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ABSTRACT

Financial inclusion facilitates households' access to and use of financial services and thereby improves their socio-economic wellbeing. Several policy attempts are being made in India to reach the financially excluded segments of society through formal institutions. Cooperative banks have played a critical role in the countryside to reach the rural poor through collateral-free lending practices. In this study, we analyze the microfinance business model of a District Central Cooperative Bank (DCCB) and its role in financial inclusion. The study finds that DCCB has innovated unique approaches to reach the unbanked and under-banked rural segments through microfinance-plus services. As a result, the bank could reach 0.5 million poor households at the bottom of the pyramid and could attain profitable microfinance businesses. Commercial, rural and cooperative banks have ample policy direction from this study to adopt a similar microfinance business model and to make financial inclusion a sustainable development effort.

Keywords: Cooperative Banks, Financial Inclusion, Microfinance, Business Models, and India.

JEL Classification Number: G21, G23

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1. Introduction

Rural cooperative banking and credit institutions are instrumental in meeting the growing credit needs of rural India. Historically, cooperatives are an institutional mechanism to deliver credit services to small borrowers at an affordable cost and to address the dual issues of the rural credit market - indebtedness and poverty. Through more than 100 years of its existence, rural credit cooperatives have occupied a unique place in the rural credit delivery system with outstanding growth in geographical and demographic outreach[1] and volume of business. They are conventional and local-based institutions that have facilitated financial inclusion in India.

India's cooperative banking structure comprises urban cooperative banks (UCBs) and rural cooperative credit institutions. These institutions are registered under the provisions of the State Cooperative Societies Act of the respective states or the Multi-State Cooperative Societies Act. The rural cooperatives are further divided into short-term (ST) and long-term (LT) structures. The ST cooperative banks are operating in either two or three-tier systems in different states of India as State Cooperative Banks (at the apex level in states), District Central Cooperative Banks (at the district levels), and Primary Agricultural Credit Societies (at the village or grass-root level). The long-term structures are further divided into State Cooperative Agriculture and Rural Development Banks (SCARDS); these operate at the state level. Primary Cooperative Agriculture and Rural Development Banks (PCARDBS) operate at the district/block level. As of end-March 2021, India's cooperative banking sector comprised 98042 cooperatives consisting of 1534 Urban Cooperative Banks (UCBs) and 96508 rural cooperatives. District Central Cooperative Banks (DCCBs) are one of the rural cooperative institutions which work to cater to the financial needs of the rural poor. In the country, at end-March 2021, there were 351 DCCBs which accounted for 42.53 percent of the total assets of the rural cooperative credit institutions (RBI, 2021).

Cooperative banking institutions were late entrants to the Self Help Group – Bank Linkage Program (SHG-BLP) microfinance market in India. However, they recorded a growing share in the microfinance market over some time (Harper, et al*.* 2005). Cooperatives are local-level institutions while SHGs are found to be the best democratic intermediaries to reach the poor and/or women in villages. Cooperatives and SHGs are member-owned and controlled institutions, providing basic banking services to their members. They can facilitate members' access to microfinance-plus services for better utilization of banking services and targeting poverty (Harper, et al*.* 2005; Kumar K N, 2012). The Bidar DDCB in Karnataka developed its SHG business by establishing a separate Micro Credit Division, functioning as a Self Help Group Promoting Institution (SHPI), to train branch officers and PACS staff for sustainable SHG promotion and to link them to the bank. While lending to SHGs, the bank did not experience any non-performing

[1] Geographically, cooperatives institutions played a key role in spanning formal financial services in the countryside and small towns. Demographically, they have enabled access to formal financial services to low and middle-income group's customers in both rural and urban areas.

assets. Lending to SHGs was found to be viable both for the DCCB and for the PACS (Seibel and Dave, 2002). Mohanty (2008) found that PACS in Bidar have been able to integrate SHGs very well in their financial and social functioning. The staff of PACS was motivated to lend to SHGs and witnessed a very active role in the SHG business of DCCB. The SHG BLP has brought 90 percent of the total savings of PACS, being accounted for by the savings of SHGs. It shows that the SHG business of Bidar DCCBs was able to use its grass-root networks like PACS to reach the vulnerable with minimum cost and time.

From the above studies, it is understood that the DCCBs have played a very crucial role in the formation of SHGs and in delivering banking services to the poor in India. These banks innovated various delivery mechanisms for microfinance services and found mammoth business opportunities at the bottom of the pyramid. However, there is a very limited number of studies that are reported to have examined the business model adopted by DCCBs and its implications for future microfinance development in India. In this paper, an attempt is made to examine the efficiency of the microfinance business model of a cooperative bank in sustainable and profitable financial inclusion. The paper is divided into seven sections. The rest of the paper is organized as follows. Second section deals with literature review. Third section deals with the methodology of the study. Fourth and fifth sections discuss cooperative banking in India and SCDCCB's microfinance business model. Sixth section presents the study findings and discussion. The paper ends with some brief concluding remarks and policy implications in the final section.

2. Literature Review

This section presents a review of extant literature and brings out the key findings of studies covering themes of inclusiveness and SHG; the role of cooperatives in SHG-BLP and inclusive finance; sustainability and profitability of business models of banks approaching microfinance; and the importance of handholding; and, training, marketing, and insurance services provision in cooperative and inclusive banking.

2.1 Inclusiveness and SHG

Study by Karpowicz I (2016), finds that lowering constraints on collateral promises higher growth, while inequality is better tackled through measures that lower the financial participation cost. Batra V and Sumanjeet (2012) in their paper exploring the role and performance of various delivery models of microfinance in India while focusing on issues of outreach, impact, and sustainability, observe that SHG based finance nurtured and aided by NGOs has become an important alternative to traditional lending in terms of reaching the poor without spending a large amount of financial and other resources in operating and monitoring costs. It is also found that if credit to the poor is integrated with suitable insurance products, it can affect the lives of millions of poor in wider positive directions.

Ahmed F, et al. (2011) use multiple regression analysis in identifying the factors contributing to respondent's contribution to the family's monthly income. Comparing groups of rural women with credit and without credit, the analysis revealed that the micro-credit program contributes to the development of the socio-economic status of rural women in Bangladesh through adequate and timely availability of credit for income-generating and productive activities improving women's education level and initiating skill development training.

