

# The COVID 19 Strategy for Cooperative Banks and Cooperatives

## I. Cooperative Philosophy and their Business Model:

The 19<sup>th</sup> century concerns about meager financial compensation for work, indebtedness and economic unrest lead to the formation of certain associations by people who believed in self help and mutual help as a solution to their limited means. People with small means joined hands to form democratic organizations based on equality. Different types of such organisations catering to the subjective needs of different sections of population emerged and developed over the years that followed.

The emergence, growth, interaction and comparative performance of these different co-operatives are a result of the constant revision and defined needs of the respective sectors in relation to the people concerned.

Thus, the cooperatives have been formed on the basic premise of values of self help and mutual help, democracy, equality, social responsibility, governance, proximity and transparency.

Consequently, the business model of cooperative enterprises is basically a manifestation of the cooperative philosophy. The features of cooperative business model are:

- a) These organizations have been formed to primarily help small persons, who would not otherwise mobilize finances for meeting their needs be it for agriculture, business or otherwise.
- b) Even if such small persons accessed finance from entities other than cooperatives, such money would be at high costs and often not viable to borrow.
- c) Cooperative banks mobilize small deposits; provide finance normally to micro, small and medium enterprises, artisans, agriculture- small and marginal farmers to a large extent and etc.
- d) These organizations operate in small areas and utilize resources mobilized locally for the benefit of their members of the local geography. Hence, they contribute to the development of the local economies.
- e) They are owned and managed by members who will have small per capita share holding.
- f) Each share holder has a right to only one vote irrespective of the number of shares held. On the contrary, in joint stock companies, number of votes is equal to the number of shares held by the investors and, therefore, the voice of small investor may not be heard. Cooperatives support persons of small means.
- g) In cooperative organization, the owner member and the customer are normally same, thus, creating wealth for the members.

The most significant feature is their demonstrated resilience in facing the financial vagaries over a period of more than a century.

## **II. COVID 19- Challenges- summary of its effects on humans and business.**

The adverse impact of the pandemic is one of the first of its kind in history. The magnitude of impact has been very vast not sparing any aspect of human existence be it education, services, agriculture, finance, trade and commerce, manufacturing, travel and social relationships to name a few.

The fatality of the deadly virus has gripped all the segments of humanity. The most affected are people belonging to the vulnerable groups such as elderly persons, persons with disabilities, people suffering from heart diseases, high blood pressure, diabetes who are particularly cautioned by the medical community as highly vulnerable to the COVID 19 – co-morbidity- .persons who are suffering from one medical problem/disease also have one or more disease at the same time. The term co-morbidity has attained increased importance in the medical circles while analyzing the deaths due to CORONA alone and deaths due to co-morbidity.

It is also possible that there has been age based discrimination to provide sufficient medical assistance to the corona affected patients. The younger lot may have been preferred over the older/aged patients due to insufficient or limited availability of medical infrastructure. Certain senior citizens and disabled persons require external support for conducting their daily chores or in maintaining their personal care and, therefore, face greater risk of the disease.

The disease affects the homeless poor more than the others as their exposure chances are quite high. The plight of populations in nations across the globe where water is scarce (prescription of frequent hand washing with soap) is an issue to cope with. Countries facing problems from refugees, prevalence of migrant labour culture, displaced persons (irrigation projects) have to suffer disproportionately on account of the limited movement, problems of increased unemployment, etc.

The aggregate effects of a host of adverse conditions spinning out of the disease are:

- Livelihoods problem
- Discrimination between haves and have-nots
- Unemployment
- Financial inequalities,
- Exclusion from economic growth,

The lock down all over the world Impacts education and sports and games as social distancing may have to be maintained for a long time to come – till a vaccine and/ or a medicine are invented. Adverse impact on the psychology of children and youth as a result of reduced social

contact and interactions in schools and play grounds in terms of expanding the knowledge horizons or competitiveness respectively needs no amplification.

