to proper regulation of the microfinance sector, field visits can be adopted as a medium for monitoring the conditions on ground and initiating corrective action if needed. This will keep a check on the performance of ground staff of various MFIs and their recovery practices. This will

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also encourage MFIs to abide by proper code of conduct and work more efficiently. However, the problem of feasibility and cost involved in physical monitoring of this vast sector remains an issue in this regard.

3. **Encourage rural penetration**: It has been seen that in lieu of reducing the initial cost, MFIs are opening their branches in places which already have a few MFIs operating. Encouraging MFIs for opening new branches in areas of low microfinance penetration by providing financial assistance will increase the outreach of the microfinance in the state and check multiple lending. This will also increase rural penetration of microfinance in the state.

4. **Complete range of Products**: MFIs should provide complete range of products including credit, savings, remittance, financial advice and also non-financial services like training and support. As MFIs are acting as a substitute to banks in areas where people don't have access to banks, providing a complete range of products will enable the poor to avail all services.

5. **Transparency of Interest rates:** MFIs are employing different patterns of charging interest rates and a few are also charging additional charges and interest free deposits (a part of the loan amount is kept as deposit on which no interest is paid). All this make the pricing very confusing and hence the borrower feels incompetent in terms of bargaining power. So a common practice for charging interest should be followed by all MFIs so that it makes the sector more competitive and the beneficiary gets the freedom to compare different financial products before buying.

6. **Technology to reduce Operating Cost:** MFIs should use new technologies and IT tools & applications to reduce their operating costs. Though most NBFCs are adopting such cost cutting measures, which is clearly evident from the low cost per unit money lent (9%-10%) of such institutions. NGOs and Section 25 companies are having a very high value of cost per unit money lent i.e. 15-35 per cent and hence such institutions should be encouraged to adopt cost-cutting measures to reduce their operating costs. Also initiatives like development of common MIS and other software for all MFIs can be taken to make the operation more transparent and efficient.

7. **Alternative sources of Fund:** In absence of adequate funds the growth and the reach of MFIs become restricted and to overcome this problem MFIs should look for other sources for funding their loan portfolio. Some of the ways through which MFIs can raise their fund are:

- **By getting converted to for-profit company i.e. NBFC:** Without investment by outside investors, MFIs are limited to what they can borrow to a multiple of total profits and equity investment. To increase their borrowings further, MFIs need to raise their Equity through outside investors. The first and the most crucial step to receive equity investment are getting converted to for-profit NBFC. Along with the change in status the MFI should also develop strong board, a quality management information system (MIS) and obtain a credit rating to attract potential investors.

- **Portfolio Buyout:** It is when banks or other institutions purchase the rights to future payment stream from a set of outstanding loans granted by MFIs. In such transactions MFIs are responsible for making up any loss in repayment up to a certain percentage of the portfolio and this clause is known as "first loss default guarantee". The above clause ensures that the MFI retains the correct incentive to collect these loans. To ensure security to the buying institution, MFIs are allowed to sell off as much of the outstanding portfolio as is financed by accumulated earnings or equity.

- **Securitization of Loans:** This refers to a transaction in which the repayments from a set of microloans from one or more MFIs are packaged into a special purpose vehicle, from which tradable securities are issued. As the loans from multiple MFIs can be pooled together the risk gets diversified. Though securitization

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of loans and portfolio buyout are similar in many ways like first loss default guarantee clause, limit to the amount of loans that can be sold off etc. The major difference between the two is that securitizations require a rating from a credit rating agency and that it can be re-sold, which makes securitized loans attract more potential buyers. Also unlike portfolio buyout, there can be multiple buyers and sellers for each transaction in case of securitization of loans as compared to single buyer and single seller in portfolio buyout. Through securitization, MFIs can tap new sources of investments because fund of certain types like mutual funds, which are barred from directly investing in MFIs, can invest through securitized loans.

Role of Charities in Development Process

A charitable trust is an irrevocable trust established for charitable purposes. In India, trusts set up for the social causes and approved by the Income Tax Department, get not only exemption from payment of tax but also the donors to such trusts can deduct the amount of donation to the trust from their taxable income. The legal framework in India recognizes activities including "relief of the poor, education, medical relief, preserving monuments and environment and the advancement of any other object of general public utility" as charitable purposes.

A large percentage of charities operating in India are involved in social development, though many are associated with religious organizations. Religious organizations in India are also the largest recipients of donations and have floated affiliated organizations to undertake developmental activities. Other popular activities in the voluntary sector are community/social service; education, and promotion of sports & culture.

Characteristics of a Charity

Formal: A charity should be institutionalized and registered, and should have well defined program objectives as well as rules and regulations of governance.

Private: It is important that a charity be institutionally separate from Government.

Self-governing: A charity is usually managed by 'Board of Trustees' or 'Governing Council' and not controlled from the outside. Key participants in the management of a charity are supposed to act in fiduciary capacity.

Not for Profit: A charity cannot distribute profits. It can earn and retain a profit, which is referred to as surplus.

Voluntary: Some meaningful voluntary participation in the activities and management of the organization is important for an organization to be classified as charity.

Non-religious: A charity should not be involved in promoting religious worship or religious education. However, pure service oriented organizations affiliated to religious organizations can be covered.

Non-political: A charity cannot be affiliated to any political party.