2.2 *Role of Cooperatives in SHG-BLP and Inclusive Finance*

Harper M, Berkhof A, and Ramakrishna R V, (2005) in their paper emphasize the need for detailed studies to understand the various dimensions of the interrelationship between the SHG linkage program and revival and strengthening of the cooperative banking sector. In examining the pertinent issue of role of DCCB in SHG-Bank linkage, this study suggested that it is in the interest of both customers and banks if SHGs are linked to PACS rather than DCCB branches. The paper raises the very important sustainability issue for SHG lending by DCCBs in the context of the contribution of the SHG segment towards reducing the CD ratio, by increasing the proportion of savings to lending. It was noted for the sampled DCCBs, that SHGs save more than twice as other customers in proportion to their borrowings. This is a very strong reason for encouraging this form of business if it can be shown profitable.

Seibel H D (2009) in describing the case study of Bidar DCCB notes that the DCCB has achieved a revolution in inclusive outreach despite the poor overall performance of the credit co-operative sector. Its approach to SHG includes a microcredit cell dedicated to the various important aspects of promoting SHGs. Training center specialized in SHG Banking (SHARADA) – Sahakara Rural Development and Self Employment Training Institute and branch-led led SHG training facilities, focusing training in group management, income generation, book-keeping, etc., of SHG members and animators respectively. Marketing assistance, product design assistance, standardization, packaging, and filling are considered essential for the sustainability of SHG business and the establishment of a subsidiary to pursue the promotion of marketing directly is suggested. The author reiterates the potential role of co-operatives in achieving inclusive outreach and underlines the need for reform in cooperatives, reinstating the theme of the genuine empowered sustainable organization to be nurtured and supported.

Soni A K and Saluja H P S (2013) in their empirical paper analyze the role of a cooperative bank in agricultural credit. The study notes that an increase in the level of agricultural loans granted by the cooperative banks positively influences the development of agriculture in India. Patra R N and Agasty M P (2013) in their study on the cooperative credit system in Orissa reiterate that cooperatives are the most suitable organizations for dispensing credit. Necessary credit counseling, technical guidance and building client capabilities in credit absorption are essential for rural development.

In a comprehensive study of the role of credit cooperatives in the Agricultural Development of Andhra Pradesh, Devi R U and Govt SRK (2012) conclude that cooperative credit has become vital not only for agricultural development but also for the overall development of the people. In addition to reiterating that agricultural credit and agricultural development go hand in hand, the results of this study emphasized the need to enlighten the farmers about superiority and profitability of improved technology through the extensive credit services. The study noted that role of credit cooperatives is highly impressive and clearly exhibited in the socio-economic development gained by the beneficiaries. In a paper attempting to analyze the role of cooperative banks in rural development in the state of Sikkim in India, Saikia U K (2015), notes that to cope with the situation of declining vitality of the cooperative banks, the government and NABARD have to rethink about this sector and take some measures to revive the cooperative sector through more capacity-building efforts on rural livelihoods in grassroots levels. This will lead to a better bank-borrower relationship, financial inclusion, and social security in rural India.

2.3 *Sustainability and Profitability of Business Models of Banks Approaching Microfinance*

Seibel DH and Dave HR (2002) in their paper observe that SHG-bank linkage is viable and inherently profit-making for all participating financial institutions and SHGs. They also note that while most of the SHGs may not require to be regulated, they do need effective supervision to have their books examined and fraud prevented. The paper measures profitability in terms of Return on Investment (ROI) and Operational Self Sufficiency. It finds that the profitability of SHG banking products is positive throughout the studied units viz., PACs, Public sector banks, Regional Rural Banks, and DCCBs. It also noted that the profitability of SHG banking products significantly exceeds the profitability of respective units: bank, branch, or co-operative society, using average cost analysis. The paper documenting Bidar DCCBs Business model for SHG banking highlights the role of a separate Micro Credit Division functioning as SHPI. Another characteristic of this model is treating all branches and PACS as the bank's instrument of sustainable SHG promotion at the grass-root level.

Karduck S and Seibel H D (2004) note the lack of conclusive evidence for the fact that while SHG banking has proved to be a highly social proposition to the poor, is it also a commercial proposition. The authors also state that there is no national study with an agreed-upon methodology. The paper based on a field study carried out in Karnataka state, comprising 78 SHGs linked to RRBs, Commercial banks, and PACS under a District Co-operative Bank, concluded that SHG banking is highly profitable to banks and highly beneficial to SHGs and their members. The study also shows that the transaction cost of a non-representative sample of SHGs and their members is low and decreases with increasing loan volumes.

World Bank Report titled - Scaling Access to Finance for India's Rural Poor (2004), notes some of the key challenges facing the SHG-Bank Linkage initiative, like inadequate attention to group quality (which could jeopardize longer-term credibility and sustainability), capacity constraints, and group formation costs. Interest rates by state-owned banks are also a cause of concern, which are between 9 to 12 percent per annum, even though studies indicate that all-inclusive costs are much higher, ranging from 15 percent to 28 percent per year. Unless banks charge interest rates to recover costs, the model's financial viability and longer-term profitability may be jeopardized. In the case of MFIs also many of the same factors, like capacity, time and cost issues related to group formation have posed constraints. The study notes that new private sector banks approached the business model innovatively looking at microfinance as a potential business and not merely as a social or priority sector lending obligation.

Approaches include the use of NGOs/MFIs/Traders/Local Brokers (who are close to farmers by the nature of their business), service providers for organizing managing, and collecting loans to groups of small and marginal farmers. A new approach of `Integrated Agricultural Service Provider' (IASP) identified by banks, which has a good relationship with farmers met and provides genuine and timely information through extension services and enters into a tripartite agreement with the IASP and the output buyer. This reduces transaction costs and the risk exposure of all parties and therefore presents a potentially low-cost way of serving the rural poor engaged in marginal or small farming. The study also notes the significance of efforts directed at assisting in skill development, technology, and marketing – all of which are critical to ensuring a sustainable increase in incomes and improvement in rural livelihoods.

Seibel HD and Torres D (1999) in their paper examining the sustainability of financial outreach approaches to the poor, study a Grameen model replicator in the Philippines `CARD – Centre for Agriculture and Rural Development'. They mention that CARD's success indicates that Grameen – type MFIs can be sustainable and can substantially increase the outreach. The study notes that out of the 27 Grameen replicators in Philippines, sustainability as measured by financial self–sufficiency ratio, is in sight for only one of the replicating institutions CARD Rural Bank. With this exception, all the other replicators are unsustainable and consequently are unable to reach a significant number of poor people. Some innovative features of CARD Bank in this context are local rural bank status, and demand-driven, differentiated loan and insurance products that cover all costs and risks, and client differentiation through different size loans and deposit products.