## **Impact on business**

All the economic activities have been closed down in a host of countries. Generation of income and consequently the purchasing power of citizens are dwindling with each day of lockdowns. Further, the agricultural produce, even in case of good harvests, finds it difficult to move to processing plants and from there to consumers; other kinds of industries face spiraling stocks of work in progress, cost of inventory of raw materials as well as finished goods, closed hospitality industry, services sector suffering from demand erosion, travel ban on both passenger traffic and goods traffic excepting for essentials in the case of latter category, closure of international borders by many countries restricting movement of any kind, several countries locking down the borders of individual provinces to curtail/ prevent spread of virus and many such developments which have come to stay for an uncertain period of time contribute to decline in trade and commerce.

The consequences are not difficult to assess. To name a few:

- Increase in debts
- Need for fresh infusion of funds to revive and to run
- Cost of funds for working capital and incremental investment requirements
- Labour migration and consequent limitation on immediate availability for restarting business
- Uncertainty in realization of dues from customers.
- Difficulty in raising fresh and additional credit facilities from banks and other financial institutions in the face of uncertainty in economic growth and markets.
- Spoiled stocks and problems of insurance claims.
- Loss of customer base
- Erosion in suppliers' trust.
- Cash flows contraction and mismatches
- Difficulty in increasing / maintaining support for innovation and invention as basic needs have to be prioritised.
- Travel industry will take one of the hardest hits with unpaid leases, penalties, parking and berthing charges, consequences of delay in revival of travelling and idle capacities etc.
- Hospitality industry also takes a hard hit from the present restrictions on movement of people and social distancing requirements, and upon reopening the issues arising out of lack of customer confidence in general or fear of the unknown.

The World Bank had estimated decline in Global poverty rate (%) to 7.8%. Now it has revised the estimate to nearly 8.5% in the year 2020. (Global Poverty- population living on \$1.90 per day). This, in a nutshell, gives the impact on the spending capacity of people and the consequences to business. (World Bank Blog dated April 20, 2020)

### III. Strategies and Measures announced by different countries and Central Banks:

Countries around the world are battling an unseen foe of the mankind with limited strategies and solutions. While clinical solutions to the virus are far away from sight as of now, the preventive measures are being put in place. A few of the measure taken by some countries are tabulated. The measures tabulated are only representative in nature where as many more measures at granular level have been taken by the governments in their earnest efforts to contain the spread of the disease.

The measures taken are actually closure of all economic activities to support welfare of citizens. In the choice between life and livelihoods, countries have preferred lives at the cost of decline in economies with the well reasoned hope of revival on survival.

No.	Country	Schools	Hotels/ Hospitality	Non- essential Shops	Factories	Borders
1.	USA	Closed in some states	Closed in some states	Closed in some states	Open	Closed for some countries
2.	France	Closed	Closed	Closed	Open	Closed
3.	Germany	Closed	Closed	Closed	Open	Only Dutch borders open
4	Italy	Closed	Closed	Closed	Closed	Open but only allowed to be in streets with Italian Govt permission
5.	Spain	Closed	Closed	Closed	Closed	Closed
6.	UK	Closed	Closed	Closed	Closed	Open
7.	India	Closed	Closed	Closed	Closed but exemptions given	Closed

Sri Lanka took the following measures among others:

- Issuing travel bans to other affected countries and closing of ports and airports.
- Imposing Island wide strict curfew,

Nations and their central banks have, simultaneously; put in place various supportive policies for addressing the stress in the financial conditions arising out of the COVID19. These measures aim at improving the liquidity in the system to ensure normalcy in the financial markets. Further, the measures taken enable strengthening the monetary transmission ensuring credit flows on soft terms to the entities affected by the circumstances arising out of the pandemic besides improving the volatile market functioning and relaxing the re payment pressures and improving access to working capital. The measures taken by different countries and central banks are both monetary and fiscal in nature.

Fiscal and monetary policy measures taken by a few countries and Central Banks are narrated in the following paragraphs. The list is only representative but not exhaustive.

## **a) Governments**

### **USA**

1. Under a means tested system, each American household will receive a cheque from the Treasury for a maximum amount of USD3000. To cover the needs of low income individuals
2. Top up unemployment benefits varying from state to state which average roughly \$300 a week by \$600 a week during a four month programme ending 31-7-2020 to cover the needs of those who lost jobs.

