

Cooperative and Social Innovation in Finance – A Case Study of

Mann Deshi Mahila Sahkari Bank

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Introduction:

If we trace the genesis of cooperative movement we find that cooperative system itself is a social innovation. The industrial revolution led to the concentration of wealth in a few hands leading to emergence of capitalism and resulting into greater economic inequality in the society. The cooperative movement was born as a social response to capitalism. Cooperative encouraged people to own property through the power of association. The origin of the credit cooperative movement in India can be traced back to the close of nineteenth century when, inspired by the success of the cooperative movement in Britain and Germany, such societies were formed in India. The first Co-operative Bank in India was Anyonya Co-operative Bank Limited (ACBL) which was established in 1889 with the name Anyonya Sahayakari Mandali Co-operative Bank Limited, with a primary objective of providing an alternative to exploitation by moneylenders for Baroda's residents. When it was started in 1889, it had just 23 members and Capital of Rs.76/-.

2. People having wealth and property usually get favourable treatment from the banking system because of the collateral asset that he/ she owns and which could be mortgaged to the bank. As the poor do not own property, the collateralized lending system of banks makes it difficult for the poor to access the formal financial institutions. As opposed to this, cooperative credit institutions

***The views expressed in the case study are the personal views of the author and do not reflect the official views of Reserve Bank of India.**

(both bank and non-banks) have usually been successful in catering to the needs of such excluded population. They are not averse to small ticket uncollateralized lending to their members. Further, they are better suited to customize credit products and innovate delivery mechanism as per the needs of their members.

2.1 As at the end of September 30, 2017, there are 1554 urban cooperative banks in India. The sector is highly heterogeneous in size and geographical presence. While most of the banks are located in the western part of the country, its size varies from a business mix of roughly Rs. 100 mn to Rs. 500 bn. While the bigger entities have generally adopted commercial bank like working model, banks like Mann Deshi Mahila Sahkari Bank finds its niche market in the poor women of the society.

3. Objective of the Study:

Mann Deshi Mahila Sahkari Bank, headquartered at Mhaswad in Satara district in the state of Maharashtra, India is one of the small but iconic urban cooperative banks in India for women which has done exemplary social innovation in the field of banking to reach out to financially excluded population in its area of operation. The objective of this paper is to study the product designing, delivery model in general and product cost structure in particular to ascertain and understand how it succeeded in making significant changes in the lives of women beneficiaries of the bank which many others failed to do.

4. Research Methodology:

The study is based on both primary and secondary sources of information.

- Study of literature on Social Innovation.
- Study of all available literature on the bank.

- Visit to the head office of the bank and its Pune based branch to gather detailed information about selection of niche market for the bank, loan products, pricing of loan products, loan sanctioning process, delivery mechanism and loan recovery process etc.
- Random survey of bank's clients to understand their approach towards bank's product and cost structure and its acceptance by the customers.
- Socio-economic impact analysis of innovative schemes through some random interviews of beneficiaries of the bank.

5. Social Innovation:

Social innovation was discussed in the writings of experts such as Peter Drucker and Michael Young in the 1960s¹. There are numerous definitions of social innovation found in literature. Murray et al. (2010) defined social innovation as "...new ideas (products, services and models) that simultaneously meets social needs (more effectively than alternatives) and create new social relationships or collaborations..." Phillips et al. (2008) defines social innovation as "a novel solution to a social problem that is more effective, efficient, sustainable or just than existing solutions and for which the value created accrues primarily to society as a whole rather than private individuals." The Young Foundation, in order to distinguish between social and business innovation, stressed that social innovation is developed and diffused via organisations, whose primary purpose are not centred on mere profit maximization (Mulgan et al. 2007). Pol and Vile (2009:881) suggest the following definition of social innovation: "an innovation is termed a social innovation if the implied new idea has the potential to improve either the quality or quantity of life".

¹ For example Gavron, Dench (eds.) Young at 80, Carcanet Press, London, 1995 for a comprehensive overview of one of the world's most successful social innovators.