Thapa G (2006) in his study of reviewing experiences of microfinance institutions in different parts of the world in areas of sustainability and governance, notes that sustainability of a Financial Institution requires not only financial viability but also a clear strategic vision and an organization that is transparent, efficient and accepted by all stakeholders. There is a need to continuously innovate new institutional models of MFIs that can sustainably reach the rural poor. Sriram M S (2005) in his paper reviewing the performance of formal institutional channels of microfinance noted that the success of the SHG-Bank linkage program in states like Andhra Pradesh is attributed to the existence of strong institutions involved in social intermediation which help in formation of SHGs. Oriental Bank of Commerce (OBC) discovered that microfinance could be a profitable business through one of its pilot branches. The SHG exclusive branch flouts all accepted banking norms in order to invest significant time and resources in nurturing SHGs.

Bos J W and Millone M (2015) in their approach to model the dual objectives of profit maximization and outreach by MFIs premise that different institutions can and should have different output mixes, as these outputs can result from their attempts at maximizing social and /or financial performance. Empirical results of the study show that the efficiency of MFI s increases when they offer entrepreneurship programs targeted at women. Puhazendi V and Satyasai KJS (2001) in their empirical study note that a model where NGO acted as a non–financial intermediary could perform better than the other models.

2.4 Handholding, Training, Marketing, and Insurance Services Provision in Cooperative and Inclusive Banking

Marar P, Iyer B S, and Brahme U (2009) in their study find that there is an imminent need to bolster the micro-lending with capacity-building activities and investment, to make the utilization of borrowed money more efficient and sustainable to create visible, high impact livelihood strategies for SHG women. Dasgupta R (2001) notes that profitable investment opportunities need to be created before thrusting upon anyone investment credit. The government is required to create an environment where genuine NGOs can perform effectively as SHPIs and banks can conduct business with SHGs on their own

Jayashankar P and Goedegebuure R V (2012) describe the case study of a successful NGO offering microfinance. The study documents the effective of role marketing strategies specially designed for SHG sectoral outreach and service in enhancing the loyalty of SHG members as well as fostering micro-entrepreneurship at the grass root levels. Remarkable improvement in the socio-economic status of SHG clients justifies the aptness of such a marketing approach.

Jain SK and Tripathy KK (2011) in their empirical study concluded that micro-enterprise finance through SHGs has neither been successful in the developed regions nor in the backward areas in percolating the core message of socio-economic development through micro-enterprise in a rural business set up. Lack of intervention from the supply side in handholding towards financial literacy, group management, regulation, product/marketing-related training/support, and assistance are observed as hindrances in the success of the microcredit approach enabling upward and sustainable enhancement in employment and income of unprivileged households.

Dulamragchaa and Izumida Y (2011), in the study of Mongolian microfinance methods, point out that Field officers of bank knowing the economic situation of bank's customers as a bank's policy of "know your customer" approach helps solve problems in information asymmetries in rural areas. Ike PC (2013), in the study comparing randomly selected women beneficiaries and non-beneficiaries of microfinance services operating different business enterprises in Enugu State, Nigeria observed a significant difference between growth in their incomes. The study attributed this difference to services rendered by microfinance institutions. It was concluded that formal training on the use of accessed credit for the improvement of business activities is one of the core services of microfinance institutions and should be implemented to improve the performance of the client entrepreneurs.

Jumpah ET, Tetteh E K, and Adams A (2018) in their study with a sample of 250 respondents utilizing quantitative and qualitative data note that lack of training for borrowers on credit management and investment procedures adversely impacted loan repayment. They recommend that MFIs should institute measures to train borrowers on loan utilization as well as put in place mechanisms to reduce the cost of operations. Fatima S (2013), in her study of the SHG-BLP of the State Bank of India in state of Bihar notes that marketing of SHG products requires focus to sustain the micro-entrepreneurship, and NGOs can be called upon to partner in this. Another dimension identified in the study was the cost of promotion of NGOs. This study emphasized relationship banking i.e. improving the existing relationship between the poor and the bankers with a social intermediation of NGOs.

Mwenda K K and Muuka G N (2004) in studying best practices of effective microfinancing projects emphasize the importance of working directly in the community through regular and frequent visits to villages and poor neighborhoods to meet the existing clients and meet newer ones. Chalritonenko S and Campion A (2003), in their study on practical approaches to the successful explanation of rural microfinance by commercially oriented MFIs, note that non-financial interventions can help build demand for and ability to utilize rural finance, such as strengthening local groups and organizations, training in business and financial skills, and business development services that support both agricultural marketing and non-farm enterprises. The paper adopts a case study approach to understanding the ways to outreach expansion of commercial microfinance.

Bali S R and Varghese A (2014) in their empirical study evaluate the impact of training in SHGs on two outcome measures, income and assets using regression adjusted matching methods. The study finds that specialized business training workshops administered by NGO s have the greatest impact on assets and no impact on income. The lack of an effect on income indicates that much more effort is required to encourage income generation e.g. marketable goods, infrastructure, etc.

The literature review brings to light certain dimensions of inclusive banking, the role of cooperatives, and business models. It is noted that SHGs have the potential for inclusive development and cooperatives can be instrumental in inclusive banking involving SHGs. Studies also explore the profitability and sustainability of business models of banks attempting such inclusive initiatives. A very decisive role of microfinance plus services in this regard is noted in the review.

3. Methodology

At the elementary level, the business model is defined absolutely in terms of the firm's economic model with a concern for profit generation. At the operational level, the business model represents an architectural configuration with a focus on internal processes and the design of infrastructure that enables the firm to create value (Morris, et al., 2005). In this study, we analyze the microfinance business model of a DCCB on the premises of strategy and choice of targeted customer, its value proposition in terms of its product and service offerings, its production and delivery processes and its organisation structure to link various stakeholders, and the resultant financial model of the business.

In the state of Karnataka, there are 21 functional DCCBs; South Canara District Central Cooperative Bank (SCDDCB) is one of the best-performing DCCB and it has occupied the first place in the state for the last 17 years. SCDCCB's growth in share capital, deposits, borrowings, loans outstanding and profit is comparatively higher than the national average. The bank showed high recovery performance with having only 3.12 per cent of NPAs as compared to national average of 9.74 per cent. The bank reported a very high percentage of share in total deposits, borrowings, loan disbursed and loan outstanding in the state of Karnataka (Table 1 and 2, Annexure 2).

The study uses both primary and secondary data of the SCDDCB and its two branches. The selection of the bank is purposive; however, the selection of the branch is random and based on SHG penetration and business across two districts of its operation, i.e. Dakshina Kannada and Udupi. Descriptive and analytical research designs are adopted in the study to examine the business model and its operations in SHG lending. Personal interviews were held at the bank with the chairman and board members, senior executives and branch managers. In addition, the interviews of the CEO of NGVCT, an NGO of the bank, along with its field officers was also conducted. The primary data was collected through a structured questionnaire. The secondary data of the bank was collected for the period 2006-07 to 2015-16 through excel data templates and from annual reports.