### **GERMANY**

1. Making reduced hours compensation benefit more flexible.
2. To improve liquidity of firms provision of options for deferring tax payments, reducing pre-payments
3. Protect healthy firms from liquidity issues arising out of supply chain disruptions. The volume of support is unlimited.

### **FRANCE**

1. Companies pay their workers compensation equal to 70% of their gross wage (about 84% of net). Workers earning minimum wage or less will get 100% compensation. Companies are fully reimbursed by the Government for gross monthly wages.
2. Fiscal and social charges payable in March postponed. These could be waived in needed on case by case examination.
3. Solidarity Fund of EUR1 billion a month to compensate very small and small businesses and self- employed I the hardest hit sectors.
4. EUR2 billion for additional health care funding-includes sick leave costs.
5. Suspended payment of rents, utility bills (Water, electricity, gas) for very small businesses facing hardship.

6. State guarantee for banks loans to companies.
7. Bank loan repayments deferred for a period of 6 months at no cost and rescheduling of small loans.

## MALAYSIA

1. Reduction of key rate by 25 basis points.
2. Announcement of a fiscal stimulus package of USD 4.8 bn (1.3% of GDP).

## SAUDI ARABIA

1. SAR 50 bn (USD 13.3 bn) under the Private Sector Financing Support Program.
2. Depositing an amount of about SAR 30 bn for banks and financing companies to delay the payment of the dues of the financial sector (banks and finance companies) from SMEs for a period of six months as of its date.
3. Providing concessional finance of about SAR 13.2 billion for SMEs by granting loans from banks and finance companies to the SME sector.
4. Exemptions and postponement of Government fees by private sector.

## IRAN

The government has deferred loan payments till May for three million lower income families, who will also receive payments of up to six million Rials (\$400) in four stages.

## **b) Central Banks of countries**

### USA Federal Reserve

1. 100 bps cut in Fed. Funds target rate.
2. Cut in discount rate by 150bps to 0.25%
3. Borrowing through discount window increased to 90 days, payable and renewable on daily basis.
4. Interest on reserve and interest on excess reserve lowered 0.1%.
5. Reserve ratio cut to 0%.
6. Quantitative easing by securities purchase.
7. Exclusions from Prudential Ratios.
8. Deferred payments not to be considered as late payments.
9. Loans whose conditions have been eased can be used as collateral at Fed's discount window; easing of prudential norms framework i.e., provisions and equity.

## Bank of England

1. Key rate cut by 50 bps to 0.25% on 12-03-20 and further cut by 15 bps to 0.10% on 19-03-20.
2. Increase in asset purchasing (Govt., bond purchase) programme by 200 billion GBP.
3. Banks to be provided Long term refinance programme-4 years, at a reduced rate i.e., less than or equal to bank rate, for supporting SMEs.
4. Reduction in counter cyclical capital buffer from 1% of Risk Weighted Assets to 0% for a period of 12 months.
5. Cancellation of stress test for eight major UK banks and building societies to facilitate lending to firms.
6. Purchase of CP up to one year maturity issued by firms making material contribution to UK economy. Eligibility based on issuing firms' financial health before the COVID19 shock.

## Bank of Japan

1. No change in key rate which is at (-) 0.10%.
2. Quantitative easing- exchange traded funds and investment funds tied to Japanese real estate securities purchasing programme doubled.
3. Corporate Bond securities purchasing programme increased.

## The Central Bank of Iran

Release of emergency funding which will be used to provide cheap loans to businesses that have been impacted by the corona virus outbreak. The loans will be offered at a low rate and will have a repayment period of two years.

