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Comparative Case Study Analysis Microfinance Institute and Development Bank

NABARD and **FINCA** International

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Table of Contents

Executive Summary	3
Environmental Assessment	5
Oster's Six Forces.	6
Organizational Structure	12
Kellogg Logic Model Development	12
Culture and Cross Cultural Communication	
From 1979 to 2008 Leading the Way to the Future: Innovation Diffusion	
Communication Strategy Plan	
Accountability	
Social Impact	
Recommendations	21
Weaknesses, Setbacks, and Challenges	
Strengths	22
Scaling Up, Scaling Deep, and Global Prospects	20
References	25
Appendix	
Kellogg's Theory of Change Logic Analysis	i
Organization Structure	ii
Design Features	
Additional Information on NABARD	iv
NABARD At A Glance	V
SHG Linkage Program Performance	vi

Literature Review



Executive Summary

Qamar Sultana Khan, husbandless, unemployed, unskilled, depressed and becoming an additional burden on her already poor parents, saw her future prospects as rather grim. Faced with this uncertain future, Quamar started showing withdrawal symptoms, unwilling to interact with people¹ and falling further into the hands of poverty. Sadly, this is not a unique scenario in India as many women and rural communities mired in poverty suffer similar fates. Suffering from credit fragmentation, lack of insurance, lack of acceptable collateral, rejected by formal lending institutions, among other ailments, rural economies are in a cyclical state of poverty. Fortunately, development banks emerged and have risen to the occasion, attempting to help women like Qamar continue to see the value and opportunity of life. Pioneering this opportunity, Muhammad Yunus created the Grameen Bank in 1976, and following in Yunus' footprints, other institutions such as the National Bank for Agriculture and Rural Development (NABARD) sprung to life. NABARD and other institutions are motivated to fight against injustice and offer opportunities to individuals usually left out of formalized banking.

Rural poverty in India is a huge development as well as humanitarian concern requiring aid from non-governmental organizations (NGO), governments, individuals, microfinance institutions (MFI) and more. In India, as in other developing nations, the rural and agricultural regions are often the most poor. This problem cannot be ignored, especially in India, where 60 percent of the population live and work in agriculture.² The National Bank for Agriculture and Rural Development seeks to exploit this opportunity working to improve quality of life by welcoming individuals into their care. This report provides an analysis and evaluation the National Bank for Agriculture and Rural Development, NABARD. Specifically, this report will review NABARD's main objectives as a development bank through a social entrepreneurial lens, determining if NABARD qualifies as a revered social entrepreneurial organization.

NABARD's outstanding achievement and key findings include providing 45 percent of ground level credit in 1992.³ NABARD has linked 2,238,565 Self Help Groups (SHG) linked in their SHG Linkage Program. NABARD's highlight activities include:

• Refinance disbursement under Short Term-Agriculture & Others and MT-Conversion/Liquidity support aggregated Rs. (rupees) 16952.83 crore during 2007-08.

¹ NABARD, "From No Where to Somewhere," Success Stories, (2007) http://www.nabard.org/microfinance/successstories.asp#top (accessed December 6, 2008).

² Indian Official, "Lecture on December 4, 2008," Washington DC Embassy of India.

³ Srivastava Uma Kant, "Conceptual Framework for MIS for NABARD Operations in Relation to Monitoring and Evaluation Studies," Econ Papers (September 1, 1992) http://econpapers.repec.org/paper/iimiimawp/1056.htm (accessed December 6, 2008).

- Refinance disbursement under Investment Credit to commercial banks, state cooperative banks, state cooperative agriculture and rural development banks, rural regional banks (RRB) and other eligible financial institutions during 2007-08 aggregated Rs.9046.27 crore.
- Through the Rural Infrastructure Development Fund (RIDF) Rs.8034.93 crores were disbursed during 2007-08. With this, a cumulative amount of Rs.74073.41 crore has been sanctioned for 280,227 projects as on 31 March 2008 covering irrigation, rural roads and bridges, health and education, soil conservation, drinking water schemes, flood protection, forest management etc.
- Under Watershed Development Fund with a corpus of Rs.613.71 crore as on 31 March 2008, 416 projects in 94 districts of 14 states have benefited.
- Farmers now enjoy hassle free access to credit and security through 714.68 lakh Kisan Credit Cards that have been issued through a vast rural banking network.
- Under the Farmers' Club Program, a total of 28,226 clubs covering 61,789 villages in 555 districts have been formed, helping farmers get access to credit, technology and extension services.⁴

Multiple frameworks will be used to generate specific assessment of NABARD. The Environmental Assessment will cover contextual factors such as competitor organizations or political climate. Organizational Structure and Strategy is a broad heading for more indepth analyses including Kellogg's Logic Model Development, Cultural Analysis, Innovation Diffusion and Communication Strategy Plan, and Social Impact and Accountability. The final section provides insight to NABARD's strengths, weaknesses, and areas that pose challenges.

This analysis recommends that NABARD *scale out*, increasing its regional and international alliances. More can always be done at home, and therefore this analysis suggests *scaling deep* as well. Furthermore, the interconnectivity between NABARD and the Indian Government, while necessary should increase its transparency, working to ensure against conflict of interest. Due to the current financial predicament, NABARD needs to maintain constant checks and balances of covering costs as well as instilling in the body of its organization an even greater sense of planning for the future.

⁴ NABARD, "Introduction," (2007) http://www.nabard.org/introduction.asp (accessed December 7, 2008).



Environmental Assessment

The environmental assessment is a key component in understanding the context and surrounding in which the organization operates. Pertinent contextual background information includes knowing that social entrepreneurial ventures and organizations are rampant in India. For example, India is home to the first Ashoka fellow nominated in 1982. Today there are 250 Ashoka fellows present in India making significant contributions in the field of social entrepreneurship.⁵ It is in this arena that NABARD is supported by a larger community of philanthropic 'do-gooders', and able to successfully operate.

