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Cooperative Banking: A Way for Inclusive Growth Through Co-Operative Micro Financing

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Abstract: A bank is a financial institution licensed to receive deposits and make loans. Banks may also provide financial services such as wealth management, currency exchange, and safe deposits. There are several different kinds of banks including retail banks, commercial or corporate banks, and investment banks. In most countries, banks are regulated by the national government or central bank. Banking is defined as the business activity of accepting and safeguarding money owned by other individuals and entities, and then lending out this money in order to conduct economic activities such as making profit or simply covering operating expenses. Cooperative Microfinancing a new option for Government & Development Organizations. Micro financing is the provision of financial services to poor and low-income households without access to formal financial institutions. Microfinance is described as banking for the poor. Microfinance programs provide Micro credit/loans, Micro savings, Micro insurance, training to group members and other financial services to low income and poor people for use in small businesses. In Cooperative Micro Financing we are essentially looking at a "double bottom line"— social gains and commercial success. Conventional Micro financing setup is somewhat also lying on the same concept however Cooperative financial system naturally focus on welfare aspect.

This paper tries, to inclusive growth among poor people through Co-operative Micro financing. This paper is an attempt to introduce an innovative and productive banking system in Kerala through co-operative micro financing. The author is aiming for the evolution of banking system in India especially in Kerala having an inclusive growth and upfilment and empowerment of poor by introducing new ways in the existing co-operative banking structure through Kudumbashree.

Keywords: Cooperative Banking, Co-operative Micro financing, Financial Institution, Safe Deposit Boxes, Micro insurance, Kudumbashree. **www.banks,www.co-operative banking,www.co-operative microfinancing**

I. INTRODUCTION

Cooperative banks are owned by their customers and follow the cooperative principle of one person, one vote. Co-operative banks are often regulated under both banking and cooperative legislation. They provide services such as savings and loans to non-members as well as to members, and some participate in the wholesale markets for bonds, money and even equities. Many cooperative banks are traded on public stock markets, with the result that they are partly owned by non-members. Member control can be diluted by these outside stakes, so they may be regarded as semi-cooperative. Cooperative banking systems are also usually more integrated than credit union systems. Local branches of co-operative banks select their own boards of directors and manage their own operations, but most strategic decisions require approval from a central office. Credit unions usually retain strategic decision-making at a local level, though they share back-office functions, such as access to the global payments system, by federating. Some cooperative banks are criticized for diluting their cooperative principles. Principles 2-4 of the "Statement on the Co-operative Identity" can be interpreted to require that members must control both the governance systems and capital of their cooperatives. A cooperative bank that raises capital on public stock markets creates a second class of shareholders who compete with the members for control. In some circumstances, the members may lose control. This effectively means that the bank ceases to be a cooperative. Accepting deposits from non-members may also lead to a dilution of member control.

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Cooperative banking is retail and commercial banking organized on a cooperative basis. Cooperative banking institutions take deposits and lend money in most parts of the world. Cooperative banking, as discussed here, includes retail banking carried out by credit unions, mutual savings banks, building societies and cooperatives, as well as commercial banking services provided by mutual organizations (such as cooperative federations) to cooperative businesses.[1]

A. Micro Finance

Microfinance, also called microcredit, is a type of banking service provided to unemployed or low-income individuals or groups who otherwise would have no other access to financial services. Microfinance institutions (MFIs) are financial companies that provide small loans to people who do not have any access to banking facilities. The definition of "small loans" varies between countries. In India, all loans that are below Rs.1 lakh can be considered as microloans. Similar to Microfinance Institutions we can opt personal loan.[2]

B. Goals of Microfinance Institutions

Microfinance institutions have been gaining popularity in the recent years and are now considered as effective tools for alleviating poverty. Most MFIs are well-run with great track records, while others are quite self-sufficient. The primary goals of microfinance institutions are the following:

*Transform into a financial institution that assists in the development of communities that are sustainable.

*Help in the provision of resources that offer support to the lower sections of the society. There is special focus on women in this regard, as they have emerged successful in setting up income generation enterprises.

1.www.co-operative banking,2.www.microfinance

*Evaluate the options available to help eradicate poverty at a faster rate.

*Mobilise self-employment opportunities for the underprivileged.

