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## A Study on Role of Cooperative Banks in Micro-Finance with Special Reference to Karnataka

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### **Abstract:**

*Micro-Finance refers to —small savings, credit and insurance services extended to socially and economically disadvantaged segments of the society, for enabling them to raise their income levels and improve living standards. The concept of Micro-finance was popularized by the Nobel laureate Prof. Mohammad Yunus of Bangladesh in 1976. He then, started Grameen Bank to promote Micro-Finance in the same year. NABARD offers financial support to its partners to promote Micro-Finance. It offers training and sensitization of partner agencies, and monitors its performance. Karnataka State Apex Cooperative Bank exclusively established a separate department dedicated to Micro-Finance in Karnataka through Short Term Cooperative Credit Societies (STCCS). The bank has prepared a detailed road map to this effect. The vision document in this road map has been accepted by NABARD and Government of Karnataka. This study has been undertaken to understand the Micro-Finance model of the Karnataka State Apex Bank and District Credit Cooperative Bank, the role of Self-Help Groups, credit disbursements and interest rates, the importance of women in the economy, product design and the initiatives of NABARD towards Micro-Finance.*

**Key words:** Microfinance, NABARD, Grameen Bank, Cooperative Banking, STCCS

### **1. Evolution of Micro-Finance**

The history of micro-financing can be traced back as to the nineteenth century when the theorist Lysander Spooner was writing over the benefits from small credits to entrepreneurs and farmers as a way getting the people out of poverty. Independent of Spooner, Friedrich Wilhelm Raiffeisen launched the first cooperative lending banks to support farmers in rural Germany.

The modern use of the expression "micro financing" has its roots in the 1970s when organizations, such as Grameen Bank of Bangladesh with the micro-finance pioneer Muhammad Yunus, were starting and shaping the modern industry of micro financing. Another pioneer in this sector is AkhtarHameed Khan. Savings and credit groups that have operated for centuries include the "susus" of Ghana, "chit funds" in India, "tandas" in Mexico, "arisan" in Indonesia, "cheetu" in Sri Lanka, "tontines" in West Africa, and "pasanaku" in Bolivia, as well as numerous savings clubs and burial societies found all over the world.

### **2. Self Help Group (SHG)**

Self Help Group (SHG) is a small group of rural poor, who have voluntarily come forward to form a group for the improvement of the social and economic status of the members.

#### *2.1. Need for SHGs*

- To mobilize the resources of the individual members for their collective economic development.
- To uplift the living conditions of the poor. To create a habit of savings and utilization of local resources.
- To assist the members financially at the time of need.
- To develop linkages with institutions of NGOs.
- To organize training for skill development. To help in recovery of loans.
- To gain mutual understanding, develop trust and self-confidence.

#### *2.2. Cooperative Banking*

A co-operative is an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise. Cooperative Banks that provide microfinance services in addition to their general banking activities and are referred to as microfinance service providers. Cooperative banks in the financial sector have facilitated private capital formation in agriculture and accelerated the pace of distribution of key inputs of farm production like fertilizers, seeds and equipment (NABARD 2002), thus contributing to the

ushering in of the revolution in agricultural production and productivity in India. These institutions are however better known for the role played by them in developing thrift habit among the people of small means and mobilizing their savings for economic development and extension of credit to the needy. Their contribution in providing farmers and micro entrepreneurs across sectors with the much-needed credit input is particularly recognized. According to the latest available data, while Urban Cooperative Banks (UCBs), have deployed more than the targeted 60 percent (precisely 62.1 per cent) of their total credit for the priority sector<sup>2</sup>(RBI 2004),an overwhelmingly larger part of the outstanding advances of the rural cooperative credit institutions has consistently been channeled to farmers and other small operators in agriculture and allied activities sector, over the years. It is thus obvious that cooperative banks are lagged behind compare to commercial banks and RRBs significantly in regard to their performance under SHG – Bank Linkage Programme. Studies indicate that it was occasioned not by any limitations of organizational network. Cooperative banks at the State and District levels have the advantage of working through a massive infrastructure of grassroots-level outfits in the form of more than one lakh PACS operating across the country, the total number of rural and semi-urban branches of commercial banks and RRBs nowhere coming near this huge figure.