NABARD's head office is located in Mumbai, the capital city in the Indian on the western coast state of Maharashtra. Mumbai is also the location of the Reserve Bank of India (RBI), which supported the creation of NABARD. Though this city was recently subject to mass terrorist attack⁶, NABARD's operational base is still located here. NABARD is the only bank of its size and scale operating in India. There are many banks even with similar intentions of financing credit to the poor, but none operate to the magnitude to which NABARD demonstrates; thus, NABARD is somewhat one-of-akind. Mumbai is the second most populated city in the world, home to an array of religions, cultures, and socio-economic groupings. NABARD's location, though not in a rural community where the majority of its clients are being served, is in a strategic location for maintaining visibility and connection. It is important for NABARD as a development bank with many partners to maintain a pseudo-central location that is accessible to all parties involved. Additionally, the city offers NABARD a plethora of resources that it needs in daily operations, communication, information technology, and access to the rest of the world. Though the field work is conducted in the rural communities, NABARD presence in the city also lends itself greater credibility and recognition.

Environmental Conditions: Politics, Economics, Social Fabric

Because NABARD operates in different states throughout India, each environment of its operations is distinctly different. However, there are a few comments to be said about the environment on the whole. India is a democracy with a parliamentary style of government. The relationship between the Indian Government and NABARD is inherent

⁵ Ashoka, "India," http://www.ashoka.org/india (accessed December 4, 2008).

⁶ Somini Sengupta, "At Least 100 Dead in Mumbai Terrorist Attack," *NY Times*, (November 26, 2008) http://www.nytimes.com/2008/11/27/world/asia/27mumbai.html (accessed December 5, 2008).

⁷World Gazetteer, "World's Largest Cities, Towns, and Statistics of their Population" http://world-gazetteer.com/wg.php?x=&men=gcis&lng=en&des=wg&srt=npan&col=abcdefghinoq&msz=1500&pt=c&va=&srt=pnan (accessed December 4, 2008).

because the government created the Bank. Consequently, agricultural development is on the national agenda. Comparing Bangladesh to India, the difference in political systems helps explain why NABARD pushes SHGs more than the Grameen style of banking. A fascinating article by Malcolm Harper further explains this phenomenon. The economic situation is quite complex, however the opportunity niche is clear given the fragmented credit markets and large informal economy that exist in India. Infrastructure such as roads is one area of weakness in India that contributes to market fragmentation as well as increasing difficulty in connecting the rural communities with the urban centers. The social fabric in India is complex and will be further touched upon in "Tree of Users, Customers and Clients" and "Opportunities." One analogy can be drawn in dealing with complex social issues to Ela Bhatt's Self Employed Women's Association, and the success she has had in grappling with diverse backgrounds of people.

Oster's 6 Forces

Assessing NABARD's environment can be broken down roughly into 6 categories defined by Sharon Oster. The analysis will be driven by Oster's forces, though not limited to them. The forces include:

- 1. Relations Among Existing Organizations
- 2. Threat of New Entrants
- 3. New Substitutes
- 4. Users, Clients or Customers
- 5. Suppliers
- 6. Donors/Funding Organizations including Potential Donors¹⁰

Relations Among Existing Organizations

NABARD has several associates and subsidiaries, as well as many partiers. These various organizations and businesses have a fairly reciprocal relationship. In India, though many organizations with similar missions as NABARD exist, a substantial number are often partnered with NABARD. It is difficult to draw conclusions in the relationship between smaller NGOs and MFIs conducting microfinance to rural communities to NABARD because little information exists on such a relationship. The Small Industries Development Bank of India (SIDBI) and NABARD do work together on some microfinance policy options for the country. The two organizations also share some funding partners and both are respected institutes for their advice and voice in India. The relationship between NABARD and larger organizations such as the Asian Development Bank or the Grameen Bank is less of a day-to-day correspondence and is more prevalent at large summits or conferences.

⁸ See Malcolm Harper, "Self Help Groups and the Grameen Bank: What are the Differences"? *Chapter* 7, http://www.iimahd.ernet.in/~mssriram/beyondmc-chap7.pdf (date accessed November 30, 2008).

⁹ Informal Economy Information See Debraj Ray, *Development Economics*, Princeton University Press (1998): 537.

¹⁰ Sharon Oster, "Oster's Six Forces," *Levinson Power point Sessions X:* slide 15.

Threat of New Entrants/Competitors/New Substitutes

Fortunately, within India not many other organizations can operate on the same scale as NABARD. Perhaps because the Government of India is more inclined to largely finance one organization rather than a few, NABARD is able to serve as the primary institute for credit lending to rural and agricultural communities. Additionally, NABARD was recently granted the power to regulate the entire microfinance industry in India; meaning that MFIs operating as co-operatives, trusts and societies that to register under the Microfinance Development Council (MDC), will now be a NABARD-promoted entity. Potential competitors would have to be able to provide greater incentives to their partners, possibly offer lower interest rate, and gain notoriety within India and South Asia. Opportunity exists for Biotech or agribusinesses-type organizations who could contribute significantly to improvements in agriculture, and possibly to a new Green Revolution. Page 12.

Substitutes are also a bit tricky since the specifics of NABARD's operation are usually conducted by partnering MFIs, NGOs, or other commercial banks. The Small Industries Development Bank of India (SIDBI) is the closest substitute. SIDBI's objectives are financing, development, promotion and coordination, hence similar to NABARD but also distinctly different. Women's World Banking (WWB) has a similar role as chief delegator, but operates on a more global scale. The Grameen Bank has branches in India as well that provide institutional support and guidance.

Regional or international institutions such as Asian Development Bank or the UN Development Programs may be able to intervene at the local level and drive some of the demand for NABARD partners down. Consequently, a shrinking of partners would in turn decrease the cliental for NABARD. Another regional rival is the Inter American Development Bank (IDB), concentrated primarily in Latin American and the Caribbean also focuses on key areas like education, poverty reduction, and agriculture. ¹⁴ Nirdhan Utthan Bank Limited (NUBL), in Nepal, is essentially a Grameen replication also could have influence in India.

2007)

¹¹ The Economic Times, "Microfinance Bill Puts NABARD in Regulatory Seat," (February 26,

http://economictimes.indiatimes.com/News/Economy/Finance/Microfinance_bill_puts_Nabard_in_regulatory_seat/articleshow/1680555.cms (accessed December 2, 2008).