*Empowering rural people by training them in simple skills so that they are capable of setting up income generation businesses

C. Co-operative Micro Financing

An alternative to the commercial model of Co-operative micro financing is the Kudumbashree program initiated in 1998 by the Government of Kerala, in India. Based on a primary survey of households under the Kudumbashree in four villages in Kerala in 2006. The Kudumbashree program in Kerala comes under the Bank-SHG model where the social intermediary is a state government entity (Kudumbashree). The Kudumbashree program is classified as a Neighborhood Group (NHG). The main difference between SHG and NHG is that SHGs are non-governmental, informal organizations promoted by voluntary agencies. NHGs are promoted by the government for the upliftment of the poor by bringing the activities of various departments into one umbrella. The Kudumbashree programme is co-sponsored by the Government of Kerala, local bodies and UNICEF. The origin of this program can be traced into the Urban Poverty Alleviation and Urban Basic Services Programs which were launched during the Seventh Five Year Plan by the Kerala Government that had a special emphasis on women and children. Kudumbashree is a women-centered initiative against poverty that has been in operation in the state of Kerala since 1998 in rural areas and since 2000 in urban areas. The community development societies (CDS) system acts as a sub-system of the local government (panchayat and municipalities) and takes decentralization of power further down to the grassroots level.

Source:www.kudumbasree.com

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II. REVIEW OF LITERATURE – A BRIEF REVIEW

Stiglitz (1990), Varian (1990), and Becker (1991) provide explanations based on ‘peer monitoring’. Using results from contract theory, they argue that since loans are given to a ‘group’ rather than to an ‘individual’ (as in the traditional lending arrangement), group members have an incentive to monitor their peers. Since group members have better information compared to lenders, peer monitoring would be relatively cheaper compared to bank monitoring, leading to greater monitoring and greater rates of repayment.Ghatak (1999, 2000) and Tassel (1999) argue that group lending could lead to homogenous group formation. They affirm that joint liability and self-selection in credit could lead to positive assertive matching so that borrowers of the same type club together. Safe borrowers will form credit cooperatives and risky borrowers will be left aside.

Banerjee, Besley and Guinnane (1994), Besley and Coate (1995), Conning (1996), Madajewicz (1998), Stiglitz (1990), Armendariz de Aghion (1999) and Ghatak and Guinnane (1999) also argue that compared to other explanations, arguments based on peer monitoring are more successful in explaining the success of group lending schemes. They illustrate how imposing joint liability on borrowers can alleviate adverse and more hazard problems. However, the variables they emphasize in order to demonstrate peer monitoring are slightly different.

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Besley and Coate (1995) analyze a strategic repayment game with joint liability and demonstrate that successful group members may have an incentive to repay the loans of the less successful ones. They also highlight the effects of social collateral in enforcing prompt repayment.

In the theoretical literature, the asymmetric information framework provides the standard explanation of why poor are excluded from credit market: poor lack collateral and other visible assets and therefore are difficult to monitor which cause them to be more credit rationed or credit denied.[3] Recent theoretical works have provided explanation of how such information asymmetries could be avoided in credit markets. One such explanation is the micro-lending based on ‘group lending’. We review above some of the theoretical explanations for the success of group lending.

[3]micro-credit and repayment rates: a case study of kudumbashree micro-enterprise programme in kerala - 2006

[4]For a complete review of literature, see the following efforts which are devoted to this subject: Murdoch (1999), Ghatak and Guinnane (1999) and Armendariz de Aghion and Murdoch (2005).

Progress of Micro finance Program in India. India Financial Development: A Brief history.

The organized financial system in India consists of commercial and co-operative banks, capital market institutions, non-banks and a number of indigenous banking and financial institutions. The organized sector consists of commercial banks and cooperative banks which are organized on the ‘unit’ banking principle are mainly rural based. Besides, government-owned post offices mobilize deposits but they do not undertake any lending activity. The unorganized sector consists of indigenous bankers, moneylenders, chit funds.[4] At the financial services side, institutions like Unit Trust of India (UTI), Life Insurance Corporation of India (LIC), General Insurance Corporation (GIC) were also created under public ownership.