4. The South Canara District Central Cooperative Bank

Karnataka is located in the southern part of India. It has the ninth place in terms of population size and fifth in terms of land area in the country. South Canara has been one of the coastal districts of Karnataka even from the pre-British period. In 1997, the district was divided into Dakshina Kannada and Udupi. Erstwhile South Canara has a long history of enterprising activity. The district is known for primeval beaches, Mangalore tiles made out of red clay, cashew-nut, areca-nut, coconut and its byproducts, banking, education, healthcare, and exotic cuisine. Sea trade through the port of Mangalore was familiar to the region since time immemorial and now it is a petrochemical hub too. The district was known as 'The Cradle of Indian Banking' and contributed the country with four nationalised banks (Canara Bank, Syndicate Bank, Corporation Bank and Vijaya Bank) and one private sector bank (Karnataka Bank). According to the 2011 Census, the district ranks second in per capita income, second in human development index, first in literacy and third in sex ratio among all districts in the state of Karnataka.

Molahalli Shiva Rao, who is referred to as the 'Father of Cooperative Movement' in the undivided district of South Canara, founded the South Canara District Central Cooperative Bank, which started operations in 1914 as the seventh central cooperative bank in the erstwhile Madras Presidency at Puttur, and was later shifted to Mangalore in 1927. The bank has given top priority for financing the agricultural sector since inception by taking into consideration various credit needs of the farmers. It serves farmers by providing timely and adequate finance through the Primary Agriculture Credit Societies (PACS) at the ground level. The bank is also taking active participation in government-sponsored schemes such as SGSY, Swarojgar Credit Card Scheme, etc. The bank has issued 90,749 Mangala Kissan Credit Cards to members of the PACS out of which 71,389 members have been covered under personal accident insurance schemes. A sum of Rs 677.96 crore has been advanced under this scheme during the year 2013-14. The borrower under crop loans is also covered by the crop insurance scheme sponsored by the government. With a view to diversify the activities, the bank has also financed Rs 1,080.72 crore to the non-farm sector. The bank has provided financial support to the sugar sector under a consortium arrangement and advanced Rs 19.88 crore to six sugar factories in various districts of the state.

Nurturing the motto of economic empowerment of cooperative societies, the bank reached its centenary year as a leading cooperative bank with modern technology, steady business growth, profitable functioning and consist recognition as a top performing DCCB of the state. At present, the bank has 101 branches and 174 PACS spread across the districts of Dakshina Kannada and Udupi. The management of the bank is vested with Board of Directors consisting of 15 members under the chairmanship of the veteran cooperator Sri M N Rajendra Kumar, who was also the former president of Karnataka State Cooperative Apex Bank. The bank has been awarded as Best DCC Bank from KSC Apex Bank, Bangalore since the last 14 years.

5. Microfinance Business Model of SCDCCB

The microfinance programs of the SCDDCB were started in 1999 with the introduction of the Navodaya SHG Project/Scheme. The project had three broad objectives premises to: (a) create awareness and provide basic education to rural women, (b) inculcate savings habit and enable the rural poor to multiply the funds available with them and, (c) create an atmosphere conducive to mutual help and togetherness and to identify and upgrade the skills available with the rural women in order to increase the level of income generation. In achieving these objectives through SHG formation and its bank linkage, SCCDCB formed the Navodaya Grama Vikas Charitable Trust in the year 2004. In 2015, with the help of the Trust, the bank promoted 40,336 SHGs (covering of 0.43 million households) across DK and Udupi districts with a savings of Rs 131.59 crore. From the total SHGs formed, 31,497 SHGs were credit-linked with the bank for Rs 158.52 crore advanced to them. SHG deposits account for around 4 per cent of the total bank deposits and around 9 per cent of the total loan outstanding (Tables 3 and 4, Annexure 1). For its consistent and remarkable microfinance outreach, the bank has been awarded state level awards for best performance of SHGs from NABARD since the last 11 years. The generic microfinance business model of SCDCC Bank is presented in Figure 1.

The discussions on the microfinance business model designs of the SCDDCB are premised upon the strategic intent of the bank, choice of customer, products and services, process and organisational structure, operational strategy and financial model and are presented in the below sub-sections.

5.1 Strategic Intent for Microfinance Business

The SHG microfinance business is around 11.4% of the total portfolio of the bank. This significant exposure results from a clear recognition of microfinance business as an opportunity and corporate social responsibility by the top management. Equality and inclusion of the poor in mainstream economy serve as the motive to focus on these segments to help them to overcome their limitations by way of financial inclusion. These are the core values of the bank. SHGs are thus seen as developmental vehicles for improved socio-economic conditions of deprived segments of the society. SHGs have enhanced the bank's connect and reach through mobilisation of deposits (current account and savings accounts) and advances (agriculture, retail, micro-enterprises, etc.) from untapped rural markets.

5.2 Target Customers

The targeted customers make for an important segment in the business models and their financial needs determine the product and service offerings as well as the process and organisation structure required to deliver the same. SCDCCB has targeted certain chosen set of customer groups for building up their banking portfolio based upon the strength of the institutions and the geographical base of its operations. The bank's target group of microfinance customers are from farm and non-farm sectors like marginal farmers, fishing community, beedi workers, retail fish merchants, agriculture and non-agricultural labourers (workforce engaged in cashew-nut factories, etc.) small and micro-entrepreneurs and so on from the districts of DK and Udupi.

5.3 Products and Services

The bank offers compulsory savings products (savings bank account) and voluntary deposits like recurring deposits, fixed deposits, etc. The basic loan product of the bank is term loan along with personal loans and jewelry loans. The bank also offers health insurance services to its microfinance clients. In addition to the above, the bank also provides Rupay debit cards and remittance facilities to its customers.

5.4 Process and Organisation Structure

The SCDCC Bank's Board of Directors comprises Chairman, Vice-Chairman, 12 Directors and one state government nominee (Deputy Registrar Societies Government of Karnataka). The Chief Executive Officer/Managing Director (CEO/MD) takes care of the day-to-day activity of the bank (refer organisational structure of the bank in the annexure). At the next level, there are two General Managers (establishment and loan) reporting to CEO/MD. There are four Deputy General Managers and four Assistant General Managers in-charge of the departments like planning and branch business, establishment, loan, etc. Subsequently, there are officers reporting to the senior executives of different businesses of the bank. The microfinance vertical (SHG cell) at the corporate office has a Nodal Officer who exclusively looks after the microfinance business. The branches of the bank also have an SHG cell for focused attention and coordination of SHG business. The SHG cell at the branch level works with the guidance of the branch manager with an exclusive official in-charge of the microfinance business along with an animator from the Navodaya Trust in the designated villages/hamlets. The officer in-charge of the SHG cell at the branches works closely with taluk and district level supervisors of the Navodaya Trust for ensuring timely and adequate financial and non-financial services to the microfinance customers and follow-up and recovery.

