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Self-help Co-operatives, Deposit Mobilisation and Supply of Credit

Gagan Bihari Sahu
Biswaroop Das

Centre for Social Studies
SURAT

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Abstract

Formal financial institutions (FFIs) in a developing economy often fail to meet the loan requirements of the poor. It is frequently stated that the poor are non-bankable. Given this, several models and structures have emerged for making them bankable. Self-help groups (SHGs) have, in this context, proved to be an effective instrument responding to the financial needs of the rural poor in India and elsewhere. Many Micro-finance institutions (MFIs) have federated SHGs to mobilize larger number and volume of deposits for enabling the poor to have easy access to credit. Without a legal status however, these structures could not progress much. With the enactment of Orissa Self-Help Co-operative Act, 2001, federations of SHGs were registered as Self-Help Co-operatives (SHCs) with a legal status. These co-operatives then went ahead with forming new SHGs and aggregating them into SHCs. Such co-operatives have initiated a change in the method of delivering rural finance. The paper is aimed at exploring as to how such co-operatives (i) function and deal with members while delivering micro finance; (ii) mobilise funds, and (iii) get shaped and reshape the contents of members' participation in them. Qualitative and quantitative data collected from the offices and field areas of selected co-operatives and SHG members have been analysed for results.

JEL Classification : E51

Key Words : Self-help Co-operatives, Deposit Mobilisation, Supply of Credit, Credit Deposit Ratio, Repayment Rate

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Gagan Bihari Sahu
Biswaroop Das*

1. INTRODUCTION

In spite of a series of policy initiatives introduced by the Indian government which emphasize on improving banking facilities in terms of branch expansion, deposit mobilisation and deployment of credit, our formal banking institutions often fail to extend credit facilities to the poor.[1] The erroneous view is that the poor often do not have any resources, do not save, are ignorant about principles of financial management and cannot invest owing to their immediate consumption needs. The reluctant attitude of institutional credit agencies in lending to the rural as well as urban poor can be attributed to the following reasons. First, since the likelihood of default vary across borrowers and it is costly to determine the extent of risk for each borrower, formal lenders face the problem of adverse selection (i.e., the fear of selecting a bad borrower). Second, it is costly to ensure that the borrower takes actions that make repayment most likely, which in turn leads to 'incentive problem'. Third, since it is difficult to compel repayment by a formal lender, it takes the form of what can be called as the 'enforcement problem'.

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* Respectively Assistant Professor and Professor at the Centre for Social Studies, Surat – 395 007. The authors thank the FWWB(I), Ahmedabad for providing financial support for the study and to ADHIKAR, Bhubaneswar for support towards conducting field work for the same. They are also thankful to two anonymous referees for comments and suggestions.

1 The question of why small and potential borrowers do not have sufficient access to formal credit is adequately explained in the literature. McKinon (1973) and Shaw (1973) are of the view that the ceilings on interest rates do not permit banks to incorporate the additional administrative costs involved in advancing and supervising small loans. The formal lenders basically ration credit to small borrowers in order to reduce their transaction costs (Gonzalez-Vaga 1984; Anderson and Khambata 1985) which are high for servicing small borrowers. Consequently, banks advance loans to those who offer lower risk and better security. Sarap (1991) is of the view that a typical borrower in unorganised credit market has no access to organised credit market because of the inability to offer any acceptable collateral. Credit is invariably rationed in terms of the ability to offer collateral (Rudra 1982; Binswanger and Sillers 1983). Sahu et. al (2004) are of the view that the criterion of credit worthiness adopted by formal credit institutions alienates the poor from borrowing.

Alternatively, micro-credit programmes have been successful in using peer monitoring and social sanctions to overcome these problems (Stiglitz 1990; Guha and Gupta 2005). Such models have now been replicated across many developing economies including India, and facilitated often through several non-government organisations (NGOs). A large number of Self-help Groups (SHGs) has enabled the poor to have an easy access to credit with low transaction costs and high loan recovery rates. Mutually Aided Co-operatives[2] is another and relatively recent structure delivering micro finance to low income households. While these are individual membership based organisations, they have often emerged through federating SHGs and are able to gain and retain a legal status. It is through such a status that these societies can mobilise savings from their members and provide micro finance services like credit on terms and conditions defined by themselves.

Significant here is to note that these Mutually Aided Co-operatives and Thrift Societies (MACTS) have generally been results of 'aggregating' SHGs at the first, and their 'federations' at the second level, where the SHG members remain their primary members. Though theoretically, a non-SHG member too can be part of a MACTS, in practice this is rare. This is perhaps as to why SHGs as organised groups help in facilitating the formation as well as functioning of MACTS. Simply put, MACTS can thus be defined as structures, which though based on individual membership, frequently mediate its actual functioning through SHGs.

With enactment of the Orissa Self-help Co-operative Act 2001, a new era in peoples' empowerment, seems to have started. *The Orissa Self-Help Co-operative Act, 2001 is an Act to provide for the formation of co-operatives and conversion of co-operative societies as self-help, self-reliant, mutual-aid, autonomous, voluntary and democratic business enterprises, which are to be owned, managed and controlled by members for their economic and social betterment through the financial and gainful provision of core services which fulfil a common need felt by them and for matters connected therewith or incidental thereto* (Government of Orissa, 2002). Based on this, one can expect that the above Act may have provided an opportunity to the people of Orissa and particularly the poor to organise themselves and form self-help Co-operatives to protect their own interests and to carry out various productive activities.[3]

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[2] A co-operative which adheres to the principles of co-operation and aims at providing savings and credit facilities to its members in a self-reliant and autonomous manner. For a more detailed discussion, see Biswas and Mahajan (1997).

[3] A Task Force headed by A. Vaidyanathan was set up by the Government of India and aimed at suggesting policy measures to improve the financial health of the co-operative sector. The Committee has recommended the eligibility criteria for institutions and purposes that could

Placed within the above context, following questions can be raised. What is a self-help Co-operative? Who can be the members of such a structure? What are the eligibility criterion for their membership? Is it possible to convert the old SHGs/federations into a self-help Co-operative under the 2001 Act? If it is possible, then who would be the primary members of these co-operatives? Will it be the SHGs or individual women members? If an individual shall be the primary member of a Self-help Co-operative, what then would be the role of SHGs? Can we retain SHGs and give them a meaningful role to help the co-operative structure? How do they mobilise funds? Whether they are able to mobilise enough deposits to support the volume of loans and other financial services demanded by members? How do they manage while dealing with inadequate internal resources against required funds? What are the manner(s) and modalities through which such co-operatives sanction loan to members? Present paper addresses these questions by analysing data collected from offices and field areas of selected co-operatives and SHG members working under the patronage of ADHIKAR.

2. DATABASE OF THE STUDY

Co-operatives facilitated by ADHIKAR[4] were formed in two ways. First, federations of SHGs formed by women were converted into primary co-

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qualify for receiving financial assistance, their quantum, pattern(s) of sharing liabilities and conditionalities with a time frame provided to the States to be part of the scheme (Vaidyanathan, 2005).

It may not be out of place to mention here that even while co-operatives provide loans for agriculture and other purposes, in reality much of these loans actually go into agriculture. Within this context, the recommendations of the Task Force are likely to serve the small and marginal farmers more, keeping the landless and those working in unorganized sectors generally out of its purview. The Orissa Self-Help Co-operative Act, 2001, on the contrary may actually create a productive environment for such marginal groups. If both the approaches can be made to work in tandem, large tracts in rural India may begin to experience a much awaited vibrancy in enhancing productive capacities and capital formation.

4 ADHIKAR, a premier NGO in Orissa located at Bhubaneswar has been working for the benefit of slum dwellers, poor women, and human rights since its inception. The organisation started its work for slum dwellers in Bhubaneswar city and later extended its operations into other vulnerable regions of Orissa. With passage of time, ADHIKAR expanded its scope of work from human rights to poverty eradication, legal literacy, micro finance and provision of remittance services to Oriya migrant workers. It also facilitates provision of micro finance to some clients through the *Grameen* model. In overall terms, ADHIKAR believes in bringing social and financial development through creation of relevant structures in rural and urban areas. For instance, two organizations belonging to ADHIKAR are the Micro Finance Resource Development Centre (MFRDC) and the Shramik Sahajog (SS). The former works towards capacity building of micro finance practitioners and the latter assists urban migrant workers in remitting money back home.

operatives under the Orissa Self-Help Co-operatives Act, 2001, and second new SHGs were formed and aggregated as self-help co-operatives. At the time of our field work during April - May 2006, ADHIKAR was facilitating running of nine registered self-help co-operatives. Of these Padmabati, Nari Bikas, Nari Jagruti, Mahalaxmi, Maa Tarini and Sramajibi Bikas were formed through the former, while Maa Tarini Gruhanirmana, Maa Shakti and Maa Adishakti formed through the latter way. Thus former co-operatives are quite older compared to latter group of co-operatives. These co-operatives function in Puri, Khurda, Nayagarh and Cuttack districts in the State and were covering 162 villages in 60 Gram Panchayats through 184 SHGs and a little less than 4000 members. These co-operatives provide a variety of savings and credit products to their members. It is important to mention here that all such primary co-operatives have been federated and this is the only federation in Orissa providing financial security and guarantee to its member co-operatives while facilitating them for delivery of required finances towards livelihood needs of their members. Both, the former unit as the primary, and the latter unit as the secondary co-operative, are registered under the Orissa Self-Help Co-operative Act, 2001.