¹² See "Innovating through Science and Technology," *World Development Report 2008 Chapter7* (2008): 159-176.

¹³ For more information visit SIDBI's home page http://www.sidbi.in/index.asp.

¹⁴ Inter American Development Bank, "About Us," (2008) http://www.iadb.org/aboutus/ (accessed December 6, 2008).

A Tree of Users, Clients, and Customers



The user/client/customer network for NABARD is expansive and ever-growing. NABARD's web of who it reaches trickles down and extends like a tree branch with many sub branches and extraneous limbs. Forming the foundation of the tree is the Government of India (GOI) and the Reserve Bank of India (RBI). The core or trunk represents NABARD. The branches or users include MFIs, NGOs, Banks, SHGs, and RRB (Regional Rural Banks). The limbs of this tree demonstrate the clients and customers that NABARD touches: farmers, entrepreneurs, women, and cottage industry. This illustration points to another important element of this network, and that is the interconnectivity of the roots, base, branches and limbs. Deliberately the drawing was made so no major gaps between limbs exist. Each element of this tree can be extended further into rural communities, thus the client base for NABARD is always growing.

Suppliers/Resources

NABARD was initially granted 2,000 crore by the Indian Government and the Reserve Bank of India to start up the organization. (An Indian crore is equal to 100 lakh or 10 million).¹⁵ The Indian Government and the Reserve Bank still provide significant financial contributions to NABARD. The Indian Government and the Reserve Bank of

¹⁵ Indian Numbering System http://www.indopedia.org/Indian_numbering_system.html (accessed December 4, 2008).

India act not only as more **business oriented funders**, but also have **decision making** power through shares in the organization and by decree in NABARD's constitution.

NABARD also has 8 main associates. The associates play key roles in implementation of projects, project funding, and partnership. "NABARD's international associates range from World Bank-affiliated organizations to global developmental agencies working in the field of agriculture and rural development. These agencies offer material and advisory help in implementing schemes that are aimed at uplifting the rural poor and in making agricultural processes effective and yielding," ¹⁶ These associates include:

- World Bank Group (WBG) and the International Development Association (IDA),
- Kreditanstalt fur Wiederaufbau (KfW),
- Swiss Agency for Development & Co-operation (SDC),
- Commission on European Community (CEC),
- Asian Pacific Agricultural Credit Association (APACA),
- International Fund for Agricultural Development (IFAD),
- Deutsche Gesellschaft fur Techniche Zussammenardeit (GTZ),
- Organization of Petroleum Exporting Countries (OPEC)

MYRADA, a south Indian NGO, was an early associate of NABARD that played a more vital role in the beginning years of NABARD. These associates act **as business and philanthropic resources** because they provide both financial and on-the-ground work. Many of these resources conduct their own programs and operations carrying out NABARD's mission under its umbrella.

NABARD receives funding from the National Rural Credit Long Term Operations, (NRC-LTO) fund and the NRC (stabilization) Fund, as well as from Bonds and Debentures. NABARD borrows from Commercial banks, foreign currency loans, Rural Infrastructure Development Fund (RIDF) deposits, among other funds and liabilities. (See Appendix "NABARD At A Glance"). These funders are primarily business with the intent of helping aid agricultural development in India.

Acting more as consultant resources, NABARD also has two subsidiary organizations, the NABARD Consultancy Services (Nabcons) and the Bankers Institute of Rural Development (BIRD). NABCONS is "engaged in providing consultancy in all spheres of agriculture, rural development and allied areas." Nabcons "leverages on the core competence of the NABARD in the areas of agricultural and rural development, especially multidisciplinary projects, banking, institutional development, infrastructure, training, etc." BIRD primarily acts as a "training facility providing information needs of rural bankers through its topical training programs/seminars." 18

http://www.nabard.org/subsidiariesofnabard/subsidiariesofnabard.asp (accessed December 1, 2008).

¹⁶NABARD, "Associates," (2007) http://www.nabard.org/associatedwithnabard/introduction.asp (accessed December 1, 2008).

¹⁷ NABARD, "Subsidiaries NABCONS," (2007)

¹⁸ NABARD, "Subsidiaries BIRD," (2007) http://www.nabard.org/subsidiariesofnabard/bird.asp (accessed December 1, 2008).



Potential Donors/Potential Partners

Potential partners for NABARD include organizations or businesses involved in agribusiness, agricultural technology investment, biotech industries, credit education programs, lenders to microfinance and more. Because NABARD has an array of activities many possibilities exist for future partnership. On a more world wide scale, NABARD could look to the Clinton Global Initiative, the Bill and Melinda Gates Foundation, and maybe more funding from IMF or World Bank Affiliates, as well as greater interaction with other regional Development Banks.

<u>Opportunities:</u> Demographic, Financial, Nutritional, Environmental-Green, Health, Gender... the possibilities are endless!

The opportunity to make a difference in India is immense. India's farm sector has been in quite an appalling state for several years now. According to V.K.Bhosale, in a letter written to the chairman of NABARD says the "National Crime Records Bureau (NCRB) statistics said more than 1, 50,000 farmers committed suicide between 1997 and 2005." These farmers are commit suicide because they are terribly indebted, cyclically poor, and seriously credit constrained.

Though the demographic in India is incredibly diverse, 60 percent of the individuals reside in agriculture²⁰. The rural communities are made up of farmers, small-scale cottage and village industry, and other handicrafts. Much of this community is low skilled and has low literacy. NABARD's ability to successful reach to these communities, providing credit, enables social entrepreneurs to be born.

The financial inequality is great; one example is that urban consumption is 63 percent greater than rural consumption.²¹ According to K.E.Vaidyanathan "per capita consumption was lowest among the agricultural laborers in rural areas and among the casual laborers in urban areas."²² Inadequate nutritional intake, as a result of lack assets (social and financial capital) seriously hinders the ability of individuals to move outside of poverty. Thus, NABARD dedicates itself to **financial inclusion** which is "the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable

Indian Official, "Lecture on December 4, 2008," Washington DC Embassy of India.

11

¹⁹ V.K.Bhosale, "Letter to Chairman," *The All India NABARD Employees Association*, (December 8, 2007) http://nabardemployees.blogspot.com/2007 12 01 archive.html (accessed December 5, 2008).