### 3. Research Design

#### 3.1. Statement of Problem

“A study on role of cooperative banks in micro-finance with special reference to district central cooperative banks in Karnataka”  
Availing credit from a financial institution was a cumbersome process and time-consuming. Micro-finance institutions and Cooperative banks enable borrowers to avail credit at a lower interest rate, made available within a short period. This paper understands role of Cooperative banks in Micro-finance with reference to DCC Banks in Karnataka.

### 4. Objectives of the Study

- To assess the user (SHG) perception towards Micro-finance through cooperative banks.
- To analyze the demand and supply of Micro-finance in Cooperative banks.
- To analyze present scenario of Micro-finance in India.
- To know the role of Women and SHG (Self Help Group) in economy.
- To analyze the role of Cooperative banks in Micro-finance.

### 5. Scope of Study

The study was undertaken through a marketing survey using questionnaire to selected respondents from below mentioned areas:

- Tumkur
- Bangalore Rural
- Kolar
- Chikkaballapur

### 6. Methodology and Procedure

Questionnaire method was adopted. The data was collected through primary and secondary tools and was effectively evaluated. The primary data was collected through issue of questionnaire to the respondents (SHG) and secondary data from the websites of NABARD and KSC Apex Bank.

### 7. Tools for Data Collection

There are two sources of data collection:

- Primary data
- Secondary data

#### 7.1. Primary data

The data collected from the questionnaire issued, was analyzed. The questionnaire comprised of both open-ended and close-ended questions.

#### 7.2. Secondary data

Secondary data was collected from the websites of NABARD and KSC Apex Bank. The main sources of data are the annual reports of both these organizations.

#### 7.3. Sample Size

Sample size is of 30. The entire sample size was used for processing data. Random sampling technique was used.

### 8. Findings

- 60% of the SHGs prefer cooperative banks to carry out their dealings.
- Interest rate factor is most which attract the SHGs for their micro-financial dealings in cooperative banks.
- 73% of respondents felt that micro-finance has an impact in their life. Further, they felt that micro-finance concept can reduce poverty in present Indian economic system.

- The disbursement of Micro-Finance credit increased from Rs. 12139 Lakhs in 2008-09 to Rs. 32392 Lakhs in 2010-11.
- More than 50% of respondents felt that micro-finance is an effective tool for agricultural development in the present economy.
- 47% of respondents felt that micro-finance concept helps in empowering of women.
- Growth of SHGs saving with Cooperative banks is very low compare to commercial banks in the year 2010-11.
- Growth of micro-finance loan disbursement in cooperative banks is very competitive to commercial banks and regional rural banks in the year 2010-11
- Cooperative banks have higher Micro-finance bank loans outstanding against SHGs in the year 2010-11.
- Increase in cooperative bank micro-finance NPAs in 2010-11 from 2% to 3%.
- There is high volatility in growth of fresh and refinance from DCC banks to SHGs.

### 9. Challenges

- Growth of SHGs saving and formation in commercial banks and RRBs are very high when compared to cooperative banks.
- Most of the respondents use cooperative banks only because of less interest rate. However, staff behavior and procedures in such cooperative banks are not up to the mark.
- Existing SHGs becoming inactive or dormant within a short period of time. This has negative impact on micro-financing of such institutions.
- SHG loans become NPAs due to lack of income generation and poor marketing of SHG products.
- More number of SHGs avail loans for monsoon-dependent and water-intensive agricultural activities. It might become an NPA in case of monsoon failure.
- High volatility in fresh financing and refinancing to SHGs by cooperative banks.

### 10. Suggestions

- Specialized skill training programs can be offered to cooperative banks, NABARD, SHGs and a handful of end-customers.
- Universities and institutions can incorporate Micro-Finance as an academic discipline.
- NABARD and NAFSCOB, can promote research and development on Micro-Finance.
- Cooperative banks can try to reduce NPAs by providing micro-insurance facility to agricultural activities.
- Cooperative banks should adopt plans to avoid more volatility in fresh and refinancing activities.

### 11. Conclusion

SHGs members are satisfied with services by cooperative banks, and overall performance of cooperative banks is good. Micro-finance plays very important role in empowerment of women and reducing of poverty in present economy.

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