Loan loss reserves as a test of solidarity in cooperatives

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Abstract

The cooperative structure traces its origin to Europe and is in existence for more than one and a half centuries. The structure rapidly expanded across the globe and encompassed all possible activities where there was a need for collective action. The collective need for banking resulted in the formation of financial co-operatives. These are usually non-profit and provide financial services to the members who come together for some common financial need. Due to the exclusion of certain section of the society from the mainstream banking, they became an important structure for addressing financial inclusion and poverty alleviation. Though the cooperative structure offers lot of advantages over other institutional forms, the key to success of cooperative lies in participation and solidarity.

This paper deals with a part of the experimental project of a microfinance institution in India that targeted income generating poor above the subsistence level. The main focus of the project was to test the feasibility of cooperative structure in the target segment and for this a special tool was determined to measure the feasibility. This was called the Loan Loss Reserve. This paper presents the result of a Focus Group Discussion conducted online in 2012 involving experts from the field of microfinance.

The findings are quite significant for practitioners as well as researchers because loan loss reserves may test the sustainability of the cooperative structure for meeting the financial needs of this segment of poor population.