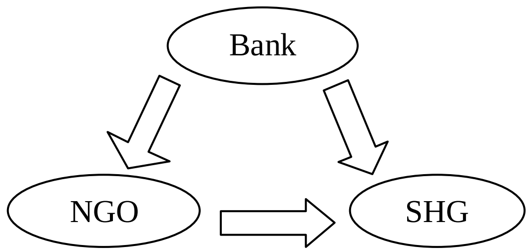
Of the nine, we randomly selected four co-operatives for our present enquiry. Except for one co-operative, from which we picked two SHGs, from the rest we picked three SHGs each on a random basis. From each of the SHGs, we interviewed three members except two members each in case of two SHGs. From each SHG, at least one 'position holder' was selected to examine the variability in accessing the core services provided by the self-help co-operative. In all, four co-operatives, nine SHGs, and 31 respondents spread across locations in three districts were covered for the analysis.

3. SHGs AND MICRO FINANCE IN THE STUDY AREA BEFORE THE EMERGENCE OF SELF-HELP CO-OPERATIVES

In the SHG model, a member has to save regularly as decided by the group, which lends its savings among group members on terms and conditions decided by themselves. In addition to funds generated from its members, the group may also borrow from financial institutions with which it maintains an account or from an NGO that supports and supplements its loanable funds. Among others, "Bank – NGO – SHG" and "Bank – SHG" are two notable micro finance delivery models in India (Figure 1).

Undoubtedly, the SHGs made attempts towards using the existing banking infrastructure with an effort to link the rural poor to formal credit institutions. However, the number of SHGs linked with banks was not encouraging. In other words, not all SHGs were able to establish links with banks easily. Bankers from many such areas were of the view that repayment rate of SHGs facilitated through an NGO was relatively higher as against the SHGs having direct links with the banks. Indeed, a low repayment rate across SHGs under the SHG-bank linkage scheme has partly been due to the presence of subsidy component, adoption of non-viable enterprises, poor monitoring as well as misuse of loans by borrowers. In most cases, loan amounts were equally distributed among members in a group that adversely affected the joint liability, peer monitoring and peer pressure to repay. Bankers also mention that the cost of social sanction against the defaulters under SHG-bank linkage scheme is less than the loss of future borrowing. These factors together make it more viable to deal with micro finance through the Bank-NGO-SHG model in the study area.

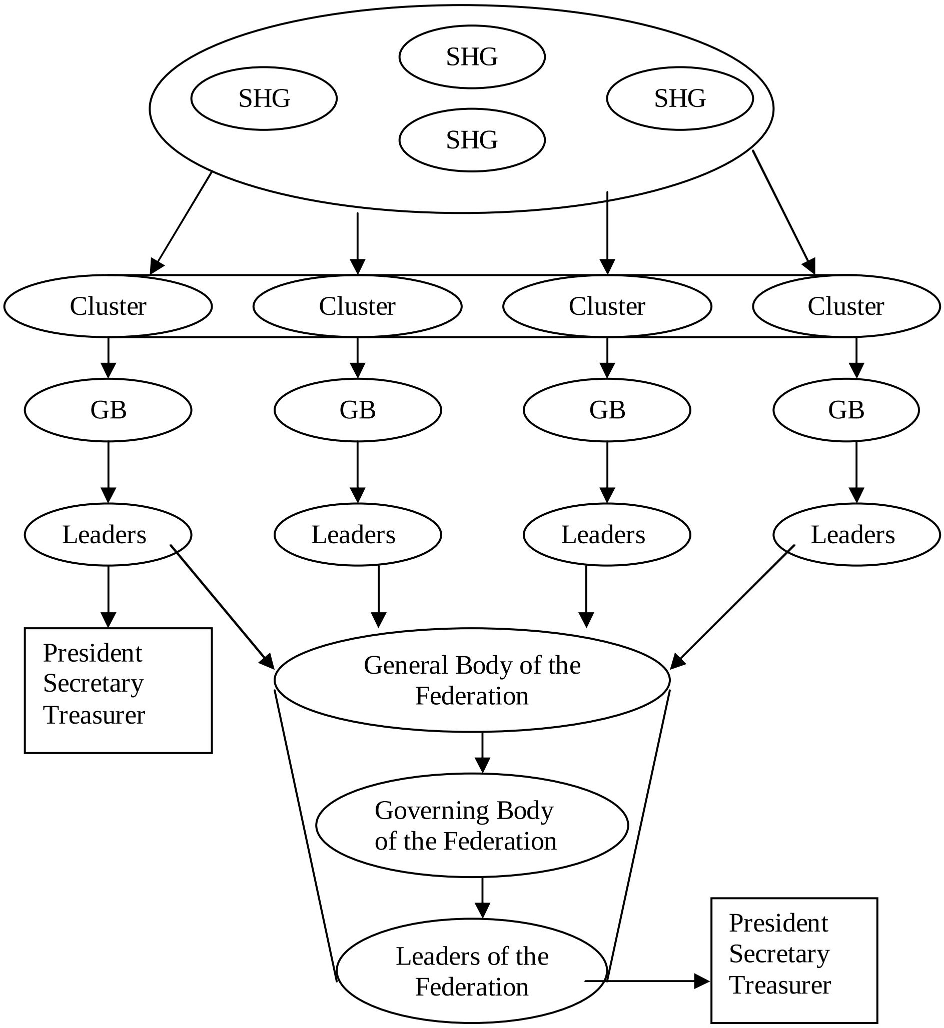
Figure 1. Micro Finance Delivery Models



It is worth mentioning that even NGOs are generally not in support of the SHG-Bank linkage scheme in their operational areas perhaps due to a fear of losing their grip over micro finance programmes if mediated through this model. Indeed, it has been the local NGO funds, generated either through borrowings from financial institutions or other organisations, which have been the main source of loanable funds for the SHGs. A pertinent question that arises here is as to whether the potential SHG members were in a position to meet their savings and credit requirements to finance their income-generating activities in an effective manner through the above micro finance structure. Apparently, the above model has often failed in meeting the loan requirements of potential SHG members.

It is likely that the failure in meeting credit requirements of potential SHG members compelled many NGOs to federate their SHGs. It is assumed that the probability of the member SHGs asking for loans at the same time decreases as the number of member SHGs increases in a federation. This, in turn, may have created an advantage for local organisations in terms of increasing the size of their loanable funds. Therefore, higher the number of member SHGs in a federation, higher would be the amount of deposit mobilisation, and hence greater will be the possibility of meeting credit requirements of SHG members. With this expectation, ADHIKAR federated the SHGs working under their patronage. Working of such SHGs under federations is shown in Figure 2.

Figure 2. Organisation Structure of Clusters and the Federation Prior to the Emergence of Co-operatives



Notes:

1) Only SHG members could become part of the cluster units and federation.
2) Each SHG has a President, Secretary and Treasurer/Cashier as its group leaders.
3) President and Secretary from each of the SHGs come together to form the General Body of a cluster unit.
4) President and Secretary from each of the cluster units together make the General Body of the federation.
5) The Governing Body (GB) of both the cluster and federation is the executive body having seven elected or nominated members from their respective general bodies.

The system of micro financing as shown in Figure 2 includes organizing the SHGs at three different levels. The first layer consists of the primary groups (SHGs), whereas a 'cluster' as the second layer emerges as an union of 15-30 SHGs with around 400 members under its fold coming from within a specific geographic area. A Co-ordinator who was the salaried staff of the NGO worked at the cluster level to ensure its smooth functioning. These units mainly worked towards (i) establishing appropriate inter-SHG relationships, (ii) mobilising inter-SHG resources, (iii) loan disbursement and repayment, (iv) capacity building, (v) relevant decision making, (vi) ensuring cost effectiveness, (vii) ascertaining access to and dissemination of appropriate information (viii) assuring better market accessibility and (ix) enhancing better monitoring and supervision. Besides, the cluster unit also ensured availability of some space for members to share their experiences, learn from each other, reflect on possibilities of replicating successful projects and to address macro issues pertaining to the community.