[4]www.rbi.com

Kudumbashree Programme in Kerala

The Kudumbashree program in Kerala comes under the Bank-SHG model where the social intermediary is a state government entity (Kudumbashree). The Kudumbashree program is classified as a Neighborhood Group (NHG). The main difference between SHG and NHG is that SHGs are non-governmental, informal organizations promoted by voluntary agencies. NHGs are promoted by the government for the upliftment of the poor by bringing the activities of various departments into one umbrella. The Kudumbashree programme is co-sponsored by the Government of Kerala, local bodies and UNICEF.

Principal objectives of the Kudumbashree program are (i) facilitating self identification of poor families through a poverty risk index, (ii) empowering the women of the poor strata to improve their individual and collective capabilities by organizing themselves into NHGs.To identify the poor, Kudumbashree carries out a baseline survey with the help of the local government. A household is considered poor if it possesses four or more of the nine non-monetary indicators, each reflecting a different kind of deprivation . The combination of any four risk factors provides 126 possible ways of finding a poor household. In the case of a ‘destitute family’, all the risk factors or at least eight out of nine are to be positive. The multi-index of poverty is based on the argument that poverty expresses itself in multi-dimensional outcomes. The outcome indicators relate to the various dimensions of poverty, viz., lack of food, clothing, housing, health, education as well as psychosocial indicators. They argue that poverty is a complex set of instances of social exclusion that stretches out over numerous areas of individual and collective existence.

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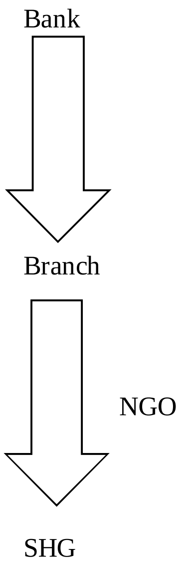
Therefore, this results in the poor being separated from the generally accepted living patterns in society which make them unable to bridge this gap on their own. In the literature the debate regarding measurement of poverty has been based on resources (income) versus outcomes (living conditions).

www.kudumbashree.com



Source: Kudumbashree annual report

III. METHODOLOGY OF THE STUDY

The focus of the empirical investigation is the factors driving the high repayment rate in micro-credit programmes like Kudumbashree.The study is based on both (a) secondary data (provided by the Kudumbashree organization) and (b) primary data based on a survey of NHGs in two panchayats.

A. Secondary Data

The economic data about the two panchayats (Chokkad and vazhikkadavu in malappuram district) were provided by the panchayats as well as by the Kudumbashree organization. Concerning the information on households under NHGs, the Kudumbashree organization maintains household level information at the ward, panchayat and at district levels. These data provide a host of information about the socio-economic characteristics – like age, education, level of poverty, size of the project, etc. – of the households under the program. Besides, Kudumbashree also conducts periodic (normally annual) evaluations (called bench-mark surveys) about changes in the socio-economic characteristics of these households. These data provided the initial database for our primary investigation.

B. Primary Data

A survey of households NHGs under the Kudumbashree program was done in two different panchayats (Chokkad and vazhikkadavu in malappuram district) of Kerala in June 2022. All the two panchyats are predominantly rural and agriculture based for livelihood and broadly reflects the economic structure of Kerala economy. Even in the Kudumbashree programme, more three-fifths of their outreach is in rural areas.All the two panchyats are predominantly rural and agriculture based for livelihood and broadly reflects the economic structure of Kerala economy. Even in the Kudumbashree programme, more three-fifths of their outreach is in rural areas. The basic data on households under NHGs under the micro-credit programme is maintained by the Kudumbashree organization(at the regional and district level). These data formed the base for our initial investigation. First, we stratified all households under NHGs under the different wards in a panchayat into those undertaking micro-enterprises and those undertaking other activities. Then, we selected 50 households each from each panchayat having micro-enterprises using a simple random number table. Thus, we covered 200 households from each four panchayats. This sample represents approximately around 10 per cent of the households under micro-enterprise programme. We collected the data through a structured questionnaire. While designing the questionnaire, we consulted the focus groups (Kudumbashree officials, NHGs, banks etc). Households were interviewed individually as well as in a group so as to cross-validate the data. The focus of the investigation is the dynamics of repayment rate and social impacts.

The data is analysed using descriptive statistics – measures of central tendency and measures of dispersion (like range, standard deviation, variance, etc.). In order to facilitate a more meaningful analysis, we supplemented the descriptive statistics with analytical data analysis.