6. Mann Deshi Mahila Sahkari Bank and Product Innovation:

6.1 Profit maximization and inorganic growth has never been the focus of Mann Deshi Mahila Sahkari Bank. Originally started as a credit union/ credit society in the year 1993, it received its banking license from the Reserve Bank of India, the Indian banking regulator, in the year 1997. The bank began with 550 members, initial capital of Rs 0.6 million and initial staff strength of seven. Today, after about 20 years of its existence the bank has seven branches, 24,978 members, 68 staff members and a total capital of Rs. 54.37 mn. So, the bank can boast of a reasonably fair growth pattern. But what has not changed is its niche market and client profile. The bank started with the motto of serving the poor, downtrodden and financially excluded women of the area. After twenty years of its existence the bank continues to serve the same set of people with average loan ticket size of Rs. 41,800/- equivalent to \$635 (USD) each borrower. However, on excluding 10% of banks high value loan, the average loan ticket size is still lower at Rs. 18,500/- (\$281) only. 53% of the loans sanctioned by the bank is of less than Rs.0.5 mn in value. Furthermore, most of the small ticket loans of the bank are unsecured debt. In value terms, total uncollateralized loans of the bank is 28.20% of the total loans as on March 31, 2017. However, borrower wise the unsecured loan of the bank is significantly higher at 81.25% of the total loans. Till recently the bank was not paying any dividend to its shareholders. Of late, it has started paying dividend at a meagre rate of 5%. The bank clearly remained focused on horizontal growth rather than vertical growth.

6.2 As mentioned in the Report of the Household Finance Committee, July 2017, as per All India Debt and Investment (AIDI) Survey data the median size of unsecured loan from non-institutional sources in India is Rs.38,800/-....Instead of secured debt, most Indian household debt is unsecured (56%). The data also reflects an unusually high reliance of Indian households

on informal, non-institutional sources of lending such as moneylenders and intra-family loans (Report of the Household Finance Committee, July 2017).

6.3 Mann Deshi Mahila Sahkari Bank decided to fight the prevailing socio-economic evil of money lending system which is exploitative in nature and a major source of unsecured loans for the poor. While designing weekly market cash credit product for the poor women, the bank, in collaboration with Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) did the study of daily cash flow of poor households by preparing financial diary of households. Interestingly, the bank also studied the working of some of the moneylenders to get an insight into their lending and recovery processes.

7. Cash Credit for Weekly Market Vendors - Loan Delivery Model and Product Cost:

Cash credit product for micro-entrepreneurs in general and vegetable vendors in particular, is one of the high impact product innovations by the bank. Most of the vegetable vendors meet their financial requirements either through short term debt obtained from moneylenders or by purchasing stock from wholesalers on credit. Mann Deshi Bank observed that the weekly markets in most part of Satara district were common phenomenon but the vendors in these markets, like their counterparts in other parts of the country had invariably no linkage with formal financial system. The vendors operating in these markets frequently purchased goods on credit from wholesalers. Interview of 134 randomly selected vendors at the weekly market by GIZ team (July 2014) revealed that the average worth of stock bought per day was Rs.5,050/- . Purchasing on credit was a common phenomenon. As per the Report, 91% of all respondents had bought on credit at least once from the wholesaler. Close to half of the sellers in these markets borrowers bought their entire day's goods on credit while the other half bought a small fraction on credit. The wholesalers charged daily interest upto 1.4%. Moreover, it was

observed that credit buyers had less bargaining power than cash buyers and they would often be given poor quality goods by the wholesaler.

7.1 The product specification is as under:

1.	Eligibility Criteria	Age between 21 and 59 years Females only Has business in the weekly market where the loans is to be given. Has been coming to the market regularly for the past three months. Business is not seasonal but conducted throughout the year.
2	Guarantor/ JLG	Two guarantors with a business in the same market as the client are required. Each borrowing member guarantees at least the interest component of the loan of the other two members.
3	Required Documents	Photo ID (Voter ID, Aadhar card *, PAN card, Bank Pass Book) Address Proof (Voter ID, Aadhar card*, Bank Pass Book, Electricity Bill, House Tax Receipt)
4	Credit Limit	Rs.10,000/- initially, increased to Rs 20,000/- upon regular payment
5	Loan Tenor	Three years
6	Interest Rate	26% per annum on reducing balance computed every week
7	Repayment terms	Required payment: Accrued interest every week Recommended repayment: At least 10% of loan amount

8	Location	Collection of documents, disbursements, repayments and withdrawals take place largely in the weekly market that has been pre-decided. Client has also the option to withdraw or deposit at the bank during working hours.
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*Aadhar: It is an easily verifiable 12 digit random number as unique identity proof for Indian people issued by Unique Identification Authority of India.