## Reserve Bank of India

1. Targeted long-term repo operations (TLTRO 2.0) for an aggregate amount of ₹50,000 crore, to begin to be invested in investment grade bonds, commercial paper, and non-convertible debentures of NBFCs, with at least 50 per cent of the total amount availed going to small and mid-sized NBFCs and MFIs. Such investment will be classified as held to maturity (HTM) even in excess of 25 per cent of total investment permitted to be included in the HTM portfolio. Exposures under this facility will also not be reckoned under the large exposure framework
2. Special refinance facilities for a total amount of ₹50,000 crore to NABARD, SIDBI and NHB
3. Reduction in the fixed rate reverse repo rate under the liquidity adjustment facility (LAF) by 25 basis points from 4.0 per cent to 3.75 per cent with effect from 17-04-20

4. Increase the Ways and Means Advance limit of states(provinces) by 60 per cent over and above the level as on March 31, 2020 to provide greater comfort to them for undertaking COVID-19 containment and mitigation efforts, and to plan their market borrowing programmes better. The increased limit will be available till September 30, 2020.
5. Moratorium of three months on payment of current dues falling between March 1 and May 31, 2020. The payment moratorium periods (Public or granted by banks on a voluntary basis) relating to the COVID-19 outbreak can be excluded by banks from the number of days past due in respect of NPA recognition.
6. Scheduled commercial banks and cooperative banks shall not make any further dividend payouts from profits pertaining to the financial year ended March 31, 2020 until further instruction.
7. To ease the liquidity position at the level of individual institutions, the LCR (Liquidity Coverage ratio) requirement for Scheduled Commercial Banks brought down from 100 per cent to 80 per cent with immediate effect. The requirement shall be gradually restored back in two phases – 90 per cent by October 1, 2020 and 100 per cent by April 1, 2021.
8. The date for commencement for commercial operations (DCCO) in respect of loans to commercial real estate projects delayed for reasons beyond the control of promoters can be extended by an additional one year, over and above the one-year extension permitted in normal course, without treating the same as restructuring. Similar treatment has to be given to loans given to commercial real estate by NBFCs.
9. Moratorium of three months on payment of installments in respect of all term loans outstanding as on March 1, 2020 allowed. Accordingly, the repayment schedule and all subsequent due dates, as also the tenor for such loans to be shifted across board by 3 months. No adverse impact on asset classification of the loan.
10. Reassessment of working capital cycle for the borrowers. No adverse impact on asset classification of the loan.
11. Deferment of payment of interest outstanding on 1 march 2020 on working capital facilities of all kinds by 3 months. No adverse impact on asset classification of the loan.

#### **IV. Strategy of coop banks and cooperatives to contain the Virus spread**

##### **1. Cooperative Banks**

The banks have to reiterate their relevance to their stakeholders in times of need. The present pandemic, without a doubt, warrants such trust building efforts. Relevance to stakeholders is a broad expression encompassing a host of actions on the part of institutions.



**a) Helping in continuity of operations by customers:** The customers have to be educated on the facilities extended by the Governments and the Central Banks to face the financial adversities arising out of the current situation. Customers have to be helped in assessing their revised needs and suggest the most appropriate solutions and products – both new loans and modification of existing facilities for sustaining the business. Banks should help the customers in managing their cash flows and reduce credit risk.

**b) Re-engineering Processes:** The above steps have to be backed by a well oiled mechanism of quick response Business Continuity Team in the bank- a centralized response centre with pre agreed processes either existing or reengineered to suit the current requirements. All these measures have to be supported by a well designed Information system to enable the persons concerned to have a real time appraisal of situations to take informed and quick decisions.

Needless to say that it implies the need to reassess the existing business processes and systems, their response speed, scalability and so on. Re-engineering of processes should aim at releasing the staff from functions of routine nature to take care of more important customers with regards to the risk associated with business segments in which they are operating and the volume of business that the bank has with them.

Subject to the extant laws of the country, digital documentation can be also planned and executed for new loans and new facilities.

Cooperative banks have to reduce the need for customers to reach the brick and mortar branches of banks by providing digitalized operation facilities. Reducing physical contact through use of technology is a solution in itself for containment of the disease spread.

**c) Credit Monitoring:** However, monitoring the quality of credit on a continuous basis is the norm which cannot be ignored. Monitoring of accounts through a robust technology enabled mechanism supported by analytics for risk assessment shall be a part of bank's regular activity. Besides, on- line monitoring of primary securities especially in the case working capital arrangements has to be ingrained into the overall SOP. Such arrangements reduce physical visits to the client's premises while giving the comfort of regular/periodical updates on the situation on site.