Descriptive Statistics of the Sample The median loan size of households in the sample is estimated at Rs.12,000. This comes to around 40 per cent of the total investment in micro-enterprise. The median size of 'borrowing from other sources' (which include institutional and noninstitutional sources) at Rs.6,000 is nearly one half of bank borrowing and comes to 20 per cent of the total investment. The median interest burden at Rs.3,600 per household comes to 20 per cent of the median total borrowing (banks plus other sources). The median net income of households in the sample at Rs.19,220 is estimated to yield a rate of return (to total investment) of 64 per cent per annum. However the range in net income among households are quite varied. The least(minimum) was a negative of Rs. 78,560 and maximum of Rs.3,27,040 which shows that the net income among households in the sample varies quite widely. This is also evident from the high standard deviation for this variable in the sample.

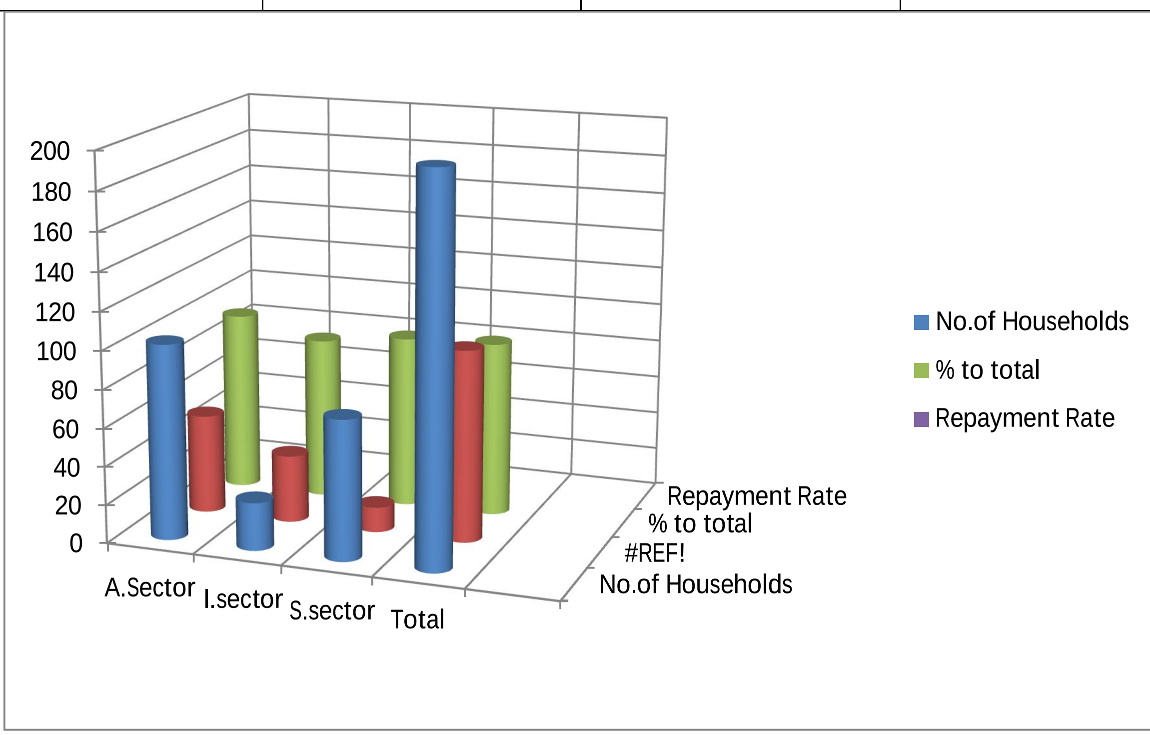
C. Repayment Rate and its Determinants

1) Repayment Rate: Sector-wise Performance

An analysis of the distribution of activities undertaken by households under NHGs under the Kudumbashree program reveals that 52 percent of the projects (microenterprises) were agricultural, 35 percent were industry related activities and 13 percent were related to the service sector (see Table 1). In the sample, the bulk of the agricultural activities relate to animal husbandry: goat rearing, cow rearing and rabbit rearing. Most of the manufacturing activities relate to food processing and service sector activities relate mostly to tutoring, music and tailoring.