Works for Public Benefit: A charity should not serve private cause and public element for its activities is very important.

Charities are usually dependent on donations and grants to fund their expenditure, consisting mostly of program expenditure. Charities are allowed to engage in profit making commercial activity with a view to making them financially self dependent. However, they cannot distribute the profits generated by them.

Example

Pratham is the world's largest grass roots literacy movement based in India. The organisation works with volunteers, teachers and state governments in villages and cities across India to teach children to read, write

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and do basic mathematics. It develops and utilises special accelerated teaching methods for early childhood learning, which provide children with basic reading and writing skills in as little as 4-16 weeks. Pratham was founded with the help of UNICEF in Mumbai in 1994, and thanks to its replicable and scalable model, has been able to roll out its highly successful programs in 23 Indian states. Today, Pratham operates in over 380,000 villages, partners with 11 state governments and has brought literacy to over 33 million children nationwide.

Challenges faced by Charities in India

Multiplicity of Laws and Agencies: There are a multiplicity of laws governing charity for different religions, for different types of organizations, and for different states, with no uniformity in the laws across states, and no consistency between laws. This implies that organisation has to understand a complex set of legal issues, especially if it works across several states in India. Multiple laws also mean multiple agencies to deal with. There was some difference of opinion about having a single charity law instead of three separate incorporation laws, with some wishing to retain the flexibility offered by three different options. But in terms of implementation, most favoured a single window approach and integrating the various agencies into a single agency to do registration and regulation.

Registration: By itself, registration does not appear to be a problem for those wishing to set up societies and trusts, since even small organisations have managed to register themselves without professional help. However, the procedures under the Companies Act were found to be more complicated and costly, and the registration process more lengthy. Therefore, professional help was generally required, which added to expense. Therefore this form of incorporation appears to be more unpopular, unless there was some distinct advantage perceived by using this particular form.

Delays: Under the Registration of Societies Act and the Trusts Acts, there is no stipulated time limit for completing the registration process. There is also no provision for automatic registration / approval in case the application is not processed within a particular time period. This can be expected to lead to delays. However, contrary to popular belief, the time taken for registration of Trusts and Societies is not very long, at least in the limited sample covered by the study. In a majority of the cases it has taken less than three months to complete the registration process after all the documents were finally deemed to be in order. The time taken for registration varies in different offices and regions depending on individual efficiency. However, delays were in the prior stages due to the reasons below.

Poor Public Information and Education: Though the procedure for registration was, by itself, not found complicated, what was problematic was the lack of information about the process and need for repeated visits to the offices to secure information and for follow up.

Inadequate Staff: Almost without exception, (though the Office of the Registrar of Companies to a much lesser extent), all official agencies pleaded inadequate staffing compared to need. Though, thanks to the rapid and phenomenal growth of the NPO sector, the workload on these offices has increased manifold, the staff strength has remained either the same or declined, since many positions have not been filled up.

Poor Facilities: A majority of the respondent organisations reported that the facilities for the public in these offices are very poor, with many lacking basic facilities like drinking water coolers, benches and toilets. Further, very few offices are equipped with modern office technology like computers, photocopying machines, e-mail and fax facilities, which are the minimum in office technology required to speed up the work.

Unhelpful Attitude of Officials: This was also mentioned as a major reason for delays in registration and harassment of NPOs, partly because a majority of the officials have no understanding of or experience with the charities sector, and partly due to lack of motivation. Right from the top, much of the staff in these agencies is

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de-motivated. Only a very few are there because they want to be there; a majority have been deputed from other departments. At the middle level the positions have been filled in by promotions from the lower cadres or staff rendered surplus somewhere else. Barring a few exceptions, even the top functionaries see themselves as being sidelined from more important\lucrative departments\ministries, and are biding their time, waiting to move on. They therefore either have no wish to develop expertise or, due to transfers, are not allowed.

Corruption: The functionaries and professionals (lawyers and CAs) associated with the non-profit sector have reported instances of corruption, where staff of the registering authorities and the Income tax departments have approached them expecting favours for speeding up the process. This was also brought to light by the Report of the Public Accounts Committee, and in recent times has been a subject of newspaper reports as well. However, these instances are problems in most government offices/departments and are not unique to the charity administration authorities.

Diffused Government Responsibility: One reason for a poor human resource situation in most of these agencies is that all the agencies dealing with the nonprofit sector are embedded in some larger department. The Income Tax agencies are under the Finance Ministry; the Registrar of Companies is under the Department of Company Affairs and Company Law; the Charities Commissioners in Gujarat and Maharashtra report to the Legal Department, and the Registrar of Societies are under the Co-operatives Department of various states or under the Home Department. No agency is autonomous, with its own sources of revenue, its own staff, and its own rules and procedures. They are also vulnerable to political intervention.

No central database/register exists for all registered nonprofit organisations and access to data on different aspects is difficult, even for bonafide purposes such as research.

