

# Women's Co-Operative Bank Promoting and Practicing Financial Inclusion of Rural Poor

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In drought prone rural Maharashtra, there is the stirring of empowerment and economic mobility, triggered by microfinance by tapping the collective strength of poor women.

1 The Mann Deshi Mahila Sahakari Bank (MDMSB), is a licensed Urban Cooperative Bank in Mhaswad, located about 175 kms. from Pune in Satara District in west central part of the country operating among the poorer sections of the population through micro finance projects. This article is an attempt to share my experience during a brief study visit to this Urban Cooperative Bank. The study of a micro finance provider tries to understand the key issues and prospects in provision of small and tiny products and services and the impact.

## **2. A bank for and by poor rural womenfolk : Promoting Empowerment**

2.1 The MDMSB is, perhaps, unique in the fact that it is a "rural" Urban Cooperative Bank for and by poor women. MDMSB provides a wide range of services including savings, credit and non-financial services in an integrated manner. Three distinct organizations, viz., Mann Deshi Mahila Sahakari Bank, Mann Deshi Mahila Bachat Gat Federation (Federation of SHGs), and Mann Vikas Samajik Sanstha (an NGO) operate to provide both financial and non financial services. The federation is a non profit association aimed at organizing rural women entrepreneurs and comprises of more than 400 SHGs. Five offices have been set up by this federation of SHGs which help the bank in expanding its geographical coverage. The NGO is a non-profit organization providing a variety of non-financial services to clients like health, education, student scholarships, vocational skill training, etc. This tri-polar structure helps to serve the people holistically by offering both financial and non-financial services.

2.2 The Mahila bank today has four fully computerized branches and has more than 3800 members with a share holding of Rs. 51 lakh, serves around 40000 clients and a loan recovery rate of over 98 per cent. The bank conducts around 930 transactions daily on an average basis. While 100% of the clients are women, 80% are from the marginalized classes drawn from the region's unorganised sector of women who are small producers, vegetable vendors, milk vendors, nomadic goat and sheep farmers, cottage industry entrepreneurs, casual labourers, daily wage earners, etc. Clients range in the age group of 20 and 60, majority being between 24 and 40. The absence of formal education had not deterred these women from managing a system of micro credit that is suited to their needs. Several anecdotal experiences as that were studied, showed that way of the members have been able

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to change the quality of their life by empowering themselves economically, educationally and politically.

### **3. GENESIS**

3.1 The Mann Taluk in Satara district, Maharashtra is a typical drought prone dusty rural place with sweltering temperatures and monsoon that often fail and lack employment opportunities. The area suffered from repeated droughts and its local community was surviving mainly as goat farmers, shepherds and daily wage earners. In the agrarian and entirely rain-dependant economy of the district, most men and women work as daily wage labourers in agricultural fields and during drought when no farming takes place, workers are left with no employment avenues. With access to funds severely restricted, most women are forced to borrow from money lenders. Amidst this unhealthy financial dynamic stand the poor women folk of the area who traditionally take no role in finance outside the home. Many women became vulnerable to the vicious cycle of hunger and death. By the late 1970s, Mhaswad village was stricken by a very severe drought and the entire Mann division was reduced to utter poverty. The situation resulted in large scale migration of man to cities, leaving the women to their travails.

3.2 Sensing the urgent need for a sustained effort to help the local people and tackle the problems such as water shortage, lack of assets and livelihood, etc. Mann Vikas Samajik Sanstha (Mann Social Welfare Organisation), an NGO was created to provide weekly savings schemes for women. The activists of the NGO soon realized that before they could uplift the women through improved health and education, they had to first tackle the migration from the drought prone area. The NGO worked to improve lives in the villages with activities at the grassroot level trying to understand the problems faced by the village women and find solutions tapping the collective strength of these women. From a small beginning, the movement grew with women organized as Self Help Groups (SHGs). Inspired by the example of the women's bank run by the Self Employed Women's Association (SEWA), generating assets for women living below poverty line became a priority. The women were encouraged to save and form SHGs with support from the Association of India's Development Programme. The SHGs expanded, allowing the women's collectives to go beyond generating capital and assets by forging linkages in the market and developed a bargaining clout that they could use to their advantage. As women assumed the role of managers of their finances, they began to realize their potential and the Federation of SHGs, the Mahila Bachat Gat Federation was formed. Today about 400 SHGs benefiting almost 8000 families have spread around 130 villages in the Mann Subdivision, covering an area with a population of 250000.