Table1. Average Repayment Rate of Households in Kudumbashree Programme According to Activity – 2022

Sector	No of Households	% to Total	Repayment Rate
Agricultural sector	102	51.75	93.9
Industrial sector	25	35.18	84.6
Service Sector	73	13.07	89.9
Total	200	100	91.3



Source: Sample Survey

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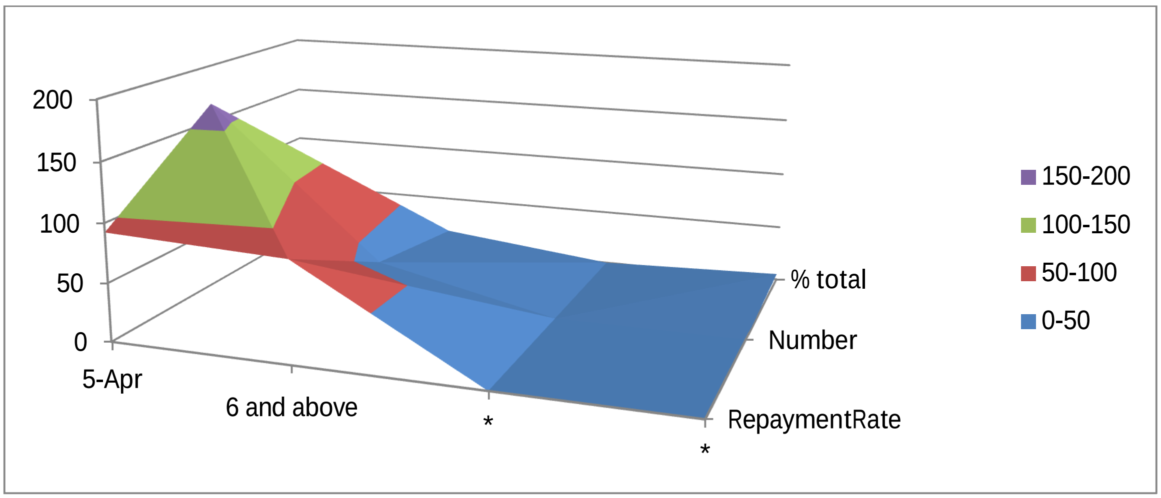
2) Repayment Rate and Poverty

The Kudumbashree program considers households between four and five to be moderately poor while households having a score of six or higher were considered severely poor. The average poverty score of households in the sample was five. An analysis of the repayment record based on poverty score reveals interesting results. The severe poor (with poverty score of six and above) had a comparatively lower repayment rate (86.1 percent) as compared with the moderate poor (92.5 percent) (Table 2). This evidence shows that severity of poverty was not a significant factor explaining repayment behaviour of households under Kudumbashree programme.

Table 2: Average Repayment Rate of Households in Kudumbashree Programme According to Poverty Score – 2022

Poverty Score	Repayment Rate	NHG S	
		Number	% total
4-5 6 and above	92.3 86.1	166 34	83 17