Recommendations for Improving the functioning of Charities in India

In 2004, the Sampradan Indian Centre for Philanthrophy conducted a study on charities administration in India under the sponsorship of the Planning Commission. The study suggested following four models in this regard:

- **Model 1 – Maintain the status quo**, keeping the existing institutional arrangements as they are, but enhancing their performance by adopting certain recommendations for a more facilitative interface with the public, greater transparency of the regulatory process, measures for securing better compliance, and a better appeals process.
- **Model 2 – Create a functionally enhanced Charities Directorate in the Income Tax department, plus State level registering agencies, plus a NPO Sector Agency**. The Charities Directorate would be the main regulatory agency, looking after monitoring and compliance, as in Canada and the USA, while the State level registering agencies would exist only for registration function. In addition, there would be an NPO Agency to advise the Charities Directorate. It will comprise of the representatives of the NPO sector, and professionals such as lawyers and Chartered Accountants. It would provide policy guidance, obtain feedback from the sector and set up review mechanism for achieving compliance.
- **Model 3 – Create a Charities Directorate and a mandatory NPO Sector Agency.** The difference between this model and the one mentioned above is that the NPO Sector agency would be created by the government as an autonomous Body. It would have its own Governing Body, and professional staff, and would have the general function of promoting effective use of charitable resources by encouraging better management of organisations, and improving governance by providing Trustees with information and advice. It would also be responsible for compliance education function. It would be a permanent forum for dialogue that this sector has been demanding and would be the interface between the government and the sector.

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- **Model 4 – Create State level Charity Commissions supported by a NPO Sector Agency**. There would be an Appeals Tribunal too. This model suggests setting up a Charities Commission on the UK model. It would be concerned not only with financial regulation but also with the promotion and development of the sector.

According to the Second ARC, the Union Government should draft a comprehensive model legislation covering both Trusts and Societies in lieu of the existing laws on Societies, Trusts, Endowments and Charitable Institutions, etc.

In place of the present charity administration consisting of a Charity Commissioner / Inspector General of Registrations as existing in the States, the proposed law should provide for a new governance structure in the form of a three member Charities Commission in each State with necessary support staff for incorporation, regulation and development of Charitable Organisations. The Chairman of the Commission should be a law officer drawn from the cadre of District Judges. Out of the other two members, one should be drawn from the voluntary sector and the other would be an officer of the State Government. In addition, the State should also have a Charities Tribunal which would exercise appellate powers over the orders of the Charities Commission.

The proposed model legislation should indicate a cut off limit with regard to the annual revenue of a Charity. Organisations having an annual income below this threshold will have lighter compliance requirements with respect to submission of returns / reports / permission etc. However, if irregularities are detected in their functioning, the organisations will be liable for legal and penal action. To start with, the cut off limit could be set at Rs.10 lakhs which could be reviewed for upward revision once in five years.

The government should set up an Inclusive Committee which will comprehensively examine the issue of defining 'Charity' and 'Charitable Purpose' and suggest measures to "soften" charities-government relationship, particularly in tax matters.

The model legislation should take into consideration the views and suggestions made above with regard to the following issues of charity administration: i. Interface with the State Government ii. Alteration in the memorandum iii. Approval on change report iv. Alienation of immovable property v. Contribution by Public Trusts to the State Government.

Role of Foreign aid in Development

Foreign aid is considered as an important ingredient for financing the developmental programs of the developing countries. Currently, it is considered as an important instrument of the foreign policy of states. It acts as a major source of foreign exchange earnings for developing countries. After World War II, developed economies have been providing hundred billions of dollars in terms of foreign aid to the developing world with a welfare motive. Even before the First World War, foreign aid was used as a profitable investment. However, it was only in the post-war period that the flow of foreign aid began in a planned way, when developed Western countries started contributing primarily for the development of infrastructure, alleviation of poverty, emergency relief, peace -keeping efforts and socioeconomic reconstruction programs of their war allies. Adding to this, there are a number of mechanisms through which aid can contribute to the process of economic growth, i.e. (a) aid stimulates investment in both physical and human capital; (b) aid act as a supplement to the scarce domestic resources and acts as a major source of foreign exchange earnings; (c) aid increases the capacity to import necessary capital goods and technology; (d) aid helps to raise the productivity of both capital and labor through technological transfers and also promotes indigenous technical change; (e) aid also brings other crucial resources for development such as managerial skills, organizational capability, research ideas and market access.

It also helps the underdeveloped economies in filing three major gaps; (1) saving-investment gap; (2) export-import gap; and (3) technological know-how gap. At the same time huge amount of external assistance inflows

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may create threat for large amount of external debt burden in the long run to developing economies. The extent to which foreign aid can be a decisive factor in the economic development of developing economies remains controversial. Many countries in the world accept foreign aid and get different benefits along with a few adverse results.

Forms of Foreign Aid

Different writers have given different forms of foreign aid. Prof. Hans J. Morgenthau has given six forms of foreign aid. They are humanitarian foreign aid, subsistence aid, military aid, bribery, prestige aid and economic development aid. Chester Bowles classifies foreign aid in terms of countries: nations requesting aid because of mal-distribution of wealth; nations with inadequate G.N.P. willing to mobilise their own resources; nations lacking the competence; organization and will to use aid; and nations whose situation is not clear. However, foreign aid can be classified as:

A. Military Aid

It is the oldest form for foreign aid. It helps in gaining allies. Both Great Britain and France supplied money and material in gaining allies in the European countries. The recipient countries provided men. The Soviet Union and the United States allocated considerable amounts of money for military aid. The only objective of this kind of aid is to strengthen the military capability of their respective allies. It is a way to reduce burden of stationing one's own military in another country. This kind of aid makes the recipient completely dependent on the donors for the supply of modern equipments, ammunitions, replacement and maintenance of the equipments supplied.