3.3 By 1996, the federated women's cooperatives recognized that they needed financial services of a bank. Armed with the perseverance and determination of these simple rural folk to break the conventional barriers, Ms. Chetna Sinha, the President of the Sanstha approached the Reserve Bank of India for a licence to start a women's bank. RBI granted the licence to start an urban co-operative bank and MDMSB thus, became a reality in 1997 with the area of operations in Satara, Sangli and Sholapur. The bank was started with 500 women who put in, on an average, Rs. 500 each and managed to raise an initial capital of Rs. 6 lakh. Making the bank profitable and ensuring that the women had money to save, required understanding, creating and developing the market as also the necessity of creating a discipline of saving and planning for the future within the community. The SHGs gave the bank the platform that was needed to campaign for and inculcate these habits. The bank has reinforced these efforts by continuously offering new products to its customers.

#### **4. *Distinctive and Imaginative Supply of products and services***

4.1 The major challenge of the new born bank was to provide the client friendly products and services to the poor women with indifferent flow of income. Therefore, numerous savings and loan products to match their customers' a typical cash flows and distinctive needs were developed. Some of the main considerations that were kept in view while working on the products and services innovations were the issue of gender, the clients being women and their position in society being poor and belonging to lower rungs of the society and economic ladder.

4.2 The innovations include daily, weekly and monthly savings products - mostly tiny amounts - as also credit facilities which has the repayment system of daily, weekly or monthly. Daily loans are available for buying vegetables and fruits. Credit-in-kind scheme is also on offer where instead of giving a loan to buy a product, the product being bought by the bank and then lent to the account holder. The photograph is taken in the bank's premises itself while opening an account. The bank with partnership with insurance companies has also designed micro insurance products for the shareholders. Accident insurance policy and old age social security schemes are some of the novelties. Local people are also advised to invest in savings products. The bank lends both directly to groups and through the SHG federation which on-lends to SHGs. Some SHGs have taken loans from the bank to buy cows and buffaloes and have formed 15 mahila dairies.

4.3 Despite the benefits of a group based approach to microfinance, experience in Mann has shown that often the poorest of poor are so marginalized that they are excluded from the self selected SHGs or they lack the resources to be able to save even a nominal amount each month. In order to overcome these constraints as also to stress the fact that the individual initiative is the driving force behind businesses, the bank also focused on direct intervention to service the poorest of poor at affordable rates and at their doorstep. The bank understood that while the group lending gives confidence to women, credit facilities to individuals, encourage entrepreneurship and upward economic mobility. It appears that the lessons from one of the world's biggest and most profitable microfinance operation, the village unit programme of the National Bank of Indonesia which does not use groups of any kind, but its clients save and borrow as individuals.

4.4 Understanding the market, identifying income generation niches and developing them was not so difficult for the bank as it had wisdom and support of the parent NGO, the **Manas Vikas Samiti Sanstha**, which had been active for several decades in the area. The main economic activities of women in the area were raising animals and selling produce at the weekly markets. To understand the specific needs, the bank visited the weekly markets in the area and this exercise uncovered some interesting information. It was found that women deal with the smaller goats and sheep, sometimes buffaloes in the animal markets while men work with the bullocks that are used to till the land. With men migrating out of the villages in droves, the bank decided to emphasize on animals that women can control as an asset and that generate income. The bank had invited an agricultural expert to train the villagers in fodder cultivation and one of the lessons learnt was that the goat eat a certain kind of cactus during the summer months and so this was adopted as one of the fodder crops. Growing and vending vegetables was identified as a second area of income generation for women. With the bank finance women have started producing a whole new repertoire of vegetables apart from the traditional ones. Loans are provided for sewing machines because they are portable and women can even sit in the market place with their machines and get ready customers. The poor rural women of the district are discovering new possibilities for income generation with the