²¹ K.E.Vaidyanathan, "Measurement of Income Inequalities in Urban and Rural Areas in India," http://isi.cbs.nl/iamamember/CD2/pdf/241.PDF (accessed December 3, 2008).
²² Ibid.

cost."²³ Therefore, by extending credit opportunities NABARD can help lower this disparity and smooth consumption for rural individuals.

Nutritional concerns are not isolated to rural communities since farmers are cultivating produce for all of India and other parts of the world. Supporting farmers also supports the market for agricultural products. NABARD can play a key role in stabilizing food prices by keeping competitive, functioning food markets.

Tremendous opportunity exists at promoting sustainable development. Investing in environmentally friendly agriculture projects will help achieve both development and help preserve the already scarce resources. Areas such as biotechnology, agricultural engineering, horticulture, land development and more are areas in which high consideration of the environment is crucial. Fortunately, NABARD already has working programs in each of those sectors.

Additionally, health is the cornerstone vital to all other sectors being able to function. Deteriorating health hinders development, and needs to be a top priority. In India, in particular rural India, high fertility and infant mortality are areas in which investment in health care could improve. Reducing health costs to a family is one way of removing some financial stress. Agricultural policy must be wary of costly side effects to the environment and health. One example of a policy blunder was the high pesticide use during the early Green Revolution²⁴ days, weakening overall development goals.

Women constitute almost half the population and make up one third of the labor force. Gender equality and women's empowerment has been a fundamental goal of development, particularly microfinance groups. Strong headwind in women's empowerment came from Muhammad Yunus' Grameen Bank, where he offered loans to women at a time when no one else would consider women as viable borrowers. NABARD prides itself on several projects geared directly towards women. Examples of these programs include: Gender Sensitization, Women Development Cell, Assistance to Rural Women in Rural Non Farm Development (ARWIND), Assistance for Marketing of Non Farm Products of Rural Women (MAHIMA), and Development of Women through Area Program (DEWTA). In addition, women's groups constitute 90 percent of the SHG Linkage Program.

http://www.nabard.org/development&promotional/genderdevelopment.asp (accessed December 5, 2008).

²³ NABARD, "Financial Inclusion," http://www.nabard.org/financial inclusion.asp (accessed December 4, 2008).

²⁴ Paul Winters, "Lecture Poverty and the Environment December 1, 2008."

²⁵ NABARD, "Gender Development," (2007)

²⁷ *NABARD*, "Self Help Group Linkage Program Performance, (March 31, 2006). http://www.nabard.org/pdf/stmt1.pdf (accessed December 7, 2008).



Organizational Structure and Strategy

NABARD consists of 15 Board Members, 1 Chairman, 1 Managing Director, and 4 Executive Directors. In addition, there are 24 Head Office of Departments, 28 Regional Offices, and 6 Training Establishments. Lastly, there are sub offices and 391 District Development Offices; hence, NABARD is a vast organization spanning many regions of India. Similar to in structure of the Indian Government, there is a 'federal' entity--the offices and positions in Mumbai, the state level officials (28 regional offices), and offices at the district level. Structured in this way, NABARD has various means of oversight, monitoring and access to the various state and district offices. This helps ensure that the mission is carried out at each level.

<u>Kellogg Logic Model of Development</u> (See Appendix (i) for Diagram)

The Kellogg Logic Model is a diagram method for assessing an organization based on 6 categories:

- Problem or Issue
- Community Needs/Assets
- Desired Results
- Influential Factors
- Strategies
- Assumptions

Problem or Issue

NABARD's job is to tackle the rural inequality and poverty that exists in India by promoting credit and empowering rural communities. The rural sectors are severely credit constrained, individuals lack capital and collateral, among other assets, making it extremely difficult to emerge from poverty. This results in a cycle perpetuating the informal economy and informal means to credit access. Through credit promotion and institutionalized support NABARD can work to help increase rural prosperity.

Community Needs/Assets

There is colossal community need given 60 percent on Indians work and live in agriculture. High default rates and exploitation of rural inhabitants by money lenders and other informal lending practices exacerbates the problem and leads to cyclical poverty. The community needs access to low interest rate loans, savings and investment training, and institutionalize support provided through MFIs, NGOs, and other development banks.

Desired Results

Due to NABARD's efforts, there is increased credit availability in rural communities, increased financial literacy and independence, as well as refinance options. Consequently, agricultural communities are experiencing greater equity and prosperity. There is more investment in productive assets and increasing achievements of members involved in SHGs.

Influential Factors

Factors that influence the success and failure of NABARD's operations include continuing to receive funding from the Reserve Bank of India, the Indian Government, Commercial banks, foreign currency loans and more. Without financial backing the organization will not be sustainable. Additional support both financially and as an advisory role must continue from NABARD's associates like the World Bank Group. Maintenance of the Memorandums of Understanding between NABARD and its partnering organizations is crucial for success, program implementation, and carrying out NABARD's mission. The current financial crisis presents somewhat of a precarious situation for NABARD as funding worldwide is being scaled back to charitable organizations, non-profits and MFIs. NABARD's ability to perceiver through this crisis and continue to cover their costs is a determining factor in their ability to cultivate new initiatives and programs.

Strategies

NABARD's main strategy is to promote sustainable and equitable agricultural and rural development through effective credit support by lending and refinancing to commercial banks, microfinance institutes, and NGOs. NABARD emphasizes institution building helping to establish MFI and other smaller-scale development banks. Focusing on development and supervisory functions in addition to credit promotion, will aid the path for achieving the mission. The Best Practices booklet is a plan linking NABARD's partners ensuring everyone is practicing the most up-to-date policies and initiatives.

Assumptions

Several assumptions are essential to the development and continuation of NABARD. The relative success of other development banks and organizations, such as the Grameen Bank or the Asian Development Bank, and their models has factored into the methods NABARD selects for its operations. The stability of the environment conditions surrounding NABARD including the political context in India, the economic forces at stake and infrastructural challenges are vital components in NABARD's success. Like any organization, NABARD must hope that its mission is being carried out at every level, and while some measures are in place to ensure this, 100 percent guarantee is difficult. Financially, NABARD needs the support from its funders especially now in times of financial limbo.