8. Impact Analysis of Weekly Market Cash Product:

8.1 In the impact analysis survey conducted by GIZ, the clients of Mann Deshi Bank reported an increase in profit by about 30% to 100% on availing the loan. This was primarily because they could now buy more goods at a lower price and better quality and hence their sale increased as did their profits. Secondly, interest rate charged by the bank was lower than rates charged by wholesalers or moneylenders. Some of the clients interviewed by GIZ, however, had a different story to tell. They said that their wholesaler sold on credit without charging any interest.

8.2 It was gathered from the bank that the economic impact of absence of linkage with formal financial system was not same for all. The social phenomenon of caste system* had differential impact on cost of credit depending upon whether they belonged to the so called high caste or low caste. The bank informed that moneylenders gave preferential interest rate treatment to the borrowers if they belonged to the same caste group. The bank found that higher caste

*Caste System: The caste system divides Hindus into four main categories - Brahmins, Kshatriyas, Vaishyas and the Shudras. It is believed that the system originally divided people on the basis of "karma" (nature of work or occupation) but later on it created discrimination on the basis of birth i.e. a person's social status got defined on the basis of his/her caste in which he/she took birth.

individuals had more lucrative networks; they were able to borrow from their peers interest-free while lower caste individuals did not have that option. (Chetna Gala Sinha, 2012).

8.3 So, for the poor, it is not just economy (class) but also the social status (caste) that matters. It is a double whammy for a poor if he/ she comes from lower caste. The weekly market cash credit product of Mann Deshi Bank, though primarily aimed at economic upliftment of the poor, also resulted in upward social mobility of these deprived sections of the society.

9. Analysis of Product Cost of Mann Deshi Bank:

9.1 The cost of loan products offered by Mann Deshi Bank is higher than that of commercial banks and even most of the peer group urban cooperative banks. As per the information gathered through informal queries, interest on cash credit product charged by most of the commercial banks, during the time of the study (September 2017) generally ranged from 9% to 13% depending on the credit rating of the borrower. In commercial banks, pricing is usually linked to credit rating of the borrower. However the normal cash credit product of Mann Deshi Bank attracts a flat interest rate of 15% which is 2% higher than that is charged to the worst rated borrowers of commercial bank. As per the regulatory prescription* for Non-Banking Finance Company- Micro Finance Institution (NBFC-MFI), the interest charged by an NBFC-MFI would be lower of the following: (a) The cost of funds plus a maximum margin of 10% for large MFIs and 12% for the others (b) The average base rate of five largest commercial banks multiplied by 2.75.

9.2 Given this backdrop, the interest rate on weekly market product of Mann Deshi Bank is

• RBI Master Circular- 'Non-Banking Financial Company-Micro Finance Institutions' (NBFC-MFIs) – Directions dated July 1, 2015

high at 26%. The justification given by the bank is that servicing cost of this type of doorstep credit product is very high and therefore the higher interest rate. The GIZ study on cost assumption reveals that after adjusting salary cost, commission to agents, cost of technology, bad loans etc. at an average loan amount of Rs.10,000/- for 225 borrowers, the bank would make a profit of Rs 5708/- only. On the same loan outstanding of Rs.10,000/- for 5000 clients, the bank would make a profit of Rs.4.90 lakh. As on March 31, 2017, the total clients of weekly cash credit accounts were 1850 with average loan size of Rs.30,000/-. The average loan size is higher than the figure taken for scenario analysis by GIZ. However, once the number of borrower increases and the product is scaled up probably some reduction in pricing could be possible for the bank.

10. Survey of Mann Deshi Bank's Customer on Cost of Credit:

10.1 Although Mann Deshi Bank type of clientele is not the niche market for commercial banks, many of them, through their Business Correspondents (BC), do provide doorstep banking service to their clients in rural areas at cheaper rates. The moot point, therefore, is that despite Mann Deshi Bank being very costly in terms of interest rate why this bank was preferred over other cheaper sources of formal credit channels. As part of the present study a random survey was conducted through a questionnaire to ascertain the reasons. The respondents were asked very direct questions viz. (i) Whether they were aware that the interest rate charged by the Mann Deshi was exorbitant? (ii) Whether they approached any other bank before choosing Mann Deshi? (iii) On being informed that other banks are providing cash credit at much cheaper rates whether they would now shift to other banks? The survey revealed that (i) 70% of the clients surveyed had never approached commercial banks for loans as they perceived commercial banks non-accessible for them. (ii) 30% of the clients had visited