This enables the donors to exercise almost complete control over the military movements of recipient countries. This policy of arming certain countries by a particular great power against other country takes the form of cold war. There have been certain areas such as West Asia and Indo-China where this cold war turned into hot war many a time between the countries of region concerned.

If North Vietnam was supported and given military assistance by the Communist power, South Vietnam was supported by the American bloc. In this way, local conflicts arising out of indigenous causes turn into hot bed of super rivalry.

Most of the wars now going on in the Third World fought by increased sophisticated weapons can be intensified or brought to a halt at the will of the supplier. If and when the great power feel that they need a rest from the tensions of such proxy wars, they can do so by reducing the volume of supplies.

B. Technical Assistance

It is the least expensive among the aid programmes with big benefits. It aims at providing technical know-how instead of equipment and funds. Experts and specialists from advanced countries go out to render technical advice on different projects such as malaria control, agricultural mechanization, public management, teaching, programme, family planing and population control, habitat programmes, medical and sanitary facilities, development of indigenous resources, etc., none can deny that the 'Point Four Programme' and the 'Peace Corps' initiated by the United States for development in the field of administrations, agriculture, horticulture and education had nothing to do with the political-economic considerations. Moreover, the transfer of technology has been limited to a few areas that benefit only the imperialist countries. These include:

- Industries consuming too much energy.
- Industries that pollute atmosphere.

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- Mining and extractive industries to get raw materials for use in the imperialist country.
- Agricultural production industries to get edibles.
- Experimental technology that needs a large scale of trials for development such as electronics, communications, chemicals, drugs and pharmaceuticals.
- Industries which need a large number of labour forces.

C. Financial Aid

The simplest form of capital inflow is the provision of convertible foreign exchange, but very little foreign capital indeed comes to the underdeveloped world so conveniently. Financial aid is further divided into various sub-forms, i.e.:

(i) Tied Aid: Tied aid is of two types:

- **Nation Tied Aid:** is given to the recipient country on the condition that she will spend it in the donor country to solve the BOP problems of that country and to stimulate exports, i.e., if Pakistan is given aid by US and is asked to import raw materials or machinery from US only then it is 'nation tied aid' or 'resource tied aid'.
- **Project Tied Aid:** is given only for specific projects and the recipient country cannot shift it to other projects.

(ii) Untied Aid: Untied aid is the aid which is not tied to any project or nation. It is, in all respects, better than the tied aid because it offers more efficient use of foreign resources. It is much desired because in the case of untied aid the recipient country is not bound to spend the foreign resources on specific projects or in the donor country which may charge higher prices than international market.

(iii) Grants: A grant is that form of foreign aid which does not entail either the payment of principal or interest. It is a free gift from one government to another or from an institution to a government. It is much desired because it increases the internal expenditures and generates income. It is given on the basis of humanitarianism, especially in days of emergencies, earth quakes, floods, wars, etc.

(iv) Loans: It is the borrowing of foreign exchange by the poor country from the rich country to finance short-term or long-term projects. They are further sub-divided into two types:

- **Hard Loans:** Hard loans are also called short-term loans. In order to finance industrial imports they are given usually for a period less than five years, and they are paid in the currency borrowed. It contains no concessional element but interest rate is usually lower than the prevailing rate of interest in the international market.
- **Soft Loans:** Soft loans are also known as long-term loans. Soft loans are made for 10-20 years and it is repaid in the currency of recipient country. Interest on these loans is lesser than hard loans and often these loans invoice grace period. Concessional elements are comparatively greater.

Foreign Aid to India

The role of external assistance in India has undergone a significant shift in the post-independence period. It initially imparted support for the country's balance of payment strategy and invaluable means to promote food security and meet invaluable foreign exchange needs. It also helped to release resources for meeting crucial poverty-alleviating expenditure. It mitigates the impact of domestic saving shortages spilling into balance of payment complications by providing concessional funds to finance the trade deficit.

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Over the time, the role of external assistance either for meeting food security requirements or balance of payment support has become increasingly insignificant in volume terms relative to private finance. However, given their competitive cost as well as their long-term access to development assistance continues to be useful in supporting infrastructure financing. Given the persistence of fiscal deficits and the tardy outcome of policy designs to mitigate the fiscal problem, the inadequate availability of resources to meet social sector obligations still requires external assistance for social sector reforms. Foreign assistance is also useful in supporting reform efforts for persuading federal entities to adopt policies that can spur their growth rates and assist in better aligning their reform strategies with the national strategy.

Foreign aid also supported a higher level of investment that could have been financed with domestic savings. This has been particularly valuable for building a viable infrastructure. In recent years, foreign aid has not only continued to provide much-needed additional resources for social sector spending, but has also provided transitional financial arrangements for supporting reform initiatives. One of the most important of these initiatives has been mainstreaming the sub-national State Governments into the national overall reform strategy through strategic financial initiatives. External flows cover about 18 percent of India's total Gross Budgetary Support for central government ministries' development programmes and assistance to states, though this has been declining since 1990s.