Culture and Cross Cultural Communication



NABARD's culture, like the country where its activities are devoted, is immensely diverse. The sheer magnitude of activities and regional spread alone, contributes to NABARD's dynamic and flexible nature. With 28 regional offices and 391 district development offices, NABARD's organization encounters individuals of different religion, language, socio-economic status, and more.

Moreover, each regional head must be able to adapt to the conditions of its locality and then relay that message into policy actions, determined at headquarters. The ability to cross culturally communicate is essential to program implementation success. Communicating within India, as well as with other organizations throughout the world is necessary in order to stem new partnerships and increase NABARD's global clout. Fortunately, English is the second national language in India so conferring with English-speaking nations is not an issue for the leadership team of NABARD.

According to the National Bank for Agriculture and Rural Development Act the "general superintendence, direction and management of the affairs and business of the National Bank shall vest in a Board of Directors, which shall exercise all powers and do all acts and things which may be exercised or done by the National Bank." The Managing Director is also given these powers. The relationship between entities is hard to analyze due to limited availability of information. However, it can be inferred that the relationship between the Board, Chairman, and Managing Director with its Regional and Department Heads is a partially *lassiez-faire* style of leadership. Each region is given a degree of autonomy due to the distinctness of each area. Because there are standardized forms for project application or partnership, it is assumed that the lower managerial positions are at the very least, adhering to the guidelines on the application. However,

15

²⁸ *NABARD*, "The National Bank for Agriculture and Rural Development Act," (December 30, 1981): 5 http://www.nabard.org/pdf/nbact.pdf (accessed December 6, 2008).

each is unified by the mission, and to ensure this mission's universal application, evaluations are conducted on each project. When the evaluation is written the accreditation is given in the following manner: the *Overall Direction* is listed as the headquarters in Mumbai; *Guidance* is the Chief and General Manager; *Review of Report* is the Deputy General Manager; *Analysis and Data Collection* is attributed to various mangers. This may imply a more top-down management method seeing as the *overall direction*, *guidance*, *and review* were all conducted by individuals stationed in Mumbai. However, a complete assessment cannot be given due to the lack of explicit reference to the role the Board, Chairman, and Managing Director play in the actual decision making process.

Trust is a vital factor in any culture and should inspire employees and partnering organizations to carry out the mission and goals of the parent organization to the best of their abilities. NABARD's employees have created a blogspot entitled "The All India NABARD Employees Association." This blog allows employees and non-employees to make comments and ask questions about virtually any component of the organization. This blog demonstrates employee freedom of speech. This is important because it suggests that NABARD's managerial staff does not squelch freedom to express concern about the organization. The blogspot is also a way in which employees from all regions of NABARD can connect with one another and share ideas or concerns. The blogspot is a great, innovative forum for new ideas to emerge from employees. Accountability is another contributing factor to the overall trust level of the organization. Mentioned in the "Strengths" section, this is one area where NABARD is fairly transparent. The Best Practices Manual helps each of NABARD's regional offices and partners adhere to the values of its mission.

NABARD, as a larger organization does not have just one individual or one component embodying the heart and soul of the organization. Rather, its diverse activities and sprawling networks allow multiple soulful representations to exist. One example of an area that represents a leading dynamic in NABARD's success is the SHG programs. As a prominent feature of NABARD, SHGs are one area that as a collective culture, outsiders to the organization would recognize.

²⁹V.K. Bhosale, "Letter to Chairman," *The All India NABARD Employees Association*, (December 8, 2007) http://nabardemployees.blogspot.com/2007-12-01-archive.html (accessed December 5, 2008).

From 1979 to 2008 Leading the Way to the Future: **Innovation Diffusion**



Though established in 1979, NABARD is continually creating innovative projects to enhance its social outreach. NABARD and MYRADA (an associate NGO from South India) worked together to analyze the existing means of poverty alleviation through credit distribution. They found, however, that the existing system was not working to best reach the poorest individuals needs.³⁰ They concluded, "it also appeared that what the poor really needed was a better access to these services and products, rather than cheap subsidized credit."31 Realizing a more-sound institutional base was needed to move beyond poverty, NABARD launched a pilot program called the Self Help Group (SHG) Linkage Program in February 1992. "NABARD sees promotion and bank linking of SHGs not as a credit program but as part of an overall arrangement for providing financial services to the poor in a sustainable manner and also an empowerment process for the members of these SHGs. This innovative idea allowed for the formation of small groups, around 20 individuals, essentially organizing their own mini-bank and gaining greater credit access.³² In addition, NABARD experiments with other successful strategies such as replicating Grameen, wholesaling funds through NGO-MFIs."33

³⁰ NABARD, "Microcredit Innovations," Development and Promotional Functions, (2007) http://nabard.org/development&promotional/microcreditinnovations.asp (accessed December 6, 2008).

³² Malcolm Harper, "Self Help Groups and Grameen Bank Groups: What are the Differences"? London, UK, ITDG Publishing, (2002): Chapter 7, 2, http://www.microfinancegateway.org/content/article/detail/3249 (accessed December 6, 2008).

33 Ibid.

More Innovative Pilot Projects³⁴

In addition to the revolutionary start of Self Help Groups (SHG) in India, NABARD created other microfinance pilot projects. NABARD, in response to the issues and challenges microfinance and SHGs expressed, "initiated a number of innovations basically as investment for posterity."³⁵ These innovations include:

- Introduction of Processor/Memory Cards- Application of IT in SHG Bank Linkage Program
- Scheme to Finance Joint Liability Groups of Tenant Farmers
- Project on "Computer Munshi" a self-sustaining mechanism to manage SHG account and MIS
- Grain Banks and SHGs
- Rural Volunteers as Book Writers
- Project on e-'Grama'
- Financing Rythu Mithra Groups
- Social Security System for SHG Members

Each of these pilot projects represents ways in which NABARD is constantly adapting to new circumstances, helping to ensure its existence at perpetuity. Pilot projects role as **geographic testers** helps cater to the diverse needs of each agricultural community. The pilot programs involve the creation of new networks of clients, organizations, and yield opportunities for expanding its resource base by sparking interest in other funding organizations.