commercial banks but they had poor experience with them. Most of these 30% clients had deposit accounts with commercial bank but no loan account with them (iii) 45% of the clients were unaware that interest rate charged by Mann Deshi was higher. In fact, out of these interest rate ignorant group, 9% clients had a sense that interest rate charged by Mann Deshi was rather cheaper than other institutions. (iv) 55% of the clients were aware about the high interest rate charged by Mann Deshi. But these respondents were completely dismissive of any suggestion of availing credit from commercial banks at cheaper rates of interest. Even after being educated that commercial banks are providing cheaper loans, they had no second thoughts on banking with Mann Deshi. Clearly, for these poor clients of Mann Deshi Bank, commercial banks carried a negative image. 15% of the respondents attributed it to bad staff behavior and 12% to delay in processing of loans. 8% of the clients opined that they did not believe commercial banks give this type of loan. Others did not attribute any reason but they said that nobody from commercial bank ever approached them.

10.2 This brought to the fore the issue of availability vs accessibility. In urban areas credit channels are available but probably not accessible. The survey reveals that what matters for poor is not only good and customized product but also efficient delivery channel. The preference for Mann Deshi over others is a case of successful outreach efforts made by this bank which their counterparts lacked. The excluded population probably need social inclusion to precede financial inclusion. They need respect, recognition, timeliness and doorstep service more than interest rate benefits. Mann Deshi Bank probably succeeded in capturing the sense of these excluded segments of society with customized products and delivery mechanism.

11. Goat Rearing and Artificial Insemination of Goats:

11.1 The bank, in association with Mann Deshi Foundation*, is helping women of the area breaking all social barriers to adopt unconventional vocations. One such vocation is artificial insemination of goat project in Satara district. The district, particularly Mann taluka, is a draught prone area and has faced successive draughts in recent times. Farming is very difficult in this monsoon dependent area. Goat rearing was considered a viable income generating occupation for this poverty stricken area. Mann Deshi Bank decided to provide loans for purchase of goat in a big way which usually cost Rs 5000/- to 6000/- each. However, the area had dearth of qualified veterinary doctors. There was usually only one doctor for four to five villages. Further, in the absence of higher breed insemination facility, goat rearing was not really remunerative. The Mann Deshi Foundation decided to support women willing to take up the work of artificial insemination of goat. The Foundation financed training of these women with the help of Nimbkar Seeds Pvt Ltd which imported Boer Goat embryos from Australia in order to make Boer Goat stock widely available throughout India. It also imported semen of Damascus Goats from other parts of the world and started breeding them with locals. Post training of these women, the Foundation financed insemination kit and container while the bank financed two wheeler to these “goat doctors”.

11.2 Initially these women faced resistance from the orthodox society as the work was

***Mann Deshi Foundation:** Mann Deshi Foundation was founded in 1996 by Chetna Gala Sinha in Mhaswad, Maharashtra to empower women to make their own choices by equipping women with the knowledge, skills, courage, access, and capital to become successful entrepreneurs with more control over their lives. Supported by domestic and global partners like NABARD, HSBC, GIZ, British Asian Trust, Accenture, National Skill Development Corporation, Unicef, Yale, Jhon Hopkins, Hindustan Lever, Bajaj etc. the Foundation is running various welfare programmes through its various schemes like Business School, Girls on Wheels, Water Conservation, Mann Deshi Champions, Chambers of Commerce, Community Radio etc.

considered non- feminine. In the words of Sunita Kamble, a goat doctor, *“It was not easy – my family and neighbours did not support me. However, as the people saw the impact of my work, how my team and I had much higher success rates as compared to local government doctors, they began to believe in us. One day a goat was very ill with dysentery. We looked after it and it survived. People said we brought it back from the brink of death and the word of our success spread. Now I receive 25 calls a day! I visit and talk to 300 women every month. They say, the goat doctor has come and offer me a chair, and I feel so proud. And now my husband is proud of me too.”* Sunita belonged to dalit community (a community considered socially low in hierarchy of caste group) and educated only upto 9th standard. As reported by the Foundation, her monthly income is in the range of only Rs. six to seven thousand and the Foundation is still providing her financial support of almost equal amount. But what has changed significantly is her social status and recognition. Her work has been recognized by the Govt of India and she received NITI Aayog’s* Women Transforming India Award 2017 on 29th August 2017. Clearly, such initiatives by the Mann Deshi Bank and the Foundation brought about change not only in the life of an individual but in the mind set and value system of the entire society.