SCDCCB established an NGO, the Navodaya Grama Vikasa Charitable Trust (NGVCT), in the year 2004. It serves as the coordinating element between the bank and SHGs. On one hand it provides banking services to SHGs, and on the other hand provides the bank with a robust base of SHGs. NGVCT forms SHGs, provides help in group management, financial management, facilitates training and guidance for income-generating activities, and provides market linkages, in addition to assistance in savings and credit linkage to the bank. The board of SCDCCB is also the board for Navodaya NGO and headed by a Chief Executive Officer (CEO), supported with team of district and block level supervisors and field level officers (animators). The lending activity of the bank takes place at two levels: (a) through head office to branch and SHG and (b) through head office to branch, PACS and SHGs.

5.5 Operational Strategy

To reach the bottom of the pyramid and democratic functioning in the management of microfinance, the SHG operations are managed at the bank and NGVCT level. The NGVCT manages the SHG business with help of a district level supervisors at the district headquarters and the taluk supervisors work at the sub-districts (tehsil/taluk) level, depending upon the number of sub-districts in the district. Each taluk supervisor may have a team of 30 animators, who works at the grass-root level, linked to different bank branches and PACS.

On joining, animators are provided with four-day training in SHG formation, management, book-keeping and information about government schemes for upliftment of the vulnerable and financially excluded poor. Each animator has to work for one centre which comprises of three villages and about 100 SHGs. Taluk supervisors and animators use information gathered from Gram Panchayat and 'Anganwadi' workers to identify village and members for SHG formation. Later, in the designated villages, with help of the panchayat and other local level institutions, a meeting by the NGVCT is called and in that meeting the taluk supervisors introduce the animators and explain the importance of SHGs and microfinance programs of the bank for financial inclusion. Soon after the preliminary meetings, the animator start a door-to-door campaign about the microfinance program of bank by visiting all households in the village to identify the potential members (men or women) for the same. It is ensured that one member only from each family is made an SHG member to avoid dual membership.

On group formation, three programs are conducted for SHG members with the help of NABARD, Krishi Vigyan Kendra (KVK) and Rural Entrepreneurship Development Program (REDP). Animators train members in group management activities. For each group a president and secretary are selected, and are changed each year. Weekly meetings are encouraged with compulsory savings from members and an account is opened in the nearby SCDCCB branch. The animator accompanies members for opening the savings account at the bank. Each member is issued a passbook. For the first six months, the total group savings is kept in the bank. After completion of six months of regular savings, internal lending starts with a group-decided rate of internet on the loan. The animator regularly visits the group and observes the lending process and repayment behaviour of the members for six months and in case of regular repayments, credit linkage to bank branch is suggested.

The bank provides term loan for 3-5 years at the interest rate of 13 per cent per annum. The SHGs are provided with interest subsidy from government which makes the effective interest rate to be around 4 per cent. Animators help in filling and processing of loan application for SHGs in the branch. The loan application to the bank consists of individual loan application form, SHG loan application form, grading sheet audited by NGVCT and SCDCCB, inter-se agreement, loan agreement and inspection report from the bank which goes to the head office. Grading of the group is carried out by animators, supervisor and officers from the bank using a grading format developed by NGCVT, which includes parameters such as regular attendance, savings repayment, etc. The groups obtaining the grades of 80 per cent and above are considered eligible for credit linkage.

In case the group obtains less than 80 per cent grade, the grading procedure is repeated after some time. In case the grade is less than 60 per cent, the group is ineligible for credit linkage, and to address its deficiency, NGVCT provides all support and training inputs to the group to improve its grade the next time and get credit access from the bank. The maximum loan amount is four times the saving amount, but does not exceed Rs 50,000 per member while sanctioning the loan. Higher loan amount is given only after considering the maturity of the SHG. All the members are called to a bank branch before loan disbursal so that they know that the loan is disbursed under joint liability. The designated district and block level supervisor undertake scrutiny of the loan application on a daily basis. The loan application is then forwarded to the credit department of the branch.

5.6 Economics of SHG Lending Program

The financial aspects of the microfinance business is one of the important segments in the business model. An estimate of the economics of SCDCCB's microfinance operations are reported in Table 1. The broad areas of costs and revenues, provisions and profits are discussed to understand the financial model or economics of the microfinance business of SCDCCB.

Costs on Microfinance Operations

There are essentially three main cost heads for microfinance operation for SCDCC bank: (1) interest cost of the bank includes interest paid on SHG deposits [A] as well as interest paid on other sources of funds which have been lent to SHGs [B]. The former is estimated on the basis of interest rate at 4 per cent charged on the average amount of savings in the SHG account, while the latter is estimated at an interest rate equal to the cost of fund for the bank during the year, as published in the annual report, (2) general operating costs for the bank [C], which include manpower and administrative costs, for running the SHG operations. These are estimated from the total operation cost for SCDCCB proportioned to the asset size of the SHG business, and (3) business-specific operations costs. In this study we have not found any such specific operational costs for the bank regarding microfinance operations.

Revenues from Microfinance Operations

The bank earns revenues as interest income from lending to SHGs at 12 per cent per annum [F] and from interests earned on SLR carry [G]. The former is calculated on the average volume of advances to SHGs for two consecutive years. The latter is calculated on the average volume of SLR investments made out of SHG deposits for two consecutive years multiplied by the bank's yield on investment.

Provisions for Microfinance Operations

As SHG loans are without collateral, the bank makes provisions for the entire amount of NPA generated. However, the bank works on recoveries before writing off the loan. The recoveries are actual as reported by the bank in their annual report, from where the write-offs are derived [I].

Profit from Microfinance Operations

Gross operating profit [J] includes the total revenues minus total costs and provisions from microfinance operations for the bank. The study revealed that microfinance operations of the bank are of a profitable venture and over the study period of 2010-11 to 2013-14 the profit of the bank grew from Rs 184.21 lakhs to Rs 319.15 lakhs (Table 1). Another interesting observation is that the loan write-off amount declined with increasing microfinance loan portfolio along with increasing recovery rate. This shows that an intermediary institution like NGVCT has played a very crucial role in improving the SHG loan portfolio and recovery rate.