provision of small loans for making packaged powdered spices, potato and lentil wafers, buying chutney making machines, etc. The bank has a bicycle scheme for girl students who travel a good distance to attend school and cannot afford public transport. Many a village do not have bus facility. It is considering financing a Mahila Bazar that would be run exclusively by women. It's a great surprise for any visitor to Mhaswad to find four computer institutes run by the local women who have started them with loans from the bank. The bank's future plan include financing a mobile veterinary service, developing a federation of the Mahila diaries, distributing lactometers to milk vendors, issuing identify cards to members and clients to make them socially and economically visible. There is also a conscious attempt to involve governmental agencies to ensure synergy in development activities.

4.5 In each weekly market the bank has appointed women agents giving door-to-door services like savings and lending. This makes the distribution of services quicker, sustainable and viable. The bank is also having a marketing center within its premises to help farmers and producers. Partnership with some of the corporates has also been developed for marketing products of the local producers. In collaboration with charitable hospitals, reliable health services are provided. Regular monthly meetings with the SHG leaders and quarterly meeting with the coordinators help to get feedback and new ideas about products and services. The hallmark of the operations of the organizational structure is that the bank has been able to invest in businesses built around local women's traditional skills, giving them an ownership stake in activities in which they had previously been labourers. An outcome of the holistic approach is that the women have started controlling the finances and the entire family now began to reap the full benefits as more money is spent on children, education and household necessities.

## 5. Use of Information Technology (IT)

5.1 **Use of Simputers:** The bank had developed a network of around 40 women agents who literally go door to door to provide saving and credit services to the clients who are mostly day labourers, street vendors and farmers. Since the clients cannot plan their savings or count on a regular salary, savings products are tailored to suit their needs. For example, our street vendors require a daily facility for savings



*The bank's women agents using the simputers for collection of deposits and repayments*

### Standing Tall against Odds

Years of hardship and backbreaking labour in the drought stricken agricultural fields of Mhaswad village have worn the 65-year-old Sumantai Limbrao Gaekwad to the bone. She had walked out on her husband two decades ago, choosing to be single and survived as a daily labourer, earning a miserable Rs. 2.25 per day. Now she is the President of the SHG Federation having a membership of over 8000. When I met her in the Bank, the sexagenarian turning out in a traditional silk sari with her jewellery laden daughter in tow, smiled radiantly and said that all that was in the past now and with the bank and the SHGs, village women have a new confidence in their abilities. She had built her own house and has her own flowers and condiments shop in the temple complex.

what they earn in the various weekly markets and similarly the wage labourers who often receive a weekly salary needed suitable deposit product. The field agent system – each one of them collect around Rs. 2500 4000 per day – for savings and loans has proved sustainable and viable because it both fills the needs of the client as well as remunerative to the agents. Agents use hand held wireless simputers which help them to compile the data even from the remote areas and store

and transfer the data to the bank's computers, thus, making the system cost effective while mitigating risks.

**5.2 *Electronic Passbook:*** Women traditionally record savings and loan account information in a paper passbook. But unfortunately, this written information is also subject to unwanted inquiries and alterations by unscrupulous persons. These poor women make a conscious and continual effort to keep the passbooks hidden from relatives and spouses for risk of losing hard earned money, often to finance social evils like alcoholism. Women often counter this threat by keeping the passbooks in the bank but this practice is fraud prone. The bank took the initiative to put cutting edge technology into the hands of these rural women clients and is all set to launch SMART card technology. A plastic card equipped with SIM card technology, which is both secure and discreet, will soon replace all the paper passbooks. The card will allow both field agent and client to instantaneously view savings account balance, loan account status and repayment history. The field agents will soon be equipped with complimentary handheld device that transmit the data to the branch office via the mobile phone or bluetooth technology. There is palpable excitement among the poor rural women are highly excited about this new programme.