NABARD created a non-banking financial company (NBFC) called NABARD Financial Services (Nabfins) in 2007. Perhaps **pressured by its networks**, NABARD created this institute to help address issues of "transparency in accounting disclosure, high transaction costs, poor diversification of products, and high rates of interests."³⁶

Placing heavy emphasis on the microcredit function of the organization, in 2005 NABARD published a booklet on Best Practices.³⁷ This booklet is adopted by bankers, NGOs, government agencies, SHGs and other partners that fall under the Self Help Group Linkage Program. This booklet allows all NABARD's entities however connected to maintain the highest quality, exploit all available resources, and use the most updated techniques for success.

http://www.nabard.org/microfinance/mf projects.asp (accessed December 4, 2008).

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³⁴ NABARD, "Innovative Pilot Projects," (2007)

Ibid.
 Chryssa Rask, *MicroCapital Story*, "NABARD Creates New Initiative to Target Microfinance,"

⁽July 6, 2007) http://www.microcapital.org (accessed December 6, 2008).

37 NABARD, "Best Practices," (2007) http://www.nabard.org/microfinance/bestpractices.asp (accessed December 7, 2008).

Communication Strategy Plan

NABARD's ability to market their innovative credit dispersion is strongly enhanced through use of their networks. Through partnerships and alliances, word of mouth and spreading of knowledge, NABARD is able to transmit their ideas into practice. For example, NABARD has particular criteria that an organization, such as a MFI, must meet in order to qualify for a loan. One area NABARD looks at is how this loan will be used and recommends by way of their Best Practice or other suggestions how to maximize efficiency of the loan and how best to utilize the loan to meet the underlying goal of poverty alleviation. NABARD's Board, the many executive heads, and leaders of various projects, all part of their network could further communicate NABARD's strategy to their respective clients. Thus, the networking component is crucial in spreading NABARD's message to a seemingly endless chain of more networks, propagating credit and refinance methodology in hopes of achieving equitable agricultural and rural development schemes.

Further utilizing new technology, NABARD's innovativeness is spread through the worldwide web, through newsletters, and various publications. Because the Reserve Bank of India and the Indian Government recommended the establishment of NABARD, additional publicity and referral could come from them.

Outrageously Transparent and Communicable: Accountability

Excerpt from Banker to the Poor

Regional Manager: "Well," he said. "I would say we would be willing to accept you as guarantor up to that amount, but don't ask for anymore."

Muhammad Yunus: "It's a deal." We shook hands and then something occurred to me [Yunus]. "But what if one of the borrowers does not repay, I will not step in to honor the defaulted loan."

Regional Manager: The regional manager looked up at me [Yunus] uneasily, not certain why I was being so difficult. "As a guarantor, we could force you to pay."

Muhammad Yunus: "What would you do"?

Regional Manager: "We could start legal proceedings against you."

Muhammad Yunus: "Fine. I would like that."

Muhammad Yunus. Banker to the Poor. New York. Public Affairs (1999): 56.

Though seemingly humorous when read in this context, this scenario illustrates why accountability is so crucial, someone must be held responsible for actions taken and there must be some way of locating the information needed for investigation. NABARD has numerous ways in which its social accountability can be tested. For starters, all audits and

financial reports are publically available on their website. They can be accessed free of charge and downloaded for review. There is an audit committee made up of both NABARD members and external partners from organizations like the Reserve Bank of India or the Ministry of Finance. Additionally, *Sharp and Tannan Chartered Accountants*³⁸, an auditing group, puts together the Audit Report analyzing the balance sheet.³⁹ The **external verification** by the members of the audit committee and the Sharp and Tannan Accountants, allows for a less biased and more objective and critical assessment of NABARD; which, in the long run, if NABARD adheres to the suggestions, will maintain existence for years to come.

NABARD prints its own publications and newsletters, all of which are publically available. One publication entitled, *Saving Grace*, varies by article, but for example the February 2003 publication discussed SHGs and their findings. Their newsletters are available to down load and exist for every year since 1990. Furthermore, *study reports* are conducted on the SHG Bank Linkage Program and there is a task force assembled on "supportive policy and regulatory framework for microfinance."

NABARD has an internal inspection mechanism, handled by their Inspection Department. It is "an important and effective tool in the hands of the Management to exercise supervision and control over the functional and business performance of an organization." NABARD also has assessment methods for its various programs such as their microfinance components like SHGs. The assessment methods are clear and accessible, making it easier for the program organizers, or the SHG to understand how they are being analyzed. NABARD prints manuals for branch level banks, striving to help educate their partners in their mission as well as make clear the expectations in teaming up with NABARD. Combined, these efforts contribute to **completeness** in assessment across numerous areas of the organization as well as providing a comprehensive scope for outside investigators.

NABARD is able to achieve great **inclusivity** because these documents are accessible to anyone who can access their website. Another crucial component to NABARD's accessibility is the contact information provided. There is contact information including names, addresses, phones, and emails for all the offices, sub offices, board members, committee members, virtually any person in charge of a component of the organization can be reached. Including contact information, is one more way in which NABARD is

http://www.nabard.org/fileupload/Display Newletters.aspx (accessed December 6, 2008).

³⁸ Sharp & Tannan Group (S + T) was founded in 1934 with the establishment of its office in the Financial Capital of India in Mumbai (Bombay). http://www.sharp-tannan.com/about_us.html

³⁹ Sharp and Tannan Chartered Accounts, "Auditors Report http://www.nabard.org/pdf/Auditors%20Report.pdf (accessed December 6, 2008).

⁴⁰NABARD, "Newsletters," Databank, (2007)

⁴¹ NABARD, "Publications," Departments http://www.nabard.org/departments/publications.asp (accessed December 6, 2008).

⁴²NABARD, "Inspection Department," Department, (2007) http://www.nabard.org/departments/inspectiondepartmentmore.asp#functions (accessed December 6, 2008).

⁴³ *NABARD*, "Banking With Self Help Groups A Handbook for Branch Level Bankers," (2007) http://www.nabard.org/pdf/publications/manuals/bmgrmanual.pdf (accessed December 1, 2008).

reaching out to its clients, stakeholders, and interested individuals, making NABARD available to concerns.