6. Findings and Discussion

The microfinance initiatives of SCDCC Bank has gained momentum due to its unique business model characteristics. The return on assets for SHG microfinance business is higher than the total bank business. However, operational self-sufficiency for microfinance business is low due to high operational cost to manage SHG business through the NGVCT. It is also evidence that the growth rate in SHG savings and advances are remarkable over the period of time (Table 4 & 5 in annexure 1). The study finds that there are several factors that have contributed towards the profitable microfinance business.

6.1 Microfinance Services

The customers of the bank are permitted to open an individual and group savings account along with a passbook. Subsequently, the term loan is facility is provided for a period of 3 - 5 years with an interest rate of 13 per cent per annum. The customers also enjoys the government interest rate subsidies for his or her loan and the effective interest rate of around 4 per cent per annum. The maximum loan amount is four times the savings amount but does not exceed total indebtedness to more than Rs 50,000 per member.

Chaitanya health insurance is given for each member, with a yearly premium of Rs 250 per member per annum. The microfinance members pay their premium in the nearby bank branch to the NGVCT's insurance scheme. The premium is collected in the first month of bank linkage, and after 30 days of premium payment members become eligible for mediclaim benefits. The family members in the age group of 5 - 70 years are eligible for this insurance scheme. A total of six members from the households can be covered under the scheme. Under this scheme the policyholder's hospitalisation (ill health or an accident) of cost up to Rs 5,000 is reimbursed. A policyholder can avail Rs 10,000 towards maternity-related expenses. In case an SHG member dies in an accident, the dependent member of the family is paid Rs 25,000. For any permanent disability of a member, the insured gets Rs 25,000 and half of the amount for partial disability. In addition to health insurance, NGVCT also has a life insurance plan with LIC, 'Jeevan Madura', for the age group of 18 - 60 years wherein a policyholder may opt for a 5 - 15 years' policy with a minimum sum assured of Rs 5,000 and maximum sum assured of Rs 30,000. The flexible premium may be paid weekly, fortnight or monthly.

6.2 Marketing Approach

SCDCCB is nurturing the SHG business by involvement in diverse marketing initiatives, which are discussed in the next sub-sections of the paper.

(a) Need-based Approach: The cornerstone to entire marketing is to connect with the target customers on a continuous basis. Regular monthly meetings at taluk level and quarterly meetings at the head office to review the business progress ensure the proper execution of its microfinance portfolio growth plans. Field level issues are noted and products and services' policies modified from time to time.

(b) Promotion: A unique way of microfinance promotion is adopted by means of engagement events with current and prospective SHG clients. For example, with the objective of proper implementation and propagation of microfinance and also to remove inferiority among rural poor, grass-root level programs were conducted for members to gain self-confidence and empowered participation through skits, demonstrations, small dramas, and so on. These events are conducted on a regular basis in the operational areas of the bank. Religious and social festivals are celebrated by the bank and seen as opportunities to popularise microfinance participation as well as a way of promotion for micro-enterprise products of its members. The bank has adopted a system of recognition and incentives for animators' based on their performance in group formation, savings and credit linkages, recovery and so on.

(c) Outreach: A doorstep approach is the cornerstone to success of microfinance business by SCDCCB. Animators, the 'barefoot bank agents', go to remote, potential and financially excluded households to form groups and nurture over a period of time a micro-banking unit for financial intermediation. Bank officials also visits the SHGs, train on financial literacy and discuss their financial needs and future business and non-business plans to extend banking services to them.

(d) Non-financial Services: Delivering non-financial services for the better utilisation of financial services was one of the unique approaches of the bank. With the help of NGVCT the bank could reach the marginalised segments of the society, even those excluded from commercial banks. The non-financial services or microfinance-plus services strengthened the clientele segment and ensured sustainability of the bank's microfinance business. NGVCT promotes various skill and knowledge development programs such as income-generation activities, provision of market linkages, market intelligence of saleable products, access to raw materials and avenues to sell finished goods, ensure productive use of microfinance services and commercial viability of the group/individual entrepreneurship activities. In addition, it also helps in spreading awareness about government welfare schemes for women and handholding them in availing the benefits of the scheme.

To strengthen the entrepreneurship ability of its customers, the bank had networked with organisations like Krishi Vigyan Kendra, Rural Entrepreneurship Development Program, and NABARD. Guidance is provided in preparation of bankable (enterprise) project report which is mandatory to be submitted with a loan application. In case the borrowers are also eligible for government financial supports under sponsored programs, banks help them in availing the same and this reduces the financial burden of the micro-entrepreneurs. These enablers of the bank minimises project failure and maximises the gain for both the customer and the bank.

Another very important segment of non-financial services of the model is developing the social capital through social network, trust and embeddedness. NGVCT forms groups based on tapping into the information that peer members have about each other, thus trusting on social capital for doing microfinance business. A wide range of social, cultural and religious programs are conducted by the bank and NGVCT to empower the customers on socio-economic wellbeing. Celebrating the social and religious events with the rural mass endorses community togetherness for sustainable development through greater outreach of microfinance programs. The subsidised health and educational programs have enabled the bank to have trusted customers segments who believe in both cooperation and commercial borrowings.

6.3 Differentiating Strategies of SCDCCB

The microfinance activity of the bank is anchored and supported by the top management as a profitable business venture. The SHG cell is a special microfinance business vertical dedicated to manage and monitor the business at the corporate office of the bank. The president of the bank is also the president of NGVCT so as to ensure adequate and timely access to financial and non-financial services. The top management closely monitors the bank officers and NGO workers on business development and encourages and incentivizes their contribution towards growth of the bank.

The branch level microfinance business strategies are multifold in nature. The dedicated officer at the branch level attends the day-to-day requirements of microfinance clients. Identifying new borrowers, providing basic banking services, rating and processing of loan applications and sanctioning based on groups/borrowers' eligibility, monitoring of repayments and NPA management, etc. are the roles played by a microfinance business unit at the branch level. The branch manager supervises the overall microfinance business of branch along with the office-bearers of the NGVCT. He or she attends the SHG meetings with the bank and NGVCT officials. It builds social network with the community and helps in recovery and further growth of loan portfolio of the bank.

Microfinance markets are dynamic in nature and need timely training to fill the knowledge and skill gap among the employees and PACS. The NGVCT staff were given training on participatory rural appraisal and recognizing the development gap among the people. At all levels the bank has imparted training of officers on microfinance business from reputed training institutes in India. In the recent past, there were discussions on risk management of microcredit lending. There are several unique strategies the bank has adopted to manage the risk associated with microfinance. To mention some of them, the bank has developed a very robust MIS for its microfinance business. It has helped at all levels of management of both the bank and the NGVCT in managing the portfolio. Active engagement of animators with groups ensure quality of the SHG credit portfolio. An important dimension of risk mitigation strategy involves precautionary steps like calling all group members to the branch for loan disbursal and compulsory credit counseling to all members.