Source: Sample Survey

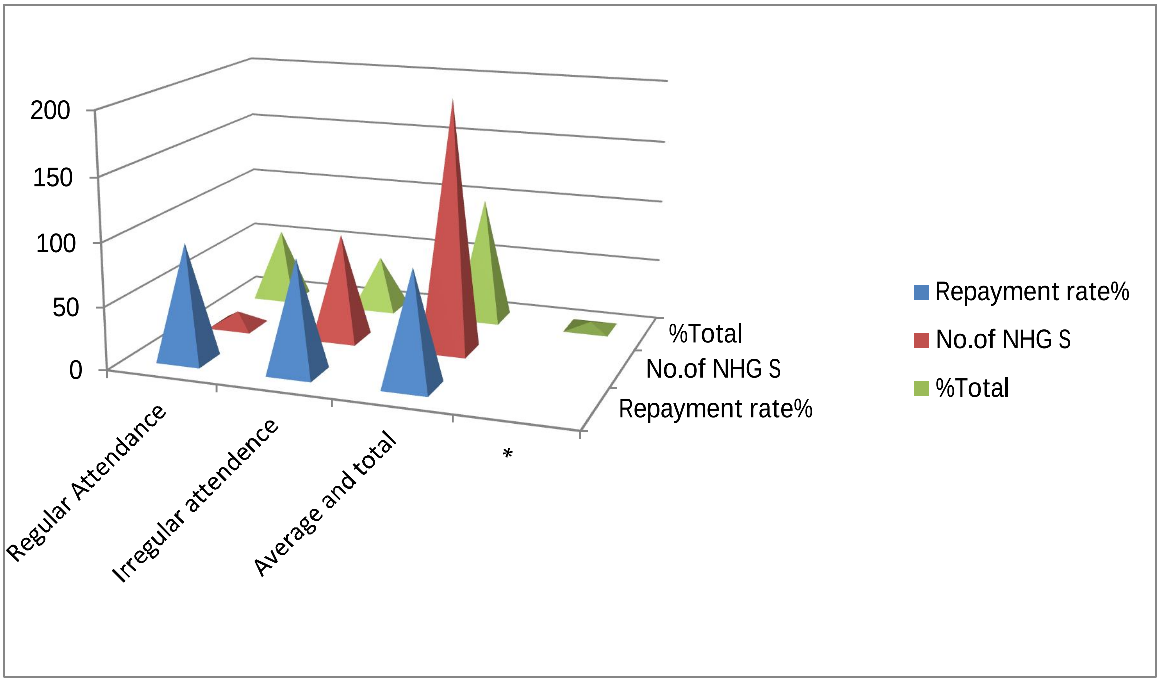


3) Repayment Rate and Group Meetings

Another effect of the weekly meetings is that they act as a formal mechanism to document their group and social interactions. Group members formally interact with each other through these meetings. The agenda for each meeting includes discussions on thrift, amount of loan, norms for loan disbursal, etc., that are recorded. These documents act as evidences of their in-group solidarity and mutual insurance for lenders (banks). Group meetings provide an opportunity to assess the repayment of its members. Individual defaults are easily identified and discussed collectively. One can identify two types of peer pressure working on individual defaulters – ex-ante and ex-post peer pressure. The ex-ante peer pressure reinforces an individual's desire to repay her portion of the loan. Normally defaulting members are given a grace period and are encouraged to find alternative sources of funds. If the individual is not in a position to repay, the group can then exert ex-post pressure. The ex-post pressure can take a number of forms including village gossip, social boycott, seizure of assets, etc. The empirical evidence reported in Table 8 shows that repayment record of those households who attend group meetings regularly is better than those with irregular attendance.

Table 3: Average Repayment Rate of Households in Kudumbashree Programme According to their presence in Mandatory Meetings – 2022

Presence (meetings)	Repayment Rate (%)	No.of NHG S	% TOTAL
Regular Attendence	92.8	115	57.5
Irregular Attendence	89.3	85	42.5
Average and total	91.3	200	100



Source: Sample Survey

D. Competitive Microfinance

The issue of competitive microfinance is widely discussed in the literature and is of recent origin (Besley and Coate, 1995; Marquez, 2002; McIntosh, Janvry and Sadoulet, 2005, McIntosh & Wydick, 2005). Competitive microfinance occurs when multiple lenders exist and they are overlapping in their geographical area. In such a situation many borrowers may be taking loans from several lenders simultaneously or 'double dipping'. Double dipping is meant to smoothen the timing of the repayment of loans and to maintain cash flow. In the presence of double dipping, the ability of the lenders to use dynamic incentives to secure repayment is limited. (McIntosh, Janvry and Sadoulet, 2005, McIntosh & Wydick, 2005).

In our sample, NHGs members are often found to be members of other microfinance programs as well. In fact, 50 percent of households were found to also be members of other microfinance entities that are competing on the same geographical area. Apart from other microfinance entities, many households were found to be borrowing from other non-bank entities that have higher interest rates (money lenders, chit funds, etc.) to repay their loans. This cross borrowing situation could lead to a high repayment of their borrowings with the Kudumbashree program. However, by availing cross financing, the financial indebtedness only worsens. The fact that co-operative microfinance programs (especially agricultural based) generate surplus in net income underscores the utility of the program despite of some borrowers availing of cross financing and indulging in double dipping.