12. Socio-economic Impact of Mann Deshi Bank’s Various Loan Products:

Out of the total loan portfolio of the bank, as on March 31, 2017, housing loan constituted 16.47% while consumption loan was an insignificant 0.48%. The major chunk of

*NITI Aayog: The National Institution for Transforming India, also called NITI Aayog, was formed via a resolution of the Union Cabinet on January 1, 2015. NITI Aayog is the premier policy ‘Think Tank’ of the Government of India, providing both directional and policy inputs. While designing strategic and long term policies and programmes for the Government of India, NITI Aayog also provides relevant technical advice to the Centre and States.

bank's loan (54.50%) was for business and other productive purposes. 72% of the borrowers of business/ productive purpose loan could significantly improve their economic status. There were a few failures also but such cases were low at 10% only. The condition of 18% of the borrowers neither improved nor worsened. The most popular businesses, women chose to set up or expand, were dairy farming, goat farming, catering, poultry farming, ladies shops, grocery shops and street stalls. During the course of study visits were made to certain successful entrepreneurs of the bank and a phenomenal change in the life of these ladies were observed. Women beneficiaries like Laxmi Mann Singh Ingole, a tea/ snacks seller, Usha Balu Jadhav, bamboo basket maker, Sangita Santosh Mapate Melbani, catering business, Sunita Sanjay Pawar, religious CDs and photo frame sellers, Sunanda Phadtare, a vegetable seller, Rekha Prakash Kumble, a tailor and Sneha Sanjay Devgirikar, seller of chutney and paapad all had almost similar story to tell. They all were living in penury and now some of them are earning more than Rs 25,000 /- a month. Further, they all started with the initial loan amount of Rs 10,000/- to 20,000/-. In subsequent years, the loan amount kept on increasing after successful repayment of earlier round of loans. In a span of 6 to 7 years the life of some of them transformed from job seekers to job givers. Once they attained some affluence most of them wanted to acquire property and sought housing loan from the bank.

13. The Demonitisation and Innovative Solution by Mann Deshi Bank:

Withdrawal of legal tender character of Rs.500/- and Rs. 1000/- old series bank notes in November 2016 created certain temporary operational challenges for banks in India. With over 0.2 mn account holders, the bank anticipated huge rush to its branches for exchange of withdrawn bank notes with legal tender. The bank was quick to sense that the customers who are mostly of smaller means were not comfortable with higher denomination notes of Rs.2000/-

which usually other banks were giving in exchange for withdrawn currency. Mann Deshi Bank came up with an innovative solution. It came to the knowledge of the bank that lower denomination notes and coins were lying idle with some of the commercial bank branches of the area. The typical commercial bank customers were generally reluctant to accept coins in exchange. Here was an opportunity for the bank. The local branch of a commercial bank responded positively to the request of Mann Deshi Bank and agreed to exchange its idle stock of coins with them. The bank hired a van to collect coins. The coins were sorted and put in pouch of Rs 500/- each. Every day the Mann Deshi van visited a weekly market and exchanged withdrawn Rs.500/- and Rs.1000/- denomination notes for pouches of coins. This enabled the bank to ensure that maximum number of people were served. Outside the van two counters- one for women and the elderly and the other for general public were set up. In the course of two weeks, nearly 5000 people from 6 weekly markets benefitted from this initiative. Due to the innovative approach of Mann Deshi Bank's some of the beneficiaries of the bank's notes exchange facility opened new accounts with the bank and became customers! This initiative of Mann Deshi Bank, in a difficult time, received wide spread appreciation and accolades in the local media.

14. Concluding Observations:

The preference by the financially excluded women for the “costly” Mann Deshi Bank over others is a case of successful outreach efforts made by the bank. The financially excluded segment of the society probably need social inclusion to precede financial inclusion. They need respect, recognition, timeliness and doorstep service more than interest rate benefits. Mann Deshi Bank succeeded in capturing the sense of these excluded population with customized products and delivery model. Banking penetration in India being still low, the banks still have

enough scope to challenge market competition provided access to products is made easier and hassle free to its clients. A suitable design and delivery model will continue to give enough head room to bankers on product pricing.

15. Limitation of the Study:

The study of cost structure of the bank's products in general and of the weekly market cash credit product, in particular, was done in isolation only for Mann Deshi Bank. It is understood that there are a few banks both in cooperative and commercial banking segment who have similar client profile and similar delivery model and are extending credit facility at more competitive interest rates. No comparative analysis of the product design and product cost of these banks has been done. Such comparative analysis would provide better insight into the reasons why other banks with similar client profile have different cost structures.

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