As a measure of credit risk mitigation, all members are essentially covered under health insurance so that repayment is not affected by contingencies like reduction in income due to illness, death, etc. The initial loan amount does not exceed four times' the amount of compulsory group savings. Animators belong to the same locality of the borrowers, which minimises information asymmetries and moral hazard problems in group lending. Animators need not travel too far from their nativity; their business coverage may be 2 - 3 villages, which also reduces the transaction cost for the bank and improves the sustainability of microfinance operations. In this line of thought, the bank adopts one very important strategy in identifying the animators in financially excluded villages, where the bank can get into microfinance business at the beginning and later travel to other areas of the bank's business. It is observed that NGVCT intervention in developmental activities in the villages enables bank penetration and brand building, which is clear from the last 14 years in which the bank has attained 100 per cent recovery in microfinance business.

7. Conclusion and Policy Implications

SCDCC Bank's microfinance business model has several uniqueness as compared to business models of commercial, rural and other cooperative banks in India. Other banks largely depend on external institutions/agencies for microfinance customer identification and bank linkage. The novelty of SCDCCB's microfinance innovation is on building sustainable small institutions (SHGs) with the help of a social institution like NGVCT. The microfinance customers of SCDCCB have equal access to all products and services like any general customers without any discriminations in point of access, cost of services, etc. Thus, the bank ensures its embedded policy on equality and upliftment of the deprived masses.

At the corporate level, the chairman of the bank indulges in special involvement along with officers at all levels and the NGVCT in designing microfinance products, their delivery and recovery. The bank has given thrust to developing social capital, trust and togetherness through various non-financial services. These special characteristics of the business model have encouraged high level of participation by microfinance clients and ensured social and economic wellbeing of the members. The microfinance-plus services complements the mission of developing the rural poor into empowered, self-reliant citizens, confident for sustained financial inclusion and development.

There are a large number of people who are still financially excluded in the country. There is a need for integrated banking services with non-financial services for sustained financial inclusion. Banks and financial institutions need to develop social endowments (through social capital and trust) for better delivery of banking services and recovery. Participatory banking approach like SCDCCB needs to be encouraged by the government and banks for larger financial inclusion and development.

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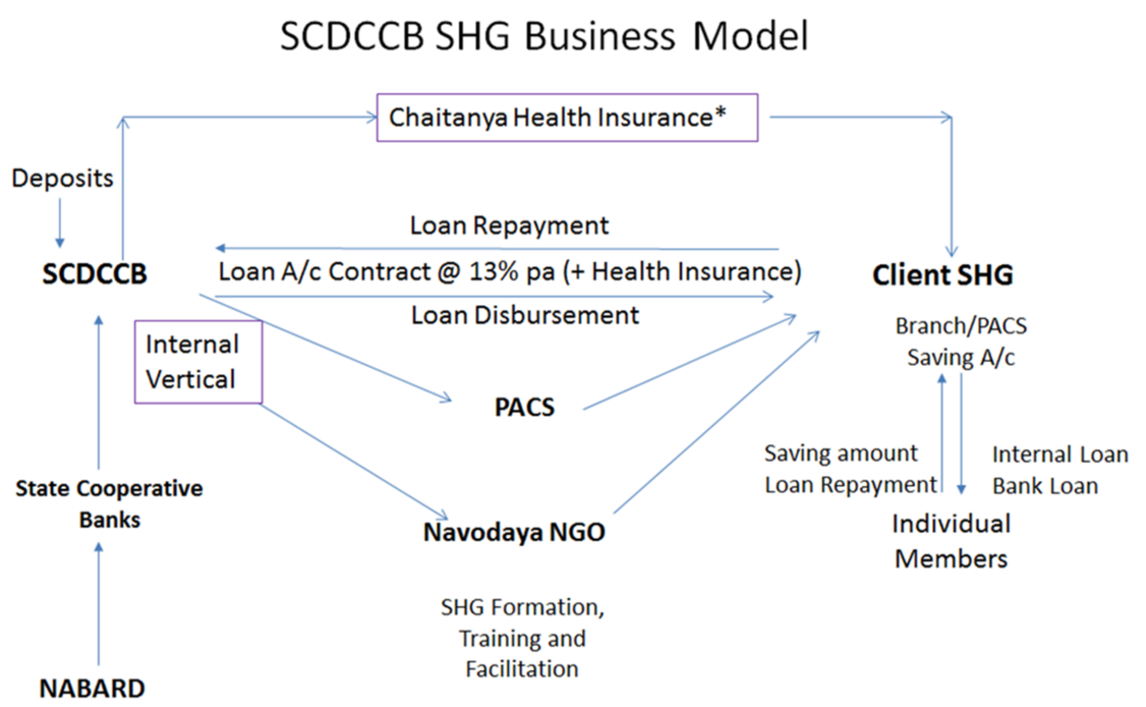
Table 1: Estimates of Cost, Revenue and Profit for SHG Operations (Amount in Rs Lakh)

Year	*2010-11*	*2011-12*	*2012-13*	*2013-14*
Interest Cost (on SHG Saving Deposits) [A]	151.88	179.36	215.29	262.39
Interest Cost (on Other Funds for SHG Loans) [B]	240.3	254.1	347.17	452.89
Operating Cost of SHG Ops [C]	322.7	296.05	352.33	461.16
SHG Business-Specific Operating Cost [D]	NA	NA	NA	NA
Total Cost [E]	714.88	729.51	945.53	1212.18
Interest Earning on SHG Loan [F]	824.43	909.14	1081.6	1346.9
Interest Earning on SHG Deposit SLR Carry [G]	76.48	89.97	110.89	185.99
Recovery [H] (Percentage)	96.88	96.74	96.95	97.06
Write-off for SHG Loan Losses [I]	1.81	1.75	1.64	1.55
Profit (+) / Loss (-) [J]	184.21	267.84	245.33	319.15

Note: Authors calculations based on data collected from bank for various years.