## 6. OTHER INNOVATIONS

**6.1 *Mobile Hat (Market Centre):*** Due to the location, many products available in the city are either not available or are exorbitantly expensive when it reaches rural areas of Mann. Therefore, the bank is taking initiative to offer its clients additional services and products through a mobile "super shoppe". The Mobile Hat will sell both enterprise related products and personal consumption items and additionally function to link the clients and their products with a larger market. By utilizing the SIM card, the representative of the Hat will instantly access a client's bank account and the bank can reflect the transaction in the account. The innovation is aimed at reducing the need for a large cash transactions removing barriers or fear of the woman, decreasing transaction time and increasing business, and improving livelihood of the women.

**6.2 *Implied property transfer:*** A feature of the bank's asset building approach is the implied property transfer in its loan contracts. A persistent problem in the area, like elsewhere in the country, is that women live their lives without ever becoming asset holders and if and when women outlive their spouses they often become displaced and socially vulnerable. To take care of such eventualities, awareness is created among the village folk about the benefits of transferring property in the name of women or to register the same jointly. The bank incentivise the process by offering 1% rebate on interest in cases where the transfer is made. However, such transfer had been attracting heavy incidence of stamp duty. The bank worked with leading legal teams and decided to request the department for exemption for urban cooperative banks from this taxation based on interpretation of a provision in the Bombay Stamps Act 1958. In 2004 the bank was successful in convincing the Revenue Department to include women names in the property papers for joint registration of immovable property. As on date nearly six thousand women have been able to get the share in the household property. Bank also gives awards to men who invest in their daughters' education and go for joint registration.

## 7. *Community development activities*

The bank with active coordination with the NGO deals with the health insurance for women and their families. Pension scheme for old women has started as also a adopt-a-grandmother and adopt-a-girl child programme. The Mann Vikas Samajik

Sanstha works with DRDA on poverty alleviation programmes. Employment opportunities are provided through subsidized programmes in collaboration with Other Backward Communities (OBC) and Backward Communities (BC) Corporations. Harvard Business School's Gyaana Group which specialize in linkages between micro finance and education, has helped them in developing vocational training programmes. Hundreds of families are provided books, clothes, stipend for vocation training and then loans to start self-employment activities. They had also launched a massive anti-alcohol campaign in the region. The group also began veterinary clinics to fill the need left by the lack of veterinary clinics in the region. Local women are also trained in veterinary practices and around 3500 members of panchayats in Satara district were trained so far.

## **8. Adoption and Replication by other cooperative banks – Issues**

8.1 There seems to be a strong and very important message for other financial institution to learn from the experiences of the model followed by MDMSB (which in turn follows the SEWA model) to fill the enormous gap that exists to realize the philosophy of financial inclusion and poverty alleviation – both in rural and urban areas - in all its manifestations.

8.2 This is particularly important in the context of co-operatives which are primarily perceived as "micro finance institutions" to service the poor and marginalized and reduce poverty and high indebtedness among small-scale farmers, villagers, artisans, etc. in both rural and urban areas. Cooperatives, micro finance when used and managed appropriately, can help give those most in need the power to improve their lives. Cooperative banks are having a long history of providing financial services to poor and low-income people as also acting as a vehicle for democratization of the country's financial system. The co-operative banks are also well placed to help people especially those who are underserved by commercial banks as they focus primarily on the provision of products and services for the benefit and welfare of their members.

8.3 Unfortunately, the cooperative banking sector, as a whole, is not in good shape due to various reasons. The cost of funds for the urban banks are not market related and higher by at least 200 basis points over commercial banks and consequently their lending rates are also far higher. Since they are outpriced, they mostly have to depend on "risky" borrowers to propel their deployment. Microfinance opens an enormous business opportunity for banks to commercially earn more profit as well as reduce their non-performing assets while fulfilling the required social responsibilities for which they are primarily set up. Like MDMSB, most of the micro finance providers have high average loan repayment rates.