Social Impact

Wonder what happened to dear Qamar Sultana Khan from earlier? A field worker from an NGO promoted by the Bank of Maharashtra reached out to Qamar. This field worker introduced Qamar to the SHG, Ganesh Bachat Gat. Qamar's life was drastically turned around when she received a loan to get a stitching machine, where she did tailor work earning about 300 rupees per month. Qamar's biggest break was when she befriended a United States woman visiting her village who became fond of Qamar's artistic talent. As a result of this friendship and artistic talent, Qamar managed to sell Rangoli making kits to USA earning Rs. 50,000 or \$1,100! Qamar now has a healthy, confident, and sustainable life.

NABARD, helping on an individual scale and serving as a dominant leader in the field of development, development banking, and microfinance has exploited its need niche and simultaneously helped fill a knowledge and awareness niche. NABARD has duties to India and to organizations in the broader field. NABARD is relatable to interests, parties, and organizations outside the rural communities in India and the field of microcredit. As mentioned in the "Opportunities" and "Potential Partners" sections, NABARD sparks interest in areas of science, technology, and research and development. One timely example is NABARD's investment in energy sustainability and independence. (For more specifics see reference below). NABARD's successes reach beyond the SHGs into other areas like fisheries, animal husbandry, small scale industries, and more. (See "Milestones" in Appendix). While still maintaining its primary mission, NABARD has indirectly impacted other fields and opened opportunities to promote rural development from new perspectives.

Qamar is one of the many success stories that NABARD has helped facilitate. The use of credit promotion is a powerful tool enabling entrepreneurs from diverse religious, ethnic, and socio-economic backgrounds to walk a new pathway out of poverty. NABARD has capitalized on the immense opportunity, filling the need niche existent in rural India. This social entrepreneurial organization fulfills its mission and will continue to evolve and adapt to opportunity niches that arise in the future.

http://www.nabard.org/microfinance/successstories.asp#top (accessed December 7, 2008).

⁴⁴ NABAARD, "Success stories," (2007)

⁴⁵ "...India ranks 5th in world wind power generation..."*NABARD*, "Wind Mills," Agricultural Engineering, (2007) http://www.nabard.org/modelbankprojects/windmills.asp (accessed December 6, 2008).



Recommendations

"The biggest thing we have learned after thirty years of existence is that there are no definite victories or defeats. The most important thing is to keep on going."

-- Ela Bhattmirai Chatterjee⁴⁶

Every organization has its strengths and its weaknesses, and it is important for an organization to be able to learn, grown, and allow criticism and opposition to its policies. NABARD can improve their quality, standards, and best practices by listening and adapting to suggestions and recommendations made by credible sources and affected populations.

Weaknesses, Set backs, and Challenges

NABARD's fundamental challenge and weakness is the deeply entangled relationship with the Indian Government. While beneficial at times, the extent to which the Indian Government can influence NABARD's decision making is high. The slightly ambiguous, gray areas, that exist in balancing national vested interests with the actual needs of agrarian communities make distinguishing the two difficult. The close connection may bring an element of group-think when faced with a complex issue. The conflict of interest is currently being discussed by politicians, NABARD leaders, and other interested parties concerning NABARD's acquired regulation over microfinance in India.⁴⁷ This is one example of the many possible that can occur when such close affiliation exists between the one in power, the government, and a social entrepreneurial venture. Though both ideally have the interest of citizen welfare, the government's interests involve much more, namely re-election. Additionally, any discrepancy or mistake could be covered with the collaboration of leaders in both the government and NABARD. The nature of government leads to more bureaucratic handling and less timely decision and action; thus when these constraints spill over into NABARD's operations they could have detrimental effects on its ability to respond to a crisis.

Furthermore, the extent in which physical distance delays actions and communications between regional offices and headquarters is an area of concern. Though, exciting and incredible that NABARD can have a large network in India, the promptness and communication, and mutual understanding may be hindered. Former president of

⁴⁶ Nanette Levinson, Power Point Class X (2008): slide 2.

⁴⁷ Lori Curtis, *MicroCapital Story*, "India's NABARD Announces New Strategy to Apparently Complicate Its Conflict of Interest in Microfinance," (November 6, 2008) http://www.microcapital.org/ (accessed December 1, 2008).

Women's World Banking (WWB) in the Dominican Republic, Mercedes Canalda describes WWB, suffering a similar fate; "like the sun, it sheds heat and light, but is very far away."

Perhaps, physical distance is the reason the criterion for partnering organizations is somewhat universally applied. For simplicity this makes sense, however, this cannot be that ideal as many circumstance exist and regionally unique in its needs. Though an application process is necessary for any financing agency, as credit is neither limitless nor plentiful, the requirements for partnership or loan acceptance appear rigid. (The application forms are available for public view on their website). The forms are straight forward and each applicant is evaluated and held to the standard, but as a development bank it may appear too formalized for its intentions. As a result, a possible set back could be the omission of worthy partners and clients. There is a trade-off between reducing leakage and extending coverage.

The current global financial crisis poses a real **challenge** for NABARD, and other development banks and MFIs alike. The credit constrained world right now is finding it hard to make ends meet reducing the value in charitable donations. NABARD, in May of this year, recalculated its interest measurements; however the negative effects of this financial crisis are taking effect now and NABARD may have to recalculate yet again. Consequently, funding for these organizations is being scaled back. The recent terrorist attack in Mumbai has sent the whole of India into a bit of a panic and operations are not as smooth. These situations are making it extremely difficult for NABARD clients, some who live day-to-day, to feel the same assurance that their loan will be processed and that they will be extended credit in the future.

Strengths

"If we stop thinking of the poor as victims or as a burden and start recognizing them as resilient and creative entrepreneurs and value-conscious consumers, a whole new world of opportunity will open up"—C.K. Prahalad⁵⁰

NABARD, grasping the opportunity niche Prahalad describes, uses its incredible ability to innovate a more rigorous application of credit support, to promote sustainable and equitable agricultural development. Through its massive outreach to partners and associates, as well as its growing networks, NABARD has excelled in working to unite and support a significant portion of India's rural sectors. In 1992 NABARD's credit promotion has been attributed to roughly 45 percent ground level credit!⁵¹ That percentage has surely risen today.

http://www.nabard.org/investmentcredit/rateofinterest.asp

⁵⁰ C.K. Prahalad, *The Fortune at the Bottom of the Pyramid*, (Wharton Publishing 2006):1.