The third layer known as a 'federation' is a union of clusters. The main activities of a federation includes (i) strengthening group solidarity through savings and credit activities; (ii) enabling members to manage credit including that of bulk loans and transact business as clients and not as a beneficiary; (iii) training and leadership building among women; (iv) facilitating regular interaction, exchange, and exposure at the inter as well as intra group levels; (v) increasing awareness and to provide opportunities for collective learning, confidence building and initiating social action; (vi) forming new groups and clusters; (vii) developing linkages between the member cluster/SHGs with other funding agencies, and (viii) providing overall supervision and guidance to SHGs and their cluster units.

3.1 Cluster Model and Credit Delivery under the Patronage of ADHIKAR

Since 1995, ADHIKAR started its micro finance programme based on the first model (Figure 1). This continued for about a year. Since 1996, it started federating the SHGs and reorganized its micro finance activity on the basis of cluster model that continued up to 2003. Under the second model, "Mahila Adhikar Bank" (*Maa* Bank) was the apex level federation while 6 more were organised at a lower level. These lower level federations were located in Khurda, Cuttack and Nayagarh districts. Under each of the clusters (lower level federation), 15 to 30 SHGs were brought together. Every individual member as part of such a cluster had to put regular savings towards a compulsory deposit as decided by the group. Out of these monthly savings, a sum of Rs. 100 was to be contributed per month as compulsory deposit by each of the SHGs to the cluster level federation so as to be eligible for accessing loan facility. The remaining amount of savings was used for internal lending at the group level. Since members were contributing only through compulsory savings, the volume of deposit mobilisation was rather low.

To meet the credit needs, cluster level federations mainly depended on external funds. This was primarily provided by the *Maa* Bank. Cluster level federations were charged 18 per cent interest on loans provided through ADHIKAR/*Maa* Bank. However, a cluster advanced loans to its member SHGs at an interest rate of 24 per cent. Like other federations, the general body of the cluster units met on a fixed day and time every month with their monthly savings, loan applications (if any), loan instalments and interest amounts received from their respective group members. Details of loan applications were discussed and requests short-listed at this level by its Executive Body. The short-listed loan requests were then sent to the *Maa* Bank for final approval and sanction. From *Maa* Bank, the sanctioned loan amounts were transferred to the account held jointly by the President and Secretary of the Executive Body of the respective cluster unit. The sanctioned loan amounts of respective SHGs were then given through the co-ordinator at the general body meetings of the cluster unit.

3.2 Limitations of the Cluster Model

The organisation has travelled a long way while organising rural women under the umbrella of micro finance. Irrespective of the care taken in delivering products like savings and credit, the models adopted by the organisation had not been free of problems. Some of these problems associated with the cluster model in spite of its wide coverage are the following. (i) It caters to a group and not to an individual member. In most cases, loan amounts were distributed equally among members without giving sufficient attention to their actual requirements. This was leading to putting constraints on a member who needed a larger amount but could not raise it from the group, and a member who did not need it as much but still taking as it came by; (ii) Defaults and/or absence of timely repayment of loan even by a single borrower was making other group members unable to access the credit facility on time; (iii) There was a pronounced lack of incentive(s) towards saving more including provisions for further savings in forms such as recurring, fixed and daily deposits; (iv) Since compulsory deposit was the only source of mobilising internal resources, the volume of deposit mobilisation was much lower against needed loanable funds; (v) Credit service could be extended only to a limited number of SHGs at a time; (vi) Mobilisation of funds from external agencies was quite low often due to their low level of confidence on federations; (vii) SHG-bank linkage with schematic finance had been diverting the attention of SHG members from the main objective of building an alternative but viable banking system for the rural and urban poor; (viii) In absence of a registration, it had no legal status for deposit mobilisation and deployment of credit; (ix) Internal mobilisation of deposits was far below the potential, caused often by the low level of confidence of members on such structures; (x) Repayments had not been as per expectations, for members frequently thought of getting waivers by the Government as experienced occasionally in case of co-operatives registered under the 1962 Act and also in case of some other SHGs in the vicinity and elsewhere; (xi) Inability of providing savings and credit facilities to non-SHG members; (xii) Lack of emergence of strong leadership, for many among those occupying leadership positions had apparently begun to absorb what can be broadly labelled as an 'employee psyche' (as if an employee of ADHIKAR); and (xiii) Different sections in the society were perceiving the structure and concept of federations differently. Bankers viewed it as an instrument of delivering credit. The government viewed it as a mechanism of delivering appropriate programmes. Vested interest groups in some areas saw it as an opportunity to garner votes, lend money and derive personal benefits. Many others viewed it as a good non-governmental scheme. These factors, individually as well as collectively were reasons of poor participation and involvement by SHG members in the process associated with micro financing.

Some of the above issues may have made it necessary to convert the federations into alternative financial institutions which could be owned and controlled by clients themselves and at the same time appear flexible, efficient and financially sound with a legal identity. Following questions can be raised in this context. Did enactment of the Orissa Self-Help Co-operative Act, 2001 give an opportunity to create such financial institutions? Whether Self-Help Co-operatives can help to overcome problems associated with the cluster model? Before we attempt to answer these questions, it may be useful to have an understanding of the concept of Self-Help Co-operative, its functions and services as defined by the Orissa Self-Help Co-operative Act, 2001.

4. THE CONCEPT OF A SELF-HELP CO-OPERATIVE

A Self-Help Co-operative is an autonomous association of people united voluntarily to meet their common needs and aspirations through a jointly owned and democratically controlled enterprise. Here, the concept of "common needs" denotes economic needs that are common to all who wish to form a co-operative. In other words, common needs of members are those that a co-operative is expected to fulfil through provision of its core services.[5] A "Self-Help Co-operative" organised under the Co-operative Act, 2001, has the following basic features (Box 1).

[5] Core services of such co-operatives are those which are expected to deal with social and economic needs of members for their betterment.

Box 1. Features of a Self-Help Co-operative	
(i)	Common interest(s) among all members: All members should have a common business interest(s) and formation of the co-operative is aimed at protecting these common interest(s). Those who do not have the same interest(s) as that of its other members or their interests are in conflict with them, cannot become members of the co-operative.
(ii)	All members avail core services: This Act defines, “member” as a person who is in need of and able to use the core services of a co-operative. Thus, all members have to avail the core services. Those who do not avail the core services (required for protecting the common interest of all members) provided by the co-operative cannot be its members. This provision ensures absence of sleeping members in a co-operative.
(iii)	All members patronise the Co-operative: All members have to patronize the co-operative in the same manner as parents take care of their children. This ensures members’ involvement in affairs and management of the co-operative.
(iv)	An organisation based on the principle of self-help.
(v)	It is a business organisation with a special feature of being managed democratically and expected to function in consonance with the principles of cooperation.
(vi)	It cannot receive government equity and loans.
(vii)	There is no scope for government intervention in any manner in the affairs of the co-operative.
(viii)	The election in the co-operative is managed by the co-operative itself.
(ix)	The success and failure of the co-operative is entirely left to its members and their elected representatives.

Thus, a co-operative organised under the Self-Help Co-operative Act, 2001, prevents bogus membership, external influence as well as bureaucratic and political control. Based on this framework, how ADHIKAR have converted its SHGs into Self-Help Co-operatives has been discussed in the following section.

4.1 Membership

As defined by the Self-help Co-operative Act, 2001, a person who is in need of and is able to use the core services of a co-operative, can be the member of a Primary Self-Help Co-operative. The structure mediates with its members through SHGs. Thus, all members from different SHGs constitute the General Body (GB) of a Primary co-operative. This suggests that while the Primary Self-Help Co-operative is essentially an individual membership based organisation, in practice they have been structured and organized through SHGs.

Criteria for Eligibility of Membership in a Self-Help Co-operative: In order to become and remain member of a self-help Co-operative, a person should (i) be member of an SHG; (ii) must have the capacity to save regularly (compulsory deposit) and demonstrate the same without fail; (iii) not have an association with any political group; (iv) be within the age group of 18 to 55 years; (v) be ready to use the core services (savings and credit facilities) provided by the co-operative, and (vi) reside permanently within the operational area of a co-operative.

Cessation of Membership: One may cease to be a member of the co-operative, if she (i) does not contribute to the compulsory saving for a consecutive period of three months; (ii) does not participate consecutively in three group meetings; (iii) does not use the available credit facility for two years either after having obtained the membership or repayment of an earlier loan, and (iv) acts prejudicial to the objects and interests of the co-operative and disobeys the policies of the General body or the Board.

Rights of a Member: A member in a Self-Help Co-operative enjoys rights that include (i) access to services provided by the society; (ii) right to information on accounts and business plan; (iii) freedom to express her opinion on affairs of the co-operative; (iv) a voting right (provided one has been a member for at least one full financial year), and (v) contest an election in the co-operative.