## **9. Learnings**

9.1 The role of the field worker within the micro finance provider is seen to be pivotal for ensuring success. The business model has to be customized and calibrated according to the size and location, and need to be coupled with technology, innovation and change. The survival strategies of the hapless poor women of Mann taluk as brought out in this article should fashion and sharpen suitable response initiatives among the other players in the microfinance field. Important elements to be considered for future strategies include (i) need for designing new, innovative loan and savings products to suit the members requirements (ii) technical assistance and credit support to members for diversifying their income generation activities (iii) financial counseling (iv) micro insurance and (v) other developmental services like health, education and training. In our effort to

reduce poverty and achieve sustainable development, we may view the cooperative banks – which strengthen the participation and inclusion of poor in financial decision making and management - as instruments of effectiveness in extending the reach of microfinance to poor people, especially women. One outstanding feature observed in the context of MDMSB is that it uses microfinance as safety nets to increase disaster resilience among the rural poor women of Mhaswad and how its small loans have helped rural women to conduct business, acquire property rights, break caste barriers and play key roles as panchayat members.

### **EDITORIAL NOTE**

*This article is an attempt to showcase the innovations and client-friendly approaches adopted by socially conscious financial institutions. The study of the bank has been focused on aspects relating to empowerment and handholding of their poor clients to scale the development ladder. The study has not included the internal systems and processes of governance, etc.*

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### **Box 1 - Thus Spake Shri V. Leeladhar, Deputy Governor, Reserve Bank of India**

#### *What is Financial Inclusion?*

Financial inclusion is delivery of banking services at an affordable cost to the vast sections of the disadvantaged and low income groups. Unrestrained access to public goods and services is the *sine qua non* of an open and efficient society. As banking services are in the nature of public good, it is essential that availability of banking and payment services to the entire population without discrimination is the prime objective of the public policy.

#### *Consequences of Financial Exclusion*

Consequences of financial exclusion will vary depending on the nature and extent of services denied. It may lead to increased travel requirements, higher incidence of crime, general decline in investment, difficulties in gaining access to credit or getting credit from informal sources at exorbitant rates and increased unemployment, etc. The small business may suffer due to loss of access to middle class and higher income consumers, higher cash handling costs, delays in remittances of money. According to certain researchers, financial exclusion can lead to social exclusion.

#### *Indian Scenario*

The branches of commercial banks and RRBs have increased from 8321 in 1969 to 69282 as at the end of March 2005 and the average population per branch office has decreased from 64000 to 16000 during the same period. One of the bench marks employed to assess the degree of reach of financial services in the country is the quantum of deposit accounts held as a ratio to the adult population. In the Indian context, the ratio of deposit accounts to the total adult population was only 59%. Compared to the developed world, the coverage of our financial services is quite low. With a view to enhancing the financial inclusion, RBI in its Annual Policy Statement for the year 2005-06, while recognizing the concerns in regard to banking practices that tend to exclude rather than attract vast sections of population, urged banks to review their existing practices to align them with the objective of financial inclusion.

#### *Way Forward*

It is becoming increasingly apparent that addressing financial exclusion will require holistic approach on the part of banks and they would have to evolve specific strategies to expand the outreach of their services. One of the ways in which this can be achieved in a cost effective manner is through forging linkages with micro finance institutions and local communities. Technology can be a very valuable tool in providing access to banking products in remote areas. Banks need to redesign their business strategies by treating the low income groups as business opportunities as well as corporate social responsibility. They have to make use of all available resources including technology and expertise available with them as well as MFIs and NGOs. It may appear in the first instance that taking banking to the sections constituting "the bottom of the pyramid" may not be profitable but it should always be remembered that even the relatively low margins on high volumes can be very profitable proposition. Only the banks should be prepared to think out of the box.