Thus, aid neither promotes economic growth and hence development at the macroeconomic level, nor adversely affects it. A corollary is that aid is not responsive to changes in India's income. But still India is depended on foreign aid for the following reasons:

First, aid can help direct the attention of local policymakers towards domestic inequality. This does not mean supporting only advocacy/activist/policy non-government organizations (NGOs), but also supporting innovative and experimental approaches to conventional development challenges. This means supporting knowledge management initiatives and rigorous research, especially to measure the impact of development programmes and policy interventions.

Second, aid is still important when it comes to humanitarian crises such as droughts or natural disasters. While the democratic governments in this country are more than capable of taking care of sudden crises, aid projects have a role in calling attention to as well as actively helping those who are trapped in a vicious cycle of poverty—say the small-holder farmers who are battling rising input prices, lack of credit and the wrath of climate change.

Third, for bilateral and multilateral aid agencies, being present in India is not just to "give" to India, but also to "take" home lessons from her. The Indian (or the Brazilian or Chinese) model of governance and economy has important lessons that could be relevant to other developing countries (and increasingly, to the developed countries)—at least more relevant than just the historical experiences of the West. At the same time, our governments and local organizations still have much to learn from international experiences, which we are able to access more easily through engaging with the international aid architecture. Aid agencies—whether bilateral or multilateral—and strong domestic governments is a good recipe for a fruitful partnership.

Arguments Against Aid

Indeed, the idea behind foreign aid is always national interest of the donor. When foreign aid is given by one country to another, it is received not by the people, but by the government: it does not go to individuals or firms in the private sector, but to the central government. This necessarily increases the weight of the government in the economy, which in turn must increase the concentration of power, even if the recipient government does not intend this result. And if, as often happens, the government does wish to extend its power, the increase in its resources helps it to do so, chiefly but not only by extending the public sector and by enabling the government to con-trol the economy more closely.

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These effects are enhanced by the influential support or even pressure in the donor countries for comprehensive development planning and compulsory saving by the recipient countries, i.e., for government determination of the direction of economic activity outside subsistence agriculture and for special taxation to finance government expenditure. These policies have come to be regarded in the donor countries as a condi-tion of economic development in poor countries, and their adoption by recipient countries is accordingly considered as an earnest of their intention to promote it. This belief is unfounded. The historical evidence both of developed countries and of underdeveloped countries suggests more nearly the reverse. Development planning was not used in the early history of the now developed countries of the West. Nor was it employed in the many underdeveloped countries which progressed rapidly in recent decades, such as Japan, Hong Kong, Malaya, Thailand, and a number of African and Latin American countries. Only in the Soviet economies is it an essential element of economic organization, and the texture of these societies reflects its pervasive effects.

The following criticism has been forwarded on foreign aid:

(a) According to critics, foreign aid ***does not promote faster growth*** but may in fact retard it by substituting for, rather than supplementing, domestic savings and investment and by exacerbating LDCs balance of payments deficits as a result of rising debt repayment obligations and the linking of aid to donor country exports.

(b) The foreign aid is generally ***focused on and stimulates the growth of modern sector***, thereby increasing the gap in living standards between the rich and the poor in Third World countries. Rather then relieving economic bottlenecks and filling gaps, aid, and for that matter private foreign investment, not only widens existing savings and foreign exchange resource gaps but may even create new ones (e.g., urban rural or modern traditional sectors gaps).

(c) If the aid given is concerned with unproductive fields or obsolete technology, it will ***have the effect of increasing the inflation*** in the country.

(d) The biggest objection which is imposed on foreign aid is that donor countries make ***interference in the economic and political activities*** of the recipient country. The recipient country has to devise its economic policies in accordance with the wishes of donor countries or international financial institutions.

Further in the case of grants and loans by International banks for development projects which aim to improve the well-being of the poor in the medium to long term. But deploying these resources so that they make a positive contribution to the lives of the poor is always challenging, with the challenges coming along three dimensions. First, any development project will face technical challenges in design and management. Most development planners face the dilemma that projects must be sensitive to local skills and customs to ensure participation and so success; yet the success of a project also turns on effecting significant changes in the productive, or political, or reproductive practices of those who are meant to participate. Asia and Africa are speckled with decaying infrastructure projects from earlier eras of development aid whose operation did not fit with the skills and customs of the target populations. Projects intended to resettle communities, or to empower marginalized groups, or to democratize local politics typically disrupt settled practices in ways that some naturally resist. When a project's success will depend on a change in gender or sexual relations - such as in female literacy or AIDS-prevention projects - these kinds of difficulties are intensified. Moreover, the environment in which a project is being executed is likely to change during the period when the project is implemented. Project managers will expect to confront economic or environmental shocks, or new directives from local government, or new players who enter trying to capture project resources, or new attitudes toward the project and its staff among the project's intended beneficiaries.

Second, project resources will typically be diverted away from the project's target population. Most of the diversionary pressures on project resources can be traced to the poor state institutions within poor countries.

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In most poor countries state institutions are either quite weak, or are strong and self-serving. Indeed, most poor people in most poor countries remain poor at least in part because their political institutions are inefficient, or venal, or rapacious, or absent altogether. If a development project is implemented through the ministries of the poor country, project funds and supplies may be diverted at the national, district, or local levels of governance. If the implementing agency is an international aid NGO, there is also significant potential for resource diversion. Aid NGOs often have to fund the government of the poor country directly: either to get permission to carry out their projects, or through paying local taxes. These payments from NGOs can support the rule of authoritarian leaders and feed corruption in the bureaucracy. NGOs must sometimes pay corrupt officials or warlords in order to maintain their headquarters in the national capital, and must sometimes pay off or even employ criminals in order to carry out their projects in the field.