⁴⁸ Mercedes Canalda, "Women's World Banking Catalytic Change Through Networks," Harvard Business School, (*HNRS 302.008 Social Entrepreneuing* October 20, 2000):158.

⁴⁹ NABARD, "Co-Finance," Investment Credit Department (2007)

⁵¹ Srivastava Uma Kant, "Conceptual Framework for MIS for NABARD Operations in Relation to Monitoring and Evaluation Studies," Econ Papers (September 1, 1992) http://econpapers.repec.org/paper/iimiimawp/1056.htm (accessed December 6, 2008).

One of NABARD's roles is policy formation and implementation. Institution-backed policy is a way of ensuring that a program or innovation will have continued success and can be replicated. Policy establishes a framework and guidelines for banking sectors, NGOs, and MFIs to carry out NABARD's mission without constant supervision. This will help ensure NABARD's **sustainability** and longevity of innovative programs aimed at achieving rural prosperity.

The for-profit distinction makes NABARD slightly more unique. Development work is not often in the for-profit world, perhaps for fear of individual profiteering trumping the social mission. However, NABARD originated as a for-profit institution and continues to serve its social mission helping rural communities in India today.

Though the formality in partner application process mentioned in the "weaknesses," section is a bit onerous, overall NABARD acts as a wonderful bridge between the informal and formalized institutional banking. NABARD helps train its partnering affiliates in formalized banking operations, and in turn, these organizations can slowly merge the process to their rural communities. Educating agricultural inhabitants of formalized process is a later stepping stone, however a necessary one to move them to a pathway out of poverty.

Arguably, one of the most successful components of NABARD's initiatives includes the Self Help Groups. Numerous success stories are available on NABARD's website⁵² affirming the positive impact SHGs have had on individuals and communities. It is for Qamar Sultana Khan's out there that the SHGs have truly been a blessing. More than 400 women join the SHG movement *every hour*, and an NGO joins the microfinance program *every day*. ⁵³

Clarity of purpose is a **critical success factor** for NABARD, hence the specific criteria and qualifications to become a NABARD partner; yet once partner status is achieved, the organization or group has a fair amount of autonomy. While the over-arching commitment should be similar to NABARD's goals, the ingenuity in which to conduct operations is often left to the individual partner. This allows for more creativity and greater opportunity for success and innovation.

Despite the interconnectivity between the government and NABARD, NABARD still has multiple ways of assessing the organization's accountability and tracing back the technical decisions made along the way. Financially, audits are kept on regular basis and all the information is made public. This is helpful when acquiring new partnerships and new funders. Transparency is also key element in the employee-employer relationship, as greater **trust** is likely when an organization is open and information is accessible.

³³ NABARD, "Microfinance," (2007) http://www.nabard.org/microfinance/microfinance.asp (accessed December 6, 2008).

24

⁵² See NABARD, "Success Stories," http://www.nabard.org/microfinance/successstories.asp#top
⁵³ NABARD, "Microfinance," (2007) http://www.nabard.org/microfinance/microfinance.asp

Scaling Out, Scaling Deep, and Global Prospects

NABARD does not need to *scale up*, or increase its depth by adding more services. NABARD has plenty of programs and operations that are expanding and by the nature of development process will evolve and grow on their own. However, NABARD could *scale out* increasing its breath and forming new alliances. NABARD may be fairly well known in India and other parts of South Asia, yet internationally NABARD should increase its recognition. *Scaling deep* refers to an organization's ability to make a greater impact in the home community. Like C.K. Prahalad says,

What is needed is a better approach to help the poor, an approach that involves partnering with them to innovate and achieve sustainable win-win scenarios where the poor are actively engaged and, at the same time, the companies providing products and services to them.⁵⁴

NABARD does this, and consequently can help India become that much closer the Millennium Development Goals. 55 While recognizing this accomplishment, NABARD still should increase its visibility globally. Prahalad distinguishes this concept and refers to the Grameen Bank as a prime example of local innovation and global opportunity.⁵⁶ Banking and microfinance are not concepts unique to South Asia. Latin America and Africa are other regions in which NABARD could work to expand recognition and perhaps acquire partnerships. Developing nations, especially in Latin America, share similar agricultural dilemmas and both have substantial sections of the population involved in agriculture. Like the Schwab Foundations' criteria recognizes, sometimes it is not the innovation in an absolute new idea; rather, it is the more determined application of known technologies and ideas.⁵⁷ This is where NABARD has excelled in facilitating credit enabling rural development. Applying NABARD's sheer size and scale to other areas of the globe could have profound impact. The cooperation with the Indian Government, while downfalls exist, is still remarkable. If other countries could adapt their cooperation between all sections, the government, non-governmental organizations, private, development banks, etc. the impacts on communities could be great. Increased visibility opens the door for new entrepreneurs as well, to learn from NABARD's successes and failures, leading the way to developing more cutting-edge strategies. NABARD's ability to achieve global greatness will positively benefit developing communities both directly and indirectly. The direct consequences are somewhat obvious, but the indirect results include increasing awareness of policy makers in western and developed nations; working to enrich their outlook on the ever-present agricultural communities of the world, and offering solutions for a promising future.

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⁵⁴ C.K. Prahalad, *The Fortune at the Bottom of the Pyramid*, (Wharton School of Publishing 2006): 3.

⁵⁵ United Nations, "UN Millennium Development Goals," http://www.un.org/millenniumgoals/ (accessed December 6, 2008).

⁵⁶ C.K. Prahalad, *The Fortune at the Bottom of the Pyramid*, (Wharton School of Publishing 2006): 52.

<sup>2006): 52.

57</sup> Schwab Foundation for Social Entrepreneurship, "Who is a Social Entrepreneur," http://www.schwabfound.org/sf/SocialEntrepreneurs/index.htm (accessed December 6, 2008).

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