(Excerpts from the commemorative lecture by Shri V. Leeladhar, Deputy Governor, Reserve Bank of India at the Fedbank Hormis Memorial Foundation at Ernakulam on December 2, 2005)

**Box 2****83<sup>rd</sup> ICA International Co-operative Day – 11th UN International Day of Cooperatives - (2 July 2005)****Theme: "Microfinance is OUR business! Cooperating out of poverty"**

This year the theme of the International Co-operative Day links to the United Nations International Year of Micro credit and addresses the contributions of savings and credit co-operatives, credit union, co-operative banks and insurance co-operatives. Access to finance and to financial services is essential to reduce poverty. Poor people need easily accessible, trustworthy, sustainable and economically viable institutions to which they can entrust their savings, which offer loans at affordable conditions, and which provide a safety net through basic insurance services.

Amongst the most successful micro-finance institutions worldwide are member-owned institutions and in particular savings and credit cooperatives, insurance cooperative and cooperative banks. Savings and credit cooperatives (or credit unions) were pioneered by local leaders such as Friedrich Raiffeisen and Hermann Schulze-Delitzsch in the 19th century as a means to reduce poverty and over indebtedness among small farmers and craftsmen in urban and rural areas. Today, they exist and strive in every region of the world, and have been able to adapt to very different socio-economic environments. Despite their commercial success they managed to stay close and committed to their original client base. Credit unions and similar financial cooperatives have demonstrated that micro-finance services can be delivered to the poor in a sustainable way. Being rooted in local communities and managed by local people, such cooperatives can take advantage of social capital in situations where financial capital is scarce. Capacity building for the poor in money management, saving approaches and enterprise planning have proven to be essential building blocks for effective and sustainable cooperatively managed microfinance.

Cooperatively managed micro-finance institutions enable the poor to pool their resources so that they can be used for productive investments and job creation. The social control and democratic management style that is proper to cooperatives generally secure savings and ensures repayment of loans. Cooperatives thus provide the poor with appropriate financial solutions that enable them to collectively work themselves out of poverty.

**Box: 3 - Some of the success stories**

- Sindhutai Vilas Dhaure, 42, was married to a tailor with hardly any earnings. "But I had to survive and provide education to my son as well", she said. Dhaure took a loan of Rs. 30000 from the bank to start a business of selling sprouted lentils and beans, which are considered as cheap yet highly nutritious food items and are consumed liberally. Beginning with an initial investment of Rs. 1000-1200 of vegetables per day, which she soaked overnight so they would sprout, she supplied them in packets to local households, small vendors, tea stalls, hotels, etc. She now sells an average of 1500-1800 per day and her net income has jumped from Rs. 600 to Rs.2500 per month. She saves Rs. 50 per day at the bank and has slowly built up her assets including a colour TV and a steel almirah and some gold. She proudly states that she spent Rs. 80000 on her son's wedding.

- Kamal Jaisinh Gore, a vegetable and milk vendor, is a widow with two children. She took a loan of Rs. 5000 from the bank to buy a buffalo. She has managed to repay the loan well in time. Gore saves Rs. 10 a day at the bank. "Earlier we were at the mercy of the local moneylenders who charged interest rate of 5-6 percent. The bank charges only 1.5 per cent and it has made life so much easier for us" she said.
- Every day Nakusa is reminded of her painful childhood as her name in Marathi means unwanted. She recalls with sadness how her entire family was thrown out of their home and onto the street. She soon started begging for a living. Nakusa did not allow her dismal past to predestine her future. Some years ago, she approached the bank for a loan of Rs. 10000 which she used to free herself from the moneylender. After repaying the first loan, she took a second loan of Rs. 30000 to purchase a piece of land and a third loan of Rs. 60000 to develop that land into a farm. Today, she is a proud owner of 3 acres of land, one cow, two buffaloes and 100 chickens. She is now assisting other women like herself by acting as director of SHG Federation and coordinating the activities of some SHGs on her own
- Vandana Sazgane, a woman from the shepherd community, who is a shareholder and client of the bank said " I rear sheep and goat and my husband and I are away for four months during the rearing season. During this time, my mother-in-law looks after our children. A cell phone loan has helped me to be in touch with the kids and the family.