Responsibilities of a Member: The responsibilities of a member in a Self-Help Co-operative include, (i) contributing her saving and repaying loans on time; (ii) participating in affairs of the co-operative and in the selection of its leaders; (iii) helping the co-operative in achieving its aims and objectives and respect the policies developed by the Board of Directors, and (iv) continue to patronise the co-operative.

Action against a Member: Members can be penalized and/or face appropriate actions in case of (i) defaults and irregular savings; (ii) defaults in repayment of instalments or the entire amount of loan raised; (iii) not using the core services of the co-operative; (iv) raising voice or being militant against the co-operative; (v) disrespecting the bylaws of the co-operative; (vi) refraining from attendance in Board or the General body meetings, and (vii) acting in a prejudicial manner to the objects and interests of the co-operative

It needs to be pointed out here that in case of an SHG getting dissolved for whatever reasons, those interested to continue as members of the co-operative are required to form a new SHG or become part of another existing group. However, a newly formed group (from among the old members or a mix of some old and new entrants) should at least have seven members to be part of the co-operative. The person wanting to move out from a group can collect her share and withdraw from its membership. In case of death, one’s membership automatically gets cancelled and the co-operative returns the amount of share capital and relevant deposits to the nominee of the deceased. A person however cannot be a member simultaneously in more than one co-operative providing similar kind of services. Also, the Self-Help Co-operative entertains one member at a time from one family.

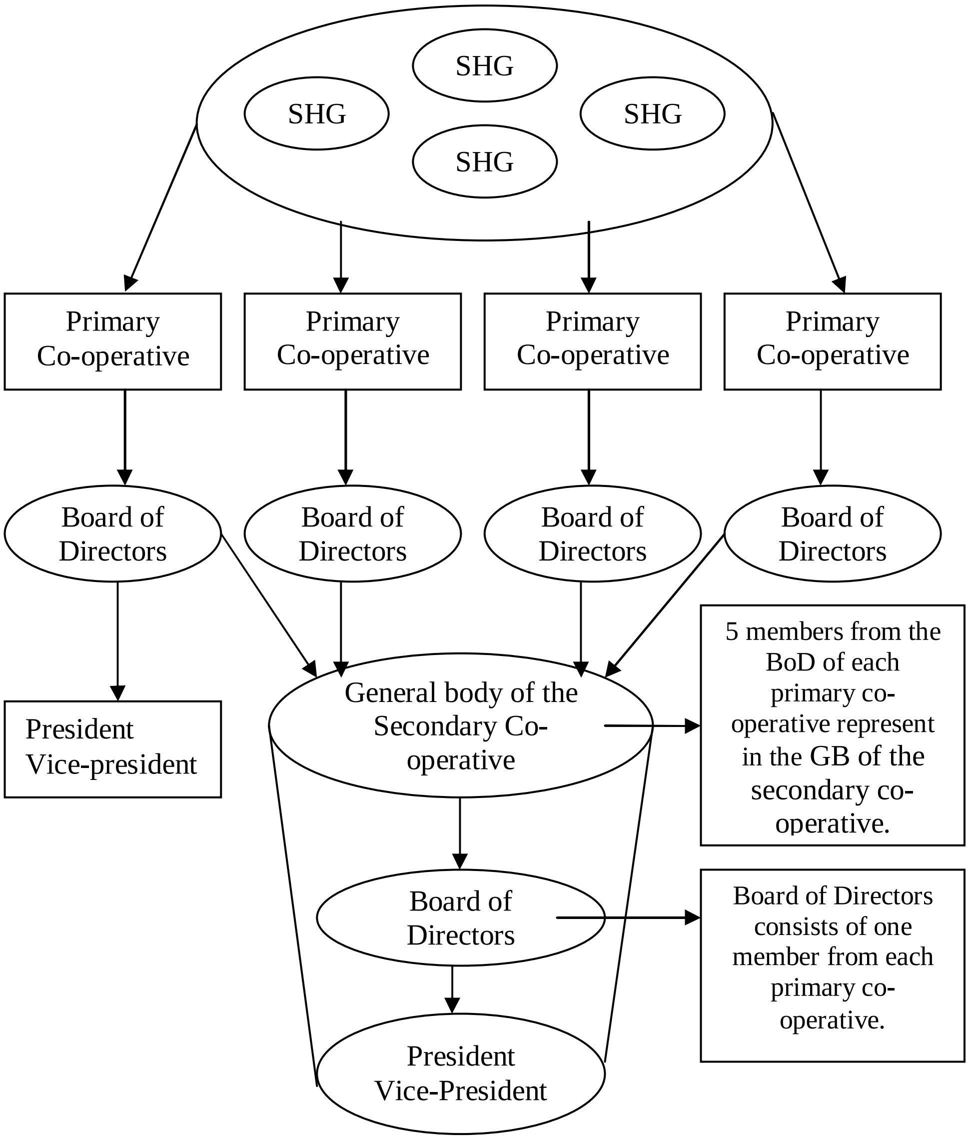
4.2 Structure

Structures of Self-Help Co-operatives under the patronage of ADHIKAR has been shown in Figures 3. Importantly, the co-operatives have been formed by SHGs with their members being the primary members of these co-operatives. Within this context, two pertinent questions that emerge are (a) since the primary membership of a Self-Help Co-operative remains essentially individual based, what then is the role of SHGs? and (b) Why have the SHGs been retained as part of the system. The joint liability, peer monitoring and peer pressure built into the structure of SHGs are key features of negotiating with critical issues of screening (of potential defaulters), provision of incentives (persuading borrowers to take actions which make repayment most likely) and enforcements (compelling repayments) at a meagre or no transaction costs to the lenders. Besides, the joint liability among SHG members co-guarantees each others loans and prevents the need to pledge any physical collateral (Ledgerwood 1999). It is possible that with such expectations, ADHIKAR has retained SHGs in its co-operative structures. These SHGs work in a similar manner as they were working while being part of the federation. And as was done earlier, leaders or representatives of these SHGs work towards collecting the compulsory deposits and refund the same to the co-operatives. On the whole, the SHGs work as subordinate units, acting as parts of the overall mechanics of a Self-Help Co-operative.

As defined by the Co-operative Act, 2001, the ultimate authority of a co-operative society rests on its General Body that consists of all its members. The General Body of a co-operative society has the power to amend the bylaws, hold elections and remove directors, appoint and relieve auditors, review as well as approve annual accounts and budgets, and dissolve the society. The General Body also elects a Board of Directors (BoD)[6] for effective decision-making and to run the co-operative smoothly. In other words, the Board of Directors functions as the executive authority and runs the business of a co-operative society. Members of the Board hold office for a period of three years with one third of its members getting replaced every year. The Board has a president, a vice-president and in some cases a treasurer, generally elected or nominated from amongst the directors of the Board.

6 Generally, a member of a Board of Directors is elected by members of a zone falling within the jurisdiction of a co-operative. Hence, the number of members on a Board of Directors remains in correspondence with the number of zones in a co-operative.

Figure 3: Organization Structure of Primary and Secondary Co-operatives: ADHIKAR



Notes:

(1) Only member of an SHG can become member in a co-operative.

(2) Each SHG has a group representative.

(3) All SHG members together constitute the General Body (GB) of a Primary co-operative.

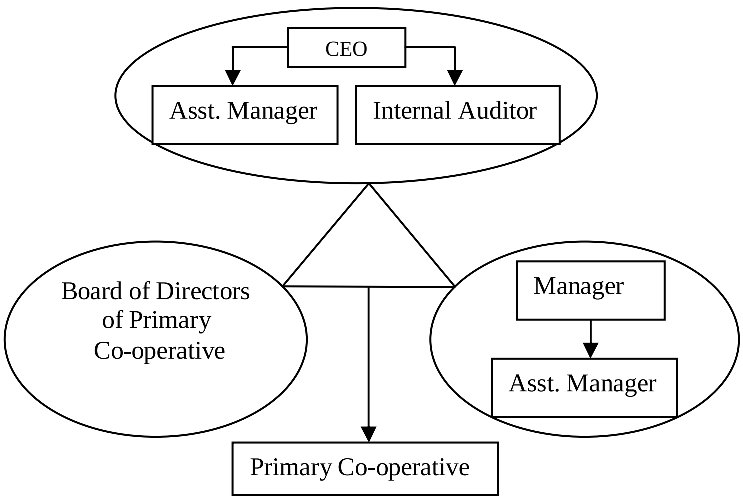
(4) Board of Directors of a Primary co-operative consists of 11 members where each is either nominated or elected from within an individual zone.