Source: Authors calculations based on bank data

Figure 1



Annexure 1

Table 1: Comparison of Performance of SCDCCB and Overall DCCB Sector in India (2012-013)

Parameter	*Aggregate DCCBs*	*SCDCCB*
Growth in Share Capital	10.40%	19.32%
Growth in Deposits	12.41%	18.88%
Growth in Borrowings	22.99%	15.65%
Growth in Loans Issued	30.87%	33.22%
Growth in Total loans Outstanding	14.75%	25.58%
Profit	2.207 crore*	10.33 crore
NPA	9.74% of total loans and advances	3.12 %
Source: National Federation of State Cooperative Banks Ltd (http://nafscob.org/about_f.htm) *Note:* Total of 372 DCCB were consider for this analysis. Profit calculation considered for 324 DCCBs. *Source:* Authors calculations based on bank data		

Table 2: Comparison of Performance of SCDCCB and Aggregate 21 DCCBs in Karnataka (2012-2013) (Amount in Lakhs)

Parameters	*Aggregate Karnataka DCCB*	*SCDCCB*	*% Share of SCDCCB as Compared to all DCCBs of Karnataka*
Total Deposits	984285	156623.44	15.91
Total Borrowings	403906	62577.93	15.49
Total Loans Issued	1155383	208312.67	18.02
Total Loans Outstanding	1004293	135932.1	13.53
Source: National Federation of State Cooperative Banks Ltd (http://nafscob.org/about_f.htm)			

Table3: Comparison of Deposits of SHGs and Overall Bank Deposits of SCDCCB

Year	*Total Bank Deposits (Lakh)*	*Total SHG Deposits (Lakh)*	*Percentage Share of Deposits of SHGs to Total Bank Deposits*
2007-2008	67099.3	2481.76	3.69
2008-2009	78601.1	2859.46	3.64
2009-2010	92706.82	3454.92	3.73
2010-2011	107119.18	4139.32	3.86
2011-2012	131748.1	4828.65	3.66
2012-2013	156623.44	5935.92	3.79
2013-2014	200114.4	7183.7	3.59
2014-2015	256882.73	7462.82	2.90
Source: Annual Report and secondary data collected from SCDDCB			

Table 4: Comparison of Loan Outstanding to SHG and Overall Loan Outstanding of Bank of SCDCCB

Year	*Total Loan Outstanding of Bank (Lakh)*	*Total Loan Outstanding Loans of SHGs (Lakh)*	*Percentage Share of Loan Outstanding to SHGs to Overall Loan Outstanding of Bank*
2007-2008	55725.22	4654.89	8.35
2008-2009	68961.04	4801.42	6.96
2009-2010	73807.69	6401.24	8.67
2010-2011	80684.48	7339.29	9.09
2011-2012	105694.3	7812.97	7.39
2012-2013	135932.1	10213.74	7.51
2013-2014	139051.4	12234.54	8.79
Source: Annual Report and secondary data collected from SCDDCB			

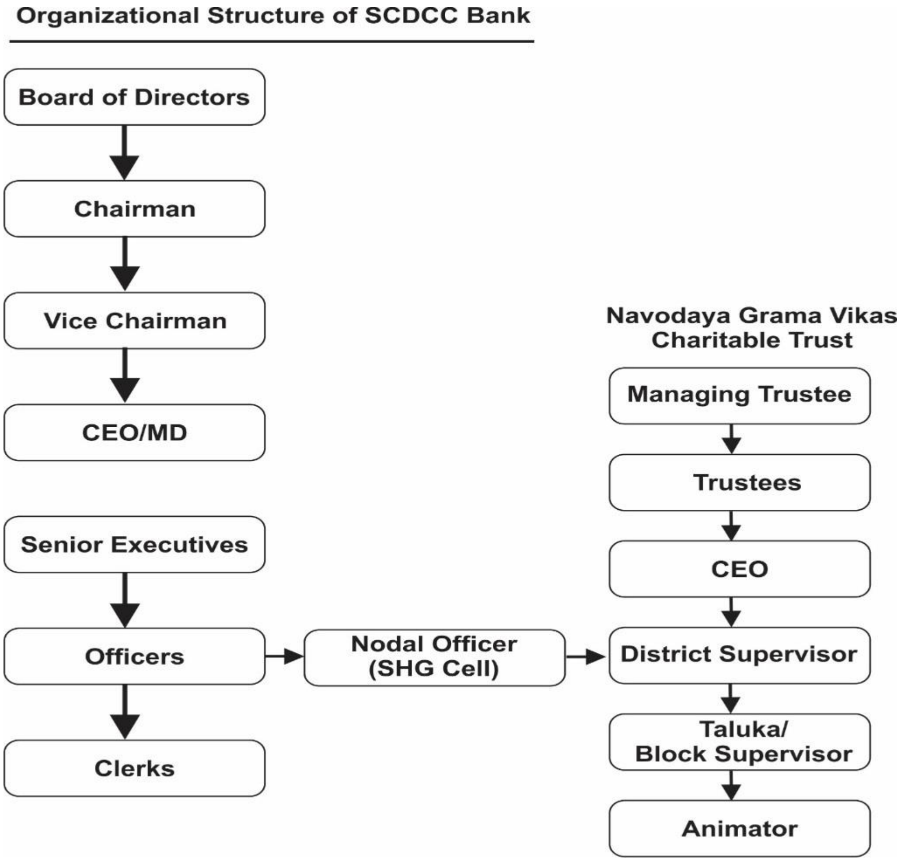
Table 4. Economics of SHG microfinance business

Year	*Gross NPA*		*ROA*		*Operational Self-Sufficiency*	
	SCDCCB (As % Bank's Total Loan Portfolio)	*SHG Segment of SCDCCB (As % of SHG Loan Outstanding)*	*SCDCCB*	*SHG Segment of SCDCCB*	*SCDCCB*	*SHG Segment of SCDCCB*
2011-2012	4.21	0.67	4.69%	89.13%	124.62%	61.80%
2012-2013	3.12	0.54	0.83%	9.91%	115%	62%
2013-2014	3.11	0.41	2.18%	15.18%	143%	58%
Source: Authors calculations						

Table 5: Growth Rates in SHG savings & Advances

Year	*Growth of SHG Savings (%)*		*Growth of SHG Advances (O/S) (%)*		*Growth of Total Advances to SHG During the Year (%)*		*Loan o/s to Savings (%)*	
	Accounts	*Amount*	*Accounts*	*Amount*	*Accounts*	*Amount*	*Accounts*	*Amount*
2010-11	2.16	24.67	6.30	11.18	5.91	22.40	67.46	169.13
2011-12	2.23	18.99	7.31	12.41	11.16	18.52	70.20	150.82
2012-13	8.97	26.80	8.95	15.10	19.57	42.92	73.69	142.48
2013-14	13.46	33.45	9.65	20.46	122.32	156.51	73.67	129.33
Source: Authors calculations								

Annexure 2



Source: Author's design