Customer accounts have to be classified into high risk, moderate risk and low risk categories basing on their previous behavior with the bank, emerging sectoral risks and advantages, the developmental and financial policy announcements by the governments and the Central Banks of the nations concerned. The information flow thus prioritized shall enable early identification of stress in accounts. Remedial measures in terms of business advice to the client; review of facilities granted can be initiated in time to avoid any possible deterioration of the asset.

**d) The overall strategy** is one of sustaining the banks' business while helping the customers continue their businesses following social distancing, minimizing human interaction simultaneously through extensive use of technology.

## **2. Cooperatives**

The very motto of cooperatives i.e., "each for all and all for each" amply describes their role in supporting members in particular and society at large in containing the spread of the disease while supporting sustenance of their lives, livelihoods and economic activities.

In the present context, let us see the roles and opportunities as may be envisaged for a few kinds of cooperatives

### **a) Agricultural Credit cooperatives**

As per a report of International Cooperative Alliance.2017, there are 252.2million people concerned in respect of employment in the self-employed producer members, vast majority being in agriculture. Even looking at these stand alone figures, people in agriculture cooperatives are substantial. Mechanization of agricultural operations and the business processes and operations of agriculture cooperatives substantially reduces human involvement in the agri-sector. In the context of containing the COVID 19, illustrative changes as mentioned here under can release substantial member producers employed in the operations for gainfully employing themselves in other trades with in their geography.

- a) Agri Cooperatives providing custom hiring services of agri machinery and equipment.
- b) Automation of credit assessment, sanction, documentation and disbursement; insurance
- c) Automation of assessment of agri input requirements, placing of purchase orders, recording of stocks received and sold. Tracking age and expiry dates of stocks on hand
- d) Automated recording of individual producer wise agri produce procurement and sale.

Now this change in the business paradigm meets the requirements of human distancing to contain COVID 19 and also providing avenues of incremental incomes.

A successful example of this nature is the total computerization of Primary Agriculture Cooperative Credit Societies in certain states (Provinces) in India providing doorstep services to member producers through use of POS machines obviating their need to go to the cooperative –reduces human contact in such decentralized operational environment driven by technology.

### **b) Cooperative Hospitals**

Quick adaption to changes in the contemporary environment such as

- a) Tele- medicine services,

b) Deployment of robots for processes which do not warrant intervention of experts- such as recording the basic details of the patients, taking temperature and recording any other parameters as may be feasible, collection of basic details of the patients for directing them to appropriate departments avoiding crowding of any hospital areas Eg., A custom designed robot at the reception area of a hospital can do all these and much more.

### c) **Processing Cooperatives**

Automation of the operations on plant and machinery including use of industrial robots, administration, accounts, procurement of materials, stocking and so on are all being practiced by many successful processing cooperatives (eg., Milk Processing, fertilizer manufacturing) around the world. All these changeovers and a constant endeavor to excel in what we do leads the cooperatives in their path of each for all and all for each even in times of spread of pandemic of current day.

## **V. Conclusion**

A cooperative, like any other form of business organization can be successful only if it stays relevant to its stake-holders in all hues and shades of economic journey. Such successful journey is the result of continuous research, re-engineering and reforming its products and services, improving efficiency in delivery and its operations, fair pricing of its products and services. The underlying need to recapitalize itself to be on a financially sound footing cannot be overlooked.

Any form of business, be it a proprietary concern, partnership concern or joint stock company functions in the same environment as a cooperative enterprise and consequently all business forms will get the same opportunities or encounter more or less similar obstacles or sudden external shocks like the challenges thrown up by the current COVID 19.

It is the resilience of the organization to overcome the most unexpected kind of business shocks that determines the success of such entity. The success is also a result of various factors working in harmony with the external and influencing factors. The business entity has to constantly endeavor to meet the customer expectations of innovation in products and services; efficiency in delivery, maintaining the organization's financial stability, continuous re-search of the customer needs, re-engineering of internal processes and reforming itself to be contemporary at all times.

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