The Board meets at least once a month for conducting a periodic appraisal of the business and other affairs of a co-operative. It remains responsible for finalising a long term perspective plan, an annual plan and the budget which are placed before the General Body. It also directs the affairs of the co-operative in accordance with the plan and budget approved by the GB. The Board has the power to (i) appoint and remove any office bearer, (ii) make provisions for regulating appointments of employees in the co-operative, their salaries, allowances and associated service conditions including that of disciplinary action(s), and (iii) frame, approve and amend regulations relating to services, funds, accounts and accountability, as well as the system of information keeping and its recording.

4.3 Management

These Co-operatives are primarily owned and controlled by clients and managed professionally. There are two groups of professionals. One works within the boundaries of the co-operative while the other helps the system from outside. Details on the management system of co-operatives facilitated by ADHIKAR are explained below (see Figure 4).

Figure 4: Management Pattern of Co-operatives Under the Patronage of ADHIKAR



The Board of Directors is the most powerful body in the entire management system. Manager and Assistant Manager appointed by the BoD do not come from the members and are hired to work for the society. The Board meets at least once a month. The broad agenda of its meetings includes appraisal of achievements in consonance with the targets, monitoring the status of fund mobilisation, reviewing positions on loan recovery, verification of loan applications and disbursement of fresh loans.

Managers of each primary co-operative meet at least once a month (generally on the 6th day of a month at the office of secondary co-operative) to discuss their problems and share experiences. The Chief Executive Officer (CEO) helps in the process of group formation, propagates the benefits of being member in a Self-Help Co-operative, suggests measures for mitigating internal conflicts and helps the process of its overall development. Through secondary co-operative, the CEO also guides and conducts orientation programmes to improve the management skills of its Manager and Assistant Manager. Internal Auditor helps the Board in preparing the annual plans and budget to be placed before the General Body.

4.4 Mobilisation of Funds and Deployment of Credit

Generally, a primary Self-Help Co-operative mobilises funds through deposits and share capital drawn from its members. In the study area, a co-operative receives five different kinds of deposits from a member. These are compulsory deposits, fixed deposits, recurring deposits, voluntary savings, and daily deposits. Among these, the first is mandatory for all and the rest are discretionary.

The amount of compulsory deposits is decided by the members of the groups themselves as per their paying capacity. However, it often varies across and within co-operatives from a minimum of Rs.20 to a maximum of Rs.50 per month. These contributions are generally collected by the group representatives and deposited in the co-operatives against members' names. Members defaulting in contributing compulsory deposits are fined Rs. 2 a month. The Manager personally visits the defaulting members for collecting compulsory savings. A per annum interest amount of 6 per cent is offered on compulsory savings and gets added to a member's savings on yearly basis.

The amount for fixed deposit begins with a minimum of Rs.500 or its multiples and expected to be kept at least for a year. The minimum for recurring deposits is Rs.50 or its multiples per month for a minimum of 3 years. An interest of 8 per cent per annum on these deposits is receivable by a member. However, in case of withdrawal or closure prior to the expiry of the agreed term, a member can withdraw the amount at a reducing rate of 1 percent interest for every two months. In case of premature closure or withdrawal of recurring deposits, one loses an interest of 0.5 per cent every three months calculated backwards from the date of maturity. On occasions, such calculations can make a member left with only her deposits and no interest. A member can raise a demand loan for a maximum amount of up to 90 per cent of what she has in form of fixed and recurring deposits at an interest of 15 per cent per annum.

Voluntary saving starts by placing each time a minimum of Rs.100 or its multiples, has no stipulated time duration and yields a 4 per cent yearly interest. Members remain free to deposit or withdraw such savings any time during office hours and no loan is sanctioned against this. A member can save a minimum of Rs.5 or its multiples as daily deposits and is expected to continue at least for 2 years. A 4 per cent yearly interest is given on these deposits and after a year one can raise a demand loan of up to 90 per cent of the amount saved in daily deposits at a 15 per cent annual interest.

A member is eligible to apply for loans only after three months of her joining as a member in a co-operative. Although a self-help co-operative sanctions loans to a member based on the amount of her compulsory deposit, it gives priority to those who save regularly and repay loans on time. Merely meeting the eligibility does not necessarily help one to seek loan. These co-operatives by and large provide farm and non-farm loans. A farm loan given generally for a period of 6 to 12 months helps to meet production costs and in undertaking allied agricultural activities. Non-farm loans are given for 6 to 18 months for conducting petty businesses, vending, processing and activities that add value to one's resources. In addition, co-operatives also provide loans for consumption, house construction and repairs. An interest of 24 per cent per annum is charged on all loans except for demand loans. Irrespective of the loan type, a co-operative also collects 1 per cent of the disbursed loan amount as processing fees from the borrower.

Recommended by the group, the representative submits a member's loan application to the Manager for conducting initial checking of the same. Subsequently, the Manager visits the field area and discusses with the group and the guarantors for assessing the validity of information provided, purpose of the loan, repayment capacity and saving habits of the borrower and then recommends the loan application for being considered by the Executive Body. On basis of information provided in the loan application and the Manager's remarks, the Executive Body discusses the matter for final approval. Of course, the Body has the right to either accept or reject the application or even postpone a decision on it. The approved application is then forwarded to the Manager for disbursing the loan, who depending on the availability of funds does it within a week or so.

Generally, loan advanced does not exceed five times of a member's total compulsory deposit. While sanctioning loans, a co-operative follows certain rules that are listed below.

(i) Having raised a loan, a member is not allowed to withdraw her share, CD, FD, RD and DD in full or part thereof unless 75 per cent of the repayment is over.

(ii) In case of loans upto Rs.10,000, another member has to be a guarantor. In case of loans exceeding Rs.10,000, a borrower needs to have two guarantors. It is important to note that no guarantor can raise a loan unless 75 per cent of loan raised has been repaid by the borrower.

(iii) Placing of any movable or immovable properties as collateral for the loan is not encouraged unless agreed by the Board.

(iv) A second loan is not sanctioned to a member unless she has repaid the earlier loan at the time of applying except of course in case of emergency and demand loans.

In addition to a member's savings, a co-operative also collects 20 rupees from each of its members as share capital. In case of inadequate fund (collected out of deposits and repayments) against requirement, the primary co-operative borrows from the secondary co-operative.[7] On such occasions, the primary co-operative has to place the loan applications before the secondary co-operative. Like primary co-operatives, secondary co-operative too conducts a screening of the member co-operative on the basis of its earlier repayment records and amount of savings. Generally, a secondary co-operative sanctions loans to its member co-operatives for a maximum amount of up to ten times of its 'secured savings'.[8] For doubts or problems in the loan application, either the CEO or the Assistant Manager of the secondary co-operative visits the primary co-operative or at times even the applicants. Generally, for small amounts such as an emergency loan[9] or a loan within the limit of Rs.5,000, the member co-operatives do not approach the secondary co-operative.

5. SECONDARY CO-OPERATIVE

A Secondary Co-operative has primary co-operatives as its members. As stated earlier, it is an autonomous association of primary co-operatives jointly owned and democratically controlled by member co-operatives for fulfillment of

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7 A Secondary Co-operative is a co-operative established voluntarily, owned jointly and controlled democratically by primary co-operatives for fulfillment of their common needs.

8 Out of its monthly savings and repayment collection, a member co-operative has to deposit 10 per cent of such amount as secured savings in the secondary co-operative.

9 Any member of a co-operative can access an emergency loan. This loan amounts to Rs.1,000 and is aimed at meeting expenditure incurred especially towards responding to medical exigencies. Significantly, this loan can be raised by all members irrespective of their having a loan outstanding or not. But a member yet to clear an emergency loan taken earlier, cannot access this loan.

common needs. Under the leadership of ADHIKAR and efforts made by the leaders of primary co-operatives, a secondary co-operative called the "Khandagiri Madhyamika Mahila Samabaya Sangha Ltd."[10] was formed and registered under the Orissa Self-help Co-operative Act, 2001.

The secondary co-operative was formed to provide financial security and guarantee to its member co-operatives and to ensure that the livelihood needs of their members were met. It also assists the member co-operatives towards improving their operational systems, financial management and organisational development through training and capacity building programmes.

The President, Vice-President and other three members from amongst the BoD as nominated by the General Body (GB) of each primary co-operative form the GB of the secondary co-operative (Figure 3). It is mandatory for the President and Vice-President of each primary co-operative to be members in the GB of the secondary co-operative. Their being part of this facilitates monitoring and implementation of policies and relevant decisions at the primary co-operative level. The Board of Directors consists of one member from each primary co-operative who is elected (or nominated) from among those who represents the GB members in the secondary co-operative. Like a primary co-operative, the BoD of the secondary co-operative too has a president and a vice-president elected (or nominated) from amongst the directors on the Board. The BoD meets once (generally on the 7th day of a month) in every two months. The CEO, Internal Auditor and Assistant Manager are appointed by the Board to run and manage the co-operative.