The flow of sustained indefinite aid implies an obvious and yet widely ignored danger—the pauperization of the recipients. A pauper is one who relies on unearned public assistance, and "pauperization" accordingly denotes the promotion and acceptance of the idea that unearned doles are a main ingredient in the livelihood of nations. This danger of foreign aid is reinforced by the practice of linking it to the balance-of-payments difficulties of the recipients. Foreign aid and its relation to these payments crises clearly undermine the status and prestige of the self-reliance required for material progress.

This danger of pauperization which derives from the advocacy and flow of aid is enhanced by the prevalence in many underdeveloped countries of certain attitudes and customs, notably the recognized status of beggary and the absence of social stigma in the acceptance of indiscriminate charity which is conspicuous in South Asia. Indeed by now the pauperization of some major recipients of aid is a reality rather than a danger. The recent economic history of India can be summed up as progression from poverty to pauperism.

The likelihood of the pauperization of the recipients is increased when the gifts are indiscriminate or unconditional on efforts by the recipients to improve their position. This applies to the operation of foreign aid. The advocates, administrators, and recipients of aid insist that it should be given with-out strings on the policies of the governments or the economic conduct of the population. The only significant exceptions are the preferential treatment of countries in balance of payments difficulties or governments engaged in comprehensive development planning. These conditions will not improve the prospects of recipients becoming independent of external assistance.

Issues Related to FCRA and Foreign Aid

In 1976, at the height of the Emergency imposed by Indira Gandhi, India's Parliament enacted a piece of legislation called the Foreign Contribution (Regulation) Act. It prohibited political parties and 'organisations of a political nature', civil servants and judges, as also correspondents, columnists and editors/owners of registered newspapers and news broadcasting organisations— and even cartoonists—from receiving foreign contributions.

However, later concern was focused on the increasing influential role of Non-Governmental Organisations (NGOs) as institutions of civil society in India.

Non Government Organisations (NGOs) and the voluntary sector in India have expanded over the last few years, of which many are funded at least partially by foreign donors. Foreign contribution increased from Rs 2,169 crore in 1995-96 to Rs 6,256 crore in 2004-05 (with a 23 per cent jump between 2003-04 and 2004-05).

These funds constitute about 0.6% of the gross annual inflow of foreign funds into India. In comparison, the Indian corporate sector contributed about Rs 30,000 crore to Rs 35,000 crore to charitable institutions in 2006-07. In addition, individuals also donate to these institutions; of which reliable estimates of the total amount is not available.

Notes

The data is listed as follows:

I. A total of **38436 Associations** have been registered under the Foreign Contribution (Regulation) Act up to 31.3.2010. During the year 2009-10, **2022 Associations were granted registration and 388 Associations were granted prior permission** to receive foreign contribution.

II. **21508** Associations reported a total receipt of an amount of **Rs.10, 337.59** crore as foreign contribution.

III. Among the States and the Union Territories, the highest receipt of foreign contribution was reported by **Delhi (Rs. 1815.91 crore), followed by Tamil Nadu (Rs. 1663.31 crore) and Andhra Pradesh (Rs. 1324.87 crore).**

IV. Among the districts, the highest receipt of foreign contribution was reported by **Chennai (Rs. 871.60 crore), followed by Bengaluru (Rs. 702.43 crore) and Mumbai (Rs. 606.63 crore).**

V. The list of donor countries is headed by the **USA (Rs. 3105.73 crore) followed by Germany (Rs. 1046.30 crore) and UK (Rs. 1038.68 crore).**

VI. The list of foreign donors is topped by the **Gospel For Asia Inc, USA (Rs. 232.71 crore)** followed by the **Fundacion Vicente Ferrer, Barcelona, Spain (Rs.228.60 crore) and the World Vision Global Centre, USA (Rs.197.62 crore).**

VII. Among the Associations which reported receipt of foreign contribution, the highest amount of foreign contribution was received by the **World Vision of India, Chennai, Tamil Nadu (Rs.208.94 crore),** followed by the **Rural Development Trust, Ananthapur, A.P. (Rs.151.31 crore)** and **Shri Sevasubramania Nadar Educational Charitable Trust, Chennai, T.N. (Rs. 94.28 crore).**

VIII. The highest amount of foreign contribution was received and utilized for **Establishment Expenses (Rs. 1482.58 crore),** followed by **Rural Development (Rs. 944.30 crore), Welfare of Children (Rs. 742.42 crore), Construction and Maintenance of school/college (Rs.630.78 crore)** and **Grant of Stipend/ scholarship/ assistance in cash and kind to poor/deserving children (Rs. 454.70 crore).**

Thus to control the flow of foreign fund the Foreign Contribution (Regulation) Act, 2010 has come into force with effect from the 1st May, 2011. The prime objective of the Act is to regulate the acceptance and utilization of foreign contribution and foreign hospitality by persons and associations working in the important areas of national life.