IV. CONCLUSION

The scaling up of microfinance on an accelerated platform since 1992 under Bank-SHG model was step to replace the state activism in the pre-1992 period with enhanced role for private sector in credit delivery for the poor. Although the outreach of Bank-SHG programme has increased substantially in the post-1992 period, it has generated considerable issues in the course of its outreach. One of the issues is the large scale borrower revolt (especially in the state of Andhra Pradesh which has the highest microfinance penetration) on the ground of usurious interest rates charged by MFIs. An alternative model of delivery to the commercial model is the co-operative micro-financing through Kudumbashree program in Kerala.

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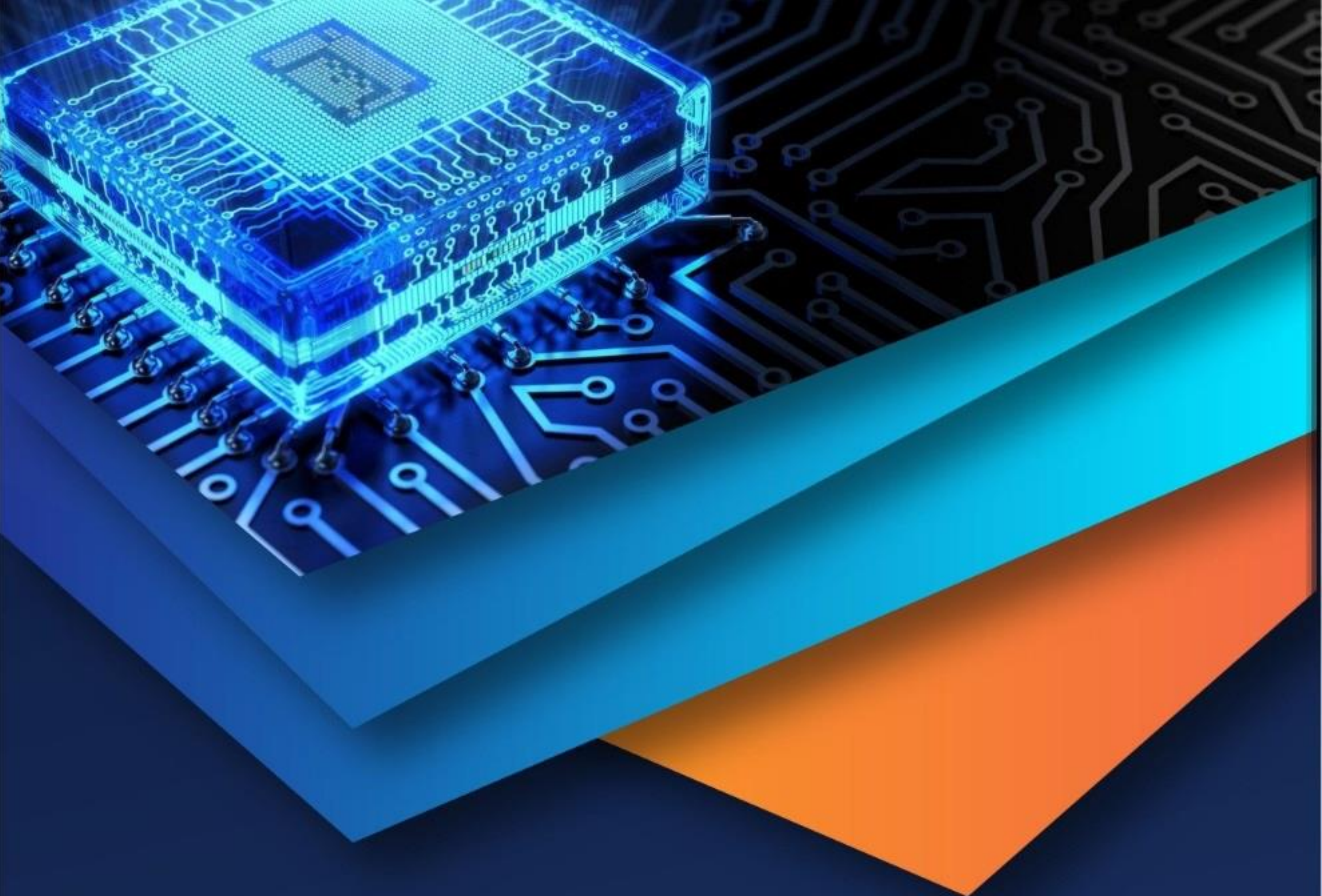

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