The secondary co-operative provides loans to and accepts deposits from its member co-operatives. It mobilises funds through share and deposit collections from its member co-operatives, and by borrowing from external sources. Each member co-operative has to purchase a share having a value of Rs.10,000 within a period of three years. Importantly, a member co-operative has to purchase a share value of Rs. 2,000 at the time of entry on which it is not entitled to receive any interest. A member co-operative also has to save Rs.1,000 per month as compulsory deposit and 10 per cent of its total monthly receipts from deposits and repayments as secured savings deposits. Against this, a member co-operative can raise loan for a maximum amount of up to ten times of such savings. In order to protect the interests of member co-operatives, the secondary co-operative also provides emergency loans. It gives 6 per cent interest on compulsory and secured saving deposits and charges 13 per cent interest on loans advanced to member co-operatives. Managers from each of the member

[10] So far, this is the first and only secondary co-operative registered under the Co-operative Act, 2001. When we visited this co-operative in the month of May, 2006, it had 9 member co-operatives within its fold. More primary co-operatives were on their way to registration and expected to be part of the secondary co-operative.

co-operatives present loan applications to the CEO between the 25th and 30th of every month. The CEO verifies all these applications and places them before a Loan Committee[11] for final approval and sanction of loans.

6. GROWTH IN DEPOSITS AND CREDIT

Table 1 presents an analysis of growth in deposit mobilization and flow of credit across co-operatives working under the patronage of ADHIKAR. Evidently, the amount of deposit mobilization has increased from Rs. 23,36,557 in 2004-05 to Rs. 36,70,845 in 2005-06 at a rate of 57.1 per cent. The total outstanding credit of all the co-operatives has increased form Rs. 31,32,155 to Rs. 50,32,002 at a rate of 60.7 per cent during the same period. These growth rates of credit and deposits are highly scattered across co-operatives. Apparently, a positive growth in the supply of credit and deposit mobilisation has been observed across co-operatives except a negative growth of the former component in case of Padmabati. Though the rate of increase in credit disbursement has been higher than the rate of deposit mobilization for all the co-operatives, this is not true in all cases. For instance growth in deposit mobilization has been higher than the rate of growth in supply of credit in case of Padmabati, Nari Jagruti and Maa Tarini.

Table 1. Annual Growth Rates (%) in Deposits and Credit Across Co-operatives

Co-operatives	Deposit Mobilisation (in Rs.)			Loan Outstanding (in Rs.)		
	2004-05	2005-06	Growth Rate	2004-05	2005-06	Growth Rate
Padmabati	393610	414102	5.2	557148	481258	-13.6
Nari Bikas	290546	426900	46.9	331158	543928	64.3
Nari Jagruti	620469	1206061	94.4	892720	1672022	87.3
Mahalaxmi	290765	474395	63.2	303481	535472	76.4
Maa Tarini	569899	615516	8.0	854348	891019	4.3
Sramajibi Bikas	35745	179768	402.9	65350	459121	602.6
Maa Tarini (G)*	135523	266853	96.9	127950	302032	136.1
Maa Shakti	-	43550	-	-	65700	-
Maa Adi Shakti	-	43700	-	-	81450	-
All	2336557	3670845	57.1	3132155	5032002	60.7

Note: * Maa Tarini Gruhanirmana

11 The Loan Committee consists of the President, Vice-President and the CEO. The committee meets once in every two months.

A high growth rate of either credit or deposits can be attributed to a low level of credit and deposits in the base year. It however does not prove that a co-operative with a lower growth rate, will have a smaller volume of deposit mobilization and a lower scale of deployment of credit. A co-operative with a lower growth rate may have begun mobilizing deposits and deploying credit on a larger scale at an early stage in order to increase its volume of credit disbursement and collection of deposits. At a subsequent stage, a further expansion of credit and deposits at the same rate may be difficult. So, an appropriate step would be to compute the average amount of deposits and credit to understand movement of these co-operatives.

Table 2 gives data on average amounts of deposit and credit for the financial years 2004-05 and 2005-06. Importantly, the growth rates of average amounts of deposit and credit move in the same direction for all co-operatives suggesting that with amount of deposit rising, the amount of credit too goes up. Corresponding with the pattern, at places where amount of deposit mobilisation has declined, the amount of credit flow too has fallen. This suggests that deposit mobilisation is an important factor influencing the flow of funds in a self-help co-operative. However, a decline in the volume of average amount of deposit collection can be attributed to more number of new entrants into the co-operative system. In other words, because of new entrants, number of members having less than the mean value of deposit collection has increased during the financial year 2005-06 compared to 2004-05. Similarly, reduction in the availability of credit can be ascribed to a rise in access to credit by members. For instance, only 55 per cent of total members were loanees[12] during the year 2004-05, a rate that increased to around 68.4 per cent by the end of 2005-06 (Table 3). This indicates that the rate of growth in membership has been lower than the rate of growth in loanees during the financial years 2004-05 to 2005-06.[13]

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12 A member who has borrowed at least once since the inception of a co-operative is treated as a loanee. Since in this analysis, a member who has borrowed even once receives the same weightage and remains at par as a 'loanee' with those having borrowed more than once, it would be pertinent to ascertain variations in the frequency of raising credit by members. Subsequent sections deal with this issue.

13 There exists a higher degree of variation in the ratio of loanees to members across co-operatives. For instance, of every 100 members, loanees were as high as 91 in case of Nari Jagruti and as low as 22 in case of Maa Shakti. It gives an indication of existence of a positive correlation between percentage of loanee to members and the age of the co-operatives. In other words, members of a relatively older co-operative are likely to have more chances of raising loans compared to their counterparts in a new co-operative.

TABLE 2. Average Amounts of Deposit Mobilisation and Supply of Credit Across Co-Operatives

Co-operatives	Average Amount of Deposits (in Rs.)			Average Amount of Outstanding Credit (in Rs.)		
	March 2005	March 2006	Growth Rates (in %)	March 2005	March 2006	Growth Rates (in %)
Padmabati	1308	1101	-15.8	1851	1280	-30.9
Nari Bikas	1605	1642	2.3	1830	2092	14.3
Nari Jagruti	1224	1917	56.7	1761	2658	51.0
Mahalaxmi	1077	1138	5.6	1124	1284	14.2
Maa Tarini	857	743	-13.3	1285	1076	-16.2
Sramajibi Bikas	325	461	41.8	594	1177	98.2
Maa Tarini Gruhanirmana	355	432	21.7	335	489	45.9
Maa Shakti	-	224	-	-	339	-
Maa Adi Shakti	-	196	-	-	365	-
All	967	933	-3.5	1296	1279	-1.4

Table 3. Member Versus Loanees Across Co-operatives

Co-operatives	Mar - 2005			Mar - 2006		
	No. of members	No. of loanees	% of loanees to members	No. of members	No. of loanees	% of loanees to members
Padmabati	301	162	53.8	376	315	83.8
Nari Bikas	181	170	93.9	260	225	86.5
Nari Jagruti	507	414	81.7	629	575	91.4
Mahalaxmi	270	112	41.5	417	320	76.7
Maa Tarini	665	400	60.2	828	610	73.7
Sramajibi Bikas	110	35	31.8	390	295	75.6
Maa Tarini (G)*	382	37	9.7	618	250	40.5
Maa Shakti	-	-	0.0	194	43	22.2
Maa Adi Shakti	-	-	0.0	223	58	26.0
All	2416	1330	55.0	3935	2691	68.4

Note: *Maa Tarini Gruhanirmana.

Table 4. Co-operatives Working with ADHIKAR by Their CDR

Co-operatives	Credit Deposit Ratio (in %)	
	2004-05	2005-06
Padmabati	141.5	116.2
Nari Bikas	114.0	127.4
Nari Jagruti	143.9	138.6
Mahalaxmi	104.4	112.9
Maa Tarini	149.9	144.8
Sramajibi Bikas	182.8	255.4
Maa Tarini Gruhanirmana	94.4	113.2
Maa Shakti	-	150.9
Maa Adi Shakti	-	186.4
All	134.1	137.1

Table 4 presents credit deposit ratio (CDR)[14] by co-operatives for the years 2004-05 and 2005-06. Interestingly, for each of the co-operatives, the CDR has been more than 100 per cent during both the financial years except for Maa Tarini Gruhanirmana during 2004-05. This indicates that there was a net inflow of funds to all co-operatives. Since the CDR has been more than 100 per cent, a question that comes up is as to how do these co-operatives mobilize additional loanable funds? Apparently, they depend on the secondary co-operative which charges a 13 per cent interest on loans advanced to its member co-operatives. Based on information given in Table 3, the inferences that can be drawn are (i) any increment on a 100 per cent of CDR can be attributed to adding of additional loanable funds by the secondary co-operative, and (ii) declining CDR in case of Padmabati, Narijagruti and Maa Tarini is not owing to less utilisation of internal funds.