Salient features of Act

- The central government has the power to prohibit any persons or organisations from accepting foreign contribution or hospitality if it is determined that such acceptance would likely "affect prejudicially" (i) the sovereignty and integrity of India, (ii) public interest, (iii) freedom or fairness of election to any legislature, (iv) friendly relations with any foreign State, or (v) harmony between religious, racial, social, linguistic or regional groups, castes or communities.
- The focus of the Act is to ensure that the foreign contribution and foreign hospitality is not utilized to affect or influence electoral politics, public servants, judges and other people working in the important areas of national life like journalists, printers and publishers of newspapers, etc. The Act also seeks to regulate flow of foreign funds to voluntary organizations with the objective of preventing any possible diversion of such funds towards activities detrimental to the national interest and to ensure that individuals and organizations may function in a manner consistent with the values of the sovereign democratic republic.

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- Foreign funds received as fees for service, costs incurred for goods or services in the ordinary course of business, and trade or commerce are excluded from the definition of foreign contribution.
- Funding from the United Nations, the World Bank and the International Monetary Fund is exempt from the requirements of the Bill. The central government can add other funders to this exemption list through notification.
- All persons or organisations who have a "definite cultural, economic, educational, religious or social programme" (unless otherwise specified in this Act) must obtain a certificate of registration from the central government in order to accept foreign contribution. In addition to associations, societies and other organisations, the new Bill is applicable for individuals, Hindu Undivided Families, and Section 25 Not-for-Profit Companies (now these are Section-8 companies under the new Indian Companies Act, 2013).
- Provision has been made for inspection of accounts if the registered person or person to whom prior permission has been granted fails to furnish or the intimation given is not in accordance with law.
- A new provision has been introduced to the effect that the assets of any person who has become defunct shall be disposed of in such manner as may be, specified by the Central Government.
- A new provision has been introduced to the effect that any person, who knowingly gives false intimation and seeks prior permission or registration by means of fraud, false representation or concealment of material fact, shall, on conviction by Court, would be liable to imprisonment for a term which may extend to six months or fine or with both.
- Any person contravening the provisions of the Act shall be punishable with imprisonment for a term which may extend to five years or with fine or with both.
- Every person who receives foreign contribution under the Act shall submit a report, duly certified by a chartered accountant, in the prescribed Form, accompanied by an income and expenditure statement, receipt and payment account, and balance sheet for every financial year beginning on the 1st day of April within nine months of the closure of the financial year, to the Secretary to the Government of India, Ministry of Home Affairs, New Delhi. The annual return in the prescribed Form shall reflect the foreign contribution received in the exclusive bank account and include the details in respect of the funds transferred to other bank accounts for utilisation. If the foreign contribution relates to articles or foreign securities, the intimation shall be submitted in the prescribed Forms.
- The Central Bureau of Investigation or any other Government investigating agency that conducts any investigation under the Act shall furnish reports to the Central Government, on a quarterly basis, indicating the status of each case that was entrusted to it, including information regarding the case number, date of registration, date of filing charge sheet, court before which it has been filed, progress of trial, date of judgment and the conclusion of each case.
- In case the foreign contribution is proposed to be transferred to a person who has not been granted a certificate of registration or prior permission by the Central Government, the person concerned may apply for permission to the Central Government to transfer a part of the foreign contribution, not exceeding ten per cent, of the total value of the foreign contribution received. The application shall be countersigned by the District Magistrate having jurisdiction in the place where the transferred funds are sought to be utilised. The District Magistrate concerned shall take an appropriate decision in the matter within sixty days of the receipt of such request from the person. The donor shall not transfer any foreign contribution until the Central Government has approved the transfer.

Notes

Definitions:

- **Foreign Source**

The Bill requires all voluntary organizations to register in order to receive foreign contribution from a "foreign source". The definition of a foreign source includes all companies in which majority shareholding is held by persons who are not Indian citizens. This would include a number of companies such as ICICI Bank Ltd. and Infosys Technologies Ltd.

- **Foreign Hospitality**

The Bill requires members of a Legislature, office-bearers of a political party, judges, government servants or employees of any government-controlled corporation or body to obtain prior approval with the government before accepting any type of foreign hospitality (including staying with foreigners on overseas trips). The definition of "foreign hospitality" exempts "purely casual" offers from such prior permission. The Bill does not define "purely casual."

- **Speculative Business**

The Bill prohibits persons from using FCRA funds for "speculative business." The Bill does not define "speculative business." (Incidentally, the Indian Trusts Act, 1882 lists the investments permissible by a Trust).

- **Subsidiaries**

The Bill defines "subsidiaries" as the meaning assigned in the Companies Act, 1956. That Act defines a company as a subsidiary of another company if the latter controls the composition of the former's board of directors or holds a majority of its equity share capital. This definition cannot be applied to many entities in the voluntary sector as they may be registered as trusts or associations, and may not have a "board of directors" or any "equity share capital."

Issues

Environmental policy is an area in which foreign-funded thinktanks have a significant impact. The Centre for Science and Environment (CSE), headed by Sunita Narain with a governing board that has Ela Bhatt, BG Verghese, Dr MS Swaminathan and Dr NC Saxena among others, has received over Rs 67.7 crore in foreign funds between 2006 and 2012. The CSE's main donors, according to FCRA records, include the Denmark-based Dan Church Aid, Germany-based Evangelischer Entwicklungsdienst EV, Heinrich Boll Foundation and the Swedish International Development Cooperation Agency. Other donors include the Commission of European Communities and Government of India.