7. LOANABLE FUNDS: OWNED Vs. BORROWED

As explained earlier, a Self-Help Co-operative generally mobilises loanable funds from collection of deposits and by borrowing from the secondary co-operative. Evidently, all of them have generated large proportions of loanable funds through mobilization of internal deposits rather than by borrowing to meet credit needs of their member borrowers (Table 5). Except few, the rate of dependence on borrowed funds for meeting credit needs has however increased during the financial year 2005-06 compared to 2004-05. This is due to the fact

[14] The CDR indicates as to how far the resources mobilised from within a given area are being utilised in the same area, and what part of such resources are getting away from the area.

that the rate of growth in credit disbursement has been higher than the rate of growth in deposit mobilisation for all co-operatives.

Table 5. Funds Owned and Borrowed by Co-operatives Working with ADHIKAR

Co-operatives	2004-05		2005-06	
	Own Fund (in %)	Borrowed (in %)	Own Fund (in %)	Borrowed (in %)
Padmabati	70.6	29.4	86.0	14.0
Naribikas	87.7	12.3	78.5	21.5
Narijagruti	69.5	30.5	72.1	27.9
Mahalaxmi	95.8	4.2	88.6	11.4
Maa Tarini	66.7	33.3	69.1	30.9
Sramajibi Bikas	54.7	45.3	39.2	60.8
Maa Tarini Gruhanirmana	105.9	-5.9	88.4	11.6
Maa Shakti	-	-	66.3	33.7
Maa Adi Shakti	-	-	53.7	46.3
All	74.6	25.4	72.9	27.1

To provide loans to primary co-operatives, the secondary co-operative often borrows from external agencies. In this case, the secondary co-operative has borrowed from the FWWB(I) – an apex micro finance organisation located at Ahmedabd, India.[15] If the rate of borrowing[16] is equal to the rate of loans sanctioned,[17] it implies that borrowed funds have fully been utilised by the secondary co-operative. Otherwise, the extent of this differential can be treated as own funds of the secondary co-operative. Based on this logic, raising of funds by borrowing and the extent of their utilisation by the secondary co-operative is shown in Graph 1.

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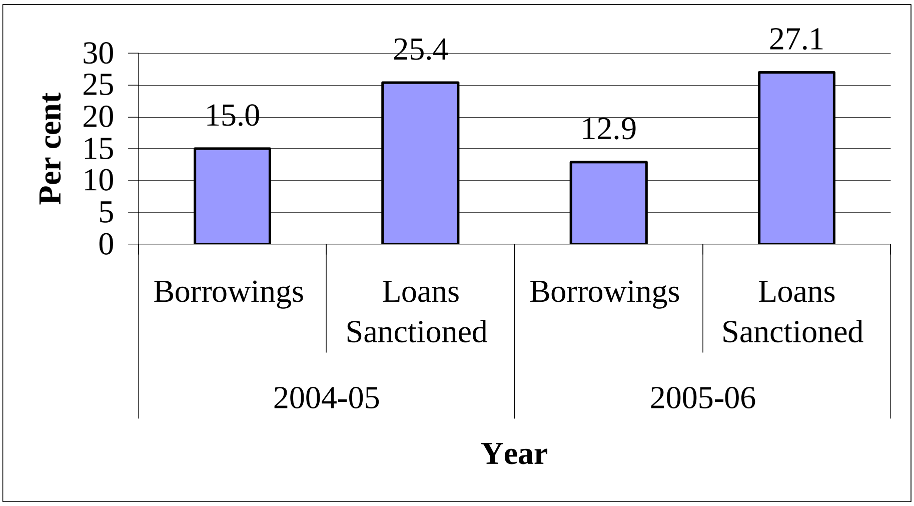
15 The secondary co-operative does not receive any loans directly from external agencies. Instead, it receives loans through ADHIKAR. Hence, the amount of loan sanctioned by ADHIKAR to the secondary co-operative may be treated as its total external funds. The outstanding credit of the secondary co-operative from the FWWB(I) through ADHIKAR was Rs. 4,70,000 during 2004-05. The same has however increased to around Rs. 6,50,000 by the end of 2005-06.

16 Rate of borrowing = (total external outstanding loan/ total outstanding credit of co-operatives) $\times 100$.

17 Rate of loan sanction = (total outstanding credit – total deposit mobilisation)/ total outstanding credit) $\times 100$.

Graph 1. Borrowings and Utilisation of External Funds by the Secondary Co-operative



Apparently, the rate of borrowing has been lower as against the rate of loans sanctioned during both the financial years. It suggests that the secondary co-operative may have sanctioned the additional loan amount to member co-operatives from its own funds. Notably, the proportion of external loan to the total outstanding credit has declined from around 15 per cent during the financial year 2004-05 to 12.9 per cent in 2005-06. It appears from this, that in order to provide credit to primary self-help co-operatives, the secondary co-operative has begun to depend on its own funds.

8. SHG MEMBERS AND THE CREDIT MARKET

Of the 31 sample SHG members, 16.1 per cent have ever obtained any loan from formal financial institutions (Table 6). It should however be noted that the members did actually require credit, but their lack of access to formal credit make them dependant on informal credit. It is evident that as many as 64.5 per cent of the sample households had borrowed from informal sources. We were told that even informal credit market was not accessible to all. Since such markets in our field area, as also elsewhere in rural India operate frequently on status and intensity of personal relationships, anybody prepared to pay the interest and meet collateral requirements, does not necessarily qualify to receive a loan from lenders (Basu 1997). Significantly, all had obtained loans from their co-operatives indicating the degree of dependence and intensity of their accessibility to the co-operatives. The data also suggest that often the same members placed outside the formal credit market, access services from their self-help co-operatives.

Table 6. SHG Members and Their Dependency in the Credit Market

Description	Extent of Dependency	
Number of SHG members who ever took loan(s) from formal sources *	5	(16.1)
Number of SHG members having loan(s) outstanding from informal sources *	20	(64.5)
Number of SHG members raised loan(s) from their own co-operatives *	31	(100)
Average amount of outstanding loan (in Rs.) from all sources (a + b)	19201	-
Average amount of total outstanding loan (in Rs.) from own co-operative (a) #	3785	(19.7)
Average amount of outstanding loans (in Rs.) from informal sources (b) #	15416	(80.3)

Note: (1) No sample respondent had any outstanding loan from formal sources.
(2) Figures in parenthesis in rows (*) are percent to total sample.
(3) Figures in the parenthesis in rows (#) are the percentage of total outstanding loan.

Data given in Table 6 also show sources on which members depend for their credit need. On an average, a borrower has managed to draw only 19.7 per cent of her households' credit requirement form a co-operative with the rest raised from informal sources. Since most of these co-operatives started giving loans within a year of their existence and had to cover more number of member borrowers, the availability of loan amount was less.[18] Nevertheless, the rate at which deposit mobilization and supply of credit are increasing, credit availability from these co-operatives is likely to substitute more and more amount of informal credit raised by these members in near future.

An important issue that comes to our mind is as to whether all members get equal opportunity in accessing credit from a self-help co-operative? We have examined this issue by comparing the ordinary members with that of the 'position' holders. This has been done by using different indicators that include, (i) proportion of members accessing credit; (ii) average number of times loans obtained; (iii) average amount(s) of loan obtained each time; (iv) average amount of compulsory deposits, and (v) the status of credit deposit ratio (CDR). Table 7 presents such financial links of SHG members through which they have been mediating with their federations.

[18] At the time of our field work in April-May 2006, these self-help co-operatives were just two to two and a half years old.

Table 7. Financial Links of SHG Members Since Their Joining the Co-operative

Description	All	Position holder *	Ordinary members@
Sample members from different SHGs	31	14	17
Average number of times loans obtained	2.5	3.4	1.8
Average amount of loan obtained each time (in Rs.)	4238	4187	4317
Average amount of compulsory deposits (in Rs.) #	1148	1299	1024
Average amount of other deposits (in Rs.) **	1008	1957	226
Credit deposit ratio (in %)	369.2	322.4	421.7

Note: (1) # Accumulated figure;
(2) * Office bearer either at SHG, cluster or the Co-operative (past or present)
(3) @ Members not holding any position of office.
(4) ** includes FD, RD, VD and DD
(5) While calculating the CDR, only the figures on compulsory deposits have been taken.
(6) 100 % access to credit by members.

The key findings which emerge from Table 7 are, (i) Average number of times loans obtained by a position holder has been higher compared to ordinary members. (ii) Notably however, the average amount of loan obtained each time by a position holder has been lower compared to ordinary members. The CDR therefore appears higher in case of ordinary members. (iii) Position holders tend to save more in terms of compulsory and other forms of deposits. (iv) Since a member can also raise demand loans, the higher frequency of accessing credit by a position holder may not necessarily be conditioned by her additional savings in CD alone. This result contradicts earlier findings that a position holder remains placed better than an ordinary member in terms of volume of loans raised and frequency of accessing credit.[19] This indicates that all members get equal opportunity in accessing credit, irrespective of their social status and positions in the SHGs, clusters as well as primary and secondary co-operatives.

9. SAVING STATUS AND ACCESS TO CREDIT

Of the 31 respondents, 25 were saving the scheduled amount in compulsory deposits (CD) and 6 were saving more than that. Those saving more in CD are accessing credit at a higher frequency (Table 8). Significantly, though the amount of loan obtained each time is slightly higher for those saving more, the CDR is higher in case of those saving less. This means that the average net flow of fund is higher for the latter group. Can one then say that a higher frequency of accessing credit is due to a member's additional savings in CD? This may not really hold true since members also raise demand loans. The determinants hence can be additional savings in other forms of deposits including FD, RD, VD and DD.

[19] For a more detailed discussion, see Das, Biswaroop (2000).

Table 8. Compulsory Deposits and Access to Credit by Members

Indicators	Members who are saving the scheduled amount in CD account	Members who are saving more than the scheduled amount in CD account
Number of SHG members	25	6
Average number of times raised credit since joining	2.1	4.2
Average amount of loan obtained each time (in Rs.)	4225	4264
Average amount of compulsory deposits (in Rs.) #	998	1773
Average amount of other deposits (in Rs.) *	699	2296
Credit deposit ratio (in %)	423.4	240.5

Note: (1) # Accumulated figure
(2) While calculating the CDR, only the figures on compulsory deposits have been taken.
(3) * includes FD, RD, VD and DD

Table 9. Savings Habits and Access to Credit by Members

Indicators	Members having only CD	Members having CD and other forms of saving
Number of SHG members	12	19
Average number of times raised credit since joining	1.3	3.2
Average amount of loan obtained each time (in Rs.)	4313	4218
Average amount of compulsory deposits (in Rs.) #	863	1328
Average amount of other deposits (in Rs.) *	0	1645
Credit deposit ratio (in %)	499.9	317.6

Note: (1) # Accumulated figure
(2) While calculating the CDR, only the figures on compulsory deposits have been taken
(3) * includes FD, RD, VD and DD

As seen in Table 9, average number of times credit accessed is lower in case of members having only CD than those having CD as well as other forms of savings. However, amount of loan obtained each time and the CDR are higher in case of the former group. Hence it becomes difficult to infer that a higher frequency of accessing credit is related essentially with saving more in terms of CD.

10. REPAYMENT AND PROFITABILITY

The repayment starts after a month of realization of a loan. A self-help co-operative generally collects repayments in instalments. As farm and non-farm loans are given for a maximum period of 12 to 18 months, a borrower has to repay the former loan in 10 and latter loan in 15 equal instalments at a reducing rate of interest. If a loanee fails to repay for more than a month, she has to pay a penalty at the rate of 1 per cent per month on the instalment amount. In case of the delay exceeding for more than three months, the Manager brings it to the knowledge of BoD and issues a formal notice to the concerned loanee. After four months from the date of default, a co-operative has the right to adjust the amount from loanee's savings and share capital. If these fall short of the default amount, a co-operative can adjust the same with the share and deposits of guarantor(s). Even with such steps if the amount cannot be adjusted, a co-operative can initiate action to realise the amount from the assets listed in the loanee's application. Since no guarantor can raise a loan unless 75 per cent of loan raised has been repaid by the borrower, the peer pressure persuades a borrower to repay the loan on time. Nevertheless, it is the collective responsibility of all members to get the loan back with interest. And indeed, profit of a financial institution gets determined by the rate of repayment.

On an average, repayment has been to the tune of 85 per cent during both the financial years with only negligible variations across co-operatives (Table 10). However, a closer scrutiny of the rate indicates that the rate of repayment has varied between 83 to 87 per cent and repayment was more consistent in 2005-06 compared to 2004-05.

Table 10. Loan Repayment Status Across Co-operatives Promoted by ADHIKAR

Co-operatives	2004-05			2005-06		
	Total Outstanding (in Rs.)	Total Demand (in Rs.)	Rate of Repayment (in %)	Total Outstanding (in Rs.)	Total Demand (in Rs.)	Rate of Repayment (in %)
Padmabati	557148	468004	84	481258	409069	85
Nari Bikas	331158	284796	86	543928	473217	87
Nari Jagruti	892720	776666	87	1672022	1454659	87
Mahalaxmi	303481	254924	84	535472	455151	85
Maa Tarini	854348	726196	85	891019	766276	86
Sramajibi Bikas	65350	54894	84	459121	390253	85
Maa Tarini (G)*	127950	106199	83	302032	253707	84
Maa Shakti	-	-	-	65700	55188	84
Maa Adi Shakti	-	-	-	81450	68418	84
All	3132155	2671679	85	5032002	4325938	85

Note: *Maa Tarini Gruhanirmana.

As it appears from Table 11, Sramajibi Bikas and Maa Tarini Gruhanirmana as incurred loss during both the financial years though its volume was lower in 2005-06. Maa Shakti and Maa Adishakti too have incurred losses for the year 2005-06. Co-operatives generally incur loss due to (i) poor repayment (ii) smaller spread available for covering financial and management costs, and (iii) low volume of business. Maa Tarini Gruhanirmana seems to be incurring losses due to the availability of smaller spread as it charges 18 per cent interest per annum on loans. In other cases it seems to have been due to the low volume of business. Except these four co-operatives, the rest are gaining profit. The members, board of directors, co-operative staff as well as officials of ADHIKAR believe that, other things remaining the same, the amount of profit will go up with respect to the volume of business over a period of time.

Table 11. Profitability Status in the Co-operatives of ADHIKAR

(in Rs.)

Co-operatives	2004-05	2005-06
Padmabati	34003	5637
Nari Bikas	28775	23086
Nari Jagruti	56654	87313
Mahalaxmi	5668	5768
Maa Tarini	43748	30707
Sramajibi Bikas	-12703	-2364
Maa Tarini Gruhanirmana	-18272	-14400
Maa Shakti	---	-11400
Maa Adishakti	---	-6557
All	137873	117790

Note: (-) stands for loss

In a self-help co-operative model, since profits as well as losses are shared among all members proportionately, the peer pressure appears to be rather high, which in turn ensures a substantially high repayment of loans. Thus, it can be stated that pumping of microfinance through Self-help co-operatives ensures a high degree of sustainability. This even eliminates the risks for funding agencies while providing loanable funds to agencies. In case of the Grameen or Joint Liability Group (JLG) models, saving by members is frequently discouraged. Thus, adjustments of any kind gets ruled out in case of non-repayment of loans. Hence, neither the first line and nor the intermediary agencies possess full control over borrowers in the latter models.

11. CONCLUSION

Some of the salient findings that emerge from the paper are: (1) around 68 per cent of members without access to formal credit received loans from the SHCs during 2005-06; (2) Proportion of loanees to members shows an increasing trend suggesting a rise in access to credit by members. More significant is that the rate of growth in membership has been lower than the rate of growth in loaness; (3) These co-operatives have generated 72.9 per cent of their total loanable funds through internal deposit mobilization; (4) Though the volume of external loans has increased in absolute terms, its proportion to total credit has shown a decreasing trend; (5) The rate of growth of average amount of deposits and credit move in the same direction, suggesting that with the rise in amount of deposits, the volume of credit too has gone up. Similarly, where amount of deposit mobilization has declined, the amount of credit supply too has slumped. This indicates that the volume of deposits tends to determine the flow of funds in these self-help co-operatives; (6) the Credit Deposit Ratio (CDR) being more than 100 per cent indicates at full utilisation of deposits mobilised; (7) the rate of repayment was about 85 per cent; (8) As members can also raise demand loans, higher frequency of accessing credit by a position holder may not necessarily be conditioned by one's savings in the CD alone.

These co-operatives indeed appear participatory in the process of decision making as well as mobilisation of deposits and disbursement of credit with potentials for financial as well as social intermediation among the poor, and present a workable model with features of strengthening the principles and practices on which co-operatives can be sustained. Evidently, the constitution, management and regulation of these co-operatives already carry some of the pertinent components identified by the Vaidyanathan Committee (Vaidyanathan, 2005), essential for reviving and revitalising the co-operative credit structure in the countryside. With legal measures and associated institutional reforms strengthened further, such and similar structures can be enabled to evolve as more participatory and self-governing platforms for provision of appropriate financial services, particularly to the rural poor.

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