The other green thinktank with generous foreign contributions that works closely with the Government is The Energy and Resources Institute (TERI). The International Bioenergy Summit held in New Delhi was organised by TERI and sponsored by the Department of Biotechnology (DBT). According to its FCRA filings, TERI, with a staff of over 900, has received about Rs 155.9 crore between 2006 and 2012 from a vast variety of donors.

In the field of health policy, one of the most influential thinktanks is the Public Health Foundation of India (PHFI). Since it was founded in 2006, it has received a total of Rs 219 crore in funds, its biggest foreign donor being the Bill and Melinda Gates Foundation and biggest Indian donor being the Government of India. Other foreign donors, according to FCRA filings, include the National Institutes of Health (of the US government), Welcome Trust, International Development Research Centre and MacArthur Foundation.

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On matters of internet policy, the Centre for Internet and Society (CIS), a Bangalore-based thinktank focused on internet governance and intellectual property issues, has been a member of some key government committees, like the one under Justice AP Shah to study privacy laws in India. The CIS also receives foreign funding. According to its website, it has received over Rs 8.3 crore in funds, a significant portion of it from foreign donors like the UK-based Kusuma Trust, which was founded by Anurag Dikshit, an Indian businessman who made a fortune selling his stake in a popular online gambling website. He eventually donated most of his wealth to the Kusuma Trust, which funds various charities across the world.

In the human rights space, there is the famous Lawyers Collective, which, apart from its human rights advocacy, also provides legal aid to members of disadvantaged communities. Although this collective does not appear to work all that closely with the Government, it is interesting to note that it was founded by Indira Jaising, who is currently one of the Centre's Additional Solicitor Generals. Since 2006, according to its FCRA filings, the organisation has received around Rs 21.8 crore in foreign funds from the Ford, Levi Strauss and Open Society foundations and from the Campaign for Tobacco Free Kids, Swedish International Development Cooperation Agency, among others.

The above examples demonstrate the influence of foreign funded thinktanks on almost every major aspect of Indian policy today, be it economic or environmental, related to public health or internet governance.

For several thinktanks, it is often hard to figure out the nature of the legal entity through which they conduct their activities. Since they enjoy tax benefits, they might also qualify as 'public authorities' under the Right to Information Act, 2005.

The FCRA does not cover national security issues regarding (a) all funds, whether sourced from India or abroad, and (b) all entities, including for-profit companies. Foreign funds currently received through FCRA are less than one per cent of all foreign funds entering the country. These are also less than one fifth of domestic donations to charitable institutions. Under the current law and the proposed Bill, there are loopholes for bypassing the FCRA requirements by channeling the funds through commercial firms as consultant fees, exports, etc.

In recent times concerns have been raised that trusts do not spend adequate amounts on their core objects. There isn't enough transparency in the administration of the trusts, resulting in disproportionately high administrative expenses.

Establishment expenses consist of buying land, buildings, jeeps, setting up offices, mobiles, laptops, cameras, salaries, consultancy fees, honorarium, and foreign travel, etc., constituting nearly 50% of the expenses and in some cases as high as 70%. This goes against the concept of service motto where the ultimate recipient is supposed to get the maximum. Now, such organizations even recruit "executives" from management institutions. Most of the top recipients are Church or Church related organizations. They use the funds for service as well as religious purposes.

Recent Steps

The Centre has banned direct foreign funding to NGOs operating in India unless they fulfil stringent regulatory norms and show compliance reports. This is seen as the beginning of a process to block flow of foreign aid to NGOs, which, it perceives, are engaged in stalling developmental activities in the country. As per this exercise, the Centre has cracked down on NGO Greenpeace and placed on its radars thousands of other voluntary organisations receiving foreign aid.

Further controls over trusts are introduced, providing that not more than 50% of the foreign contribution received in a financial year by the trust shall be utilised to meet administrative expenses. Administrative

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expenses exceeding 50% can be defrayed only with the prior approval of the Central Government, which will prescribe the elements that will be included in the administrative expenses and the manner in which such administrative expenses shall be calculated.

Further the Ministry of Home Affairs has directed the Reserve Bank of India to take prior permission of the Home Ministry's Foreign Contribution Regulation Act (FCRA) Department before clearing any foreign aid to Greenpeace from Greenpeace International and Climate Works. Greenpeace International and Climate Works Foundation are the two principal international contributors to Greenpeace India Society. The RBI has been asked to direct all banks on this order. Foreign donations to the Greenpeace have been put on "prior category" list so that permission is taken before any money flows in for funding its activities.

There are NGOs, often funded from the United States and the Scandinavian countries, which are not fully appreciative of the development challenges that our country faces. The IB report had also recommended cancellation of permission given to Greenpeace for collecting funds abroad besides reassessment of its tax compliance. The report has also listed another 12 foreign nationals who have been associated with some NGOs in their campaign against coal mines, power projects and Nuclear power plants.

UPSC Questions Related to Development Process

1. The penetration of Self Help Groups (SHGs) in rural areas in promoting participation in development programmes is facing socio-cultural hurdles. Examine. **(UPSC 2014)**
2. The legitimacy and accountability of Self Help Groups (SHGs) and their patrons, the micro-finance outfits, need systematic assessment and scrutiny for the sustained success of the concept. Discuss. **(UPSC 2013)**

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