Evaluating RRB's role in promoting Self Help Groups: An analysis

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Abstract:

Regional Rural Banks were created with the prime intention of providing banking and financial services to people living in rural areas. As per 2011 census report, rural India accommodates 833 million population, constituting almost 69% of the total population. Despite the fact that many developmental programmes initiated by the government from almost seven decades, have brought about considerable changes in the rural infrastructure and rural lives, a lot more to be achieved. It is pathetic to notice that, even now, many villages lacks basic infrastructural facilities. For instance, Department of Power, Government of India, in it's report published on 31st March 2011, states that, out of 6,40,268 villages in the country, 5,39,163 villages have been provided with electricity connection so far. It constitutes 84% of the villages. This information narrates that, still 16% of the villages i.e., 1,01,105 villages does not have electricity connection at all. This means that about 400 million people in rural areas face the challenge of access to electricity and modern energy services. This has adversely affected the economic productivity of the people, forcing them to rely on unsustainable use of available bio-mass resources. The energy situation in rural India, further gets aggravated by poor quality fuels, unreliable supply, inefficient use of available sources and limited access to reliable sources of electricity. This information is only a tip of the ice berg of the numerous problems which are persistent in the rural set up. Availability of loans and other financial services was very difficult and next to impossibility. To address this issue government of India has nationalized 14 commercial banks in 1969. The nationalization of the banks in 1969 boosted the confidence of the public in the Banking system of the country. However, in the early 1970s, there was a strong feeling that even after nationalization, there were many cultural issues, which made it difficult for commercial banks, even under government ownership, to lend to farmers and the priority sector. This issue was taken up by the government and it set up Narasimham Working Group in 1975. On the basis of this committee's recommendations, a Regional Rural Banks Ordinance was promulgated in September 1975, which was replaced by the Regional Rural Banks Act 1976 to provide sufficient banking and credit facility for agriculture and other rural sectors. *As a result the development process of RRB's started on 2nd October 1975 with the forming of the first RRB in the country, the Prathama Bank with authorised capital of Rs.5 crore at its starting. Also on 2nd October 1975, five regional rural banks were set up with a total authorised capital Rs.100 crore ($10 Million) which later augmented to 500 crore ($50 million). The Regional Rural Banks were owned by the Central Government, the State Government and the Sponsor Bank (Any commercial bank can sponsor the regional rural banks) who held shares in the ratios of Central Government : 50%, State Government : 15% and Sponsor Banks : 35%.*

Key words: Rural India, Financial inclusion, Narasimham Committee, Rural sector.

Introduction:

Existence of Chronic poverty is the major concern for the country and mitigating it has been the core of all developmental efforts. Post independence, several poverty alleviation programmes initiated by the government have resulted in the overall development of the poor but these programmes were not able to achieve the targeted success. Lack of capital and inaccessibility to credit is the serious constraint to the development and inhibits poor from responding to the opportunities created by the process of development. Empowerment of women is the most important means of poverty eradication. Despite considerable improvement in the status of women post independence, they still constitute the largest section of deprived population. Certain problems such as poverty, illiteracy, lack of skills, availability of proper health care facilities, ignorance etc., which are persistent in rural economy, can not be tackled individually but could be effectively solved through group efforts. It reminds of a childhood story, where few birds are caught in a net and couldn't escape one by one. They thought of an idea and decided to fly together in a group and similarly one stick is easily breakable but bundle of sticks is difficult to break. These stories narrate the same moral – 'Unity is strength', 'Self help is the best help' and 'United we stand and divided we fall'. Hence attacking the problem through collective efforts yields better results. Today such collective group efforts are called as 'Self Help Groups", which has become a powerful tool in initiating the change and transforming the lives of crores of poor and marginalized across the country.

Self Help Group is a small, homogenous affinity group of rural poor, comprising of not more than 20 members each. These groups represent and foster true democratic culture, wherein all members of the group take active part in decision making. The membership is open, voluntary and group is primarily formed to practice voluntary savings and thrift on a regular basis.

Soon after the SHG is formed, an agreed, minimum voluntary savings amount is collected from all the members regularly in the group. The savings amount may be small but savings must be regular. "Savings first-credit later", should be the motto of every group and its members. For about six months the group collects the thrift and savings and no loan is given to any member. This tests the patience and tries to instill mutual trust amongst the members. During this period the groups are expected to open a savings bank account with a bank or financial institution which would like to extend loan or credit at later stage. The savings of the members will be used to constitute 'Group Common Fund' and it is used for giving loan to members. The needy members, the amount, the rate of interest will be decided by the group through mutual discussion. The group members learn to handle cash because of large claimants and small resource base, the group identifies the neediest person with regard to endowment level and the purpose of loan. In turn RBI has directed all banks to allow Self Help Groups, both registered or unregistered, to open savings bank account with them. Involving banks as self help promoting institution (SHPI's) would facilitate in credit linkage of groups, which is crucial for economic empowerment and sustenance of Self Help Group. Accountability and credibility with the lending institution develops mutual trust between two. Hence it is quintessential for the Self Help Group to open a savings bank account with the financial institution who would like to extend credit in the later stage. This paper attempts to analyse the role of Regional Rural Banks operating at the rural India in deposit mobilization, loan disbursement thereby leading to women empowerment.

Review of Literature:

Hashemi et al (1996) in their paper entitled "Rural Credit Programmes and Women Empowerment in Bangladesh" analyzed about 1300 married women under the age of 50 who got loans through Grameen Bank and the Bangladesh Rural Advancement Committee (BRAC). Four separate samples were drawn using a random multi-stage cluster design to include messages from all the four geographic divisions of Bangladesh. The four groups consisted of Grameen Bank members, Bangladesh Rural Advancement Committee members, non-members residing in Grameen bank villages and a comparison group who lived in villages with no Grameen Bank or Bangladesh Rural Advancement Committee loans but would have qualified to join the credit programmes.

Choudhury et al (2001) discussed the role of Self Help Groups in promoting micro enterprises through micro credit intervention and the efficacy of SHG in promoting institutions. The study was conducted based on case study cum survey method and it examined the structural characteristic of Self Help Groups in the study area of Tamil Nadu, Karnataka, Andhra Pradesh and Maharashtra. It further analysed the operating systems in Self Help Groups for mobilization of savings, delivery of credit to the needy, management of group funds, recovery of loan overdue, and linking process with banks. They recommended that the micro enterprises sprung up through credit support from Self Help Groups and strategic role of Self Help Groups in poverty reduction process.

Dwarakanath (2002) in his article "Rural Credit and Women Self Help Groups" examined the Self Help Women Groups in Ranga Reddy district in Andhra Pradesh, the total corpus fund available with the group which was advanced to the group. The paper presents the effectiveness of these groups with linkage programme and awareness among the rural folk about the significance of women empowerment and rural credit.

Smita and Haripriya (2010) analysed Self Help Group bank linkage model and financial inclusion in India. Their main objectives were to examine the role of SHG bank linkage model in achieving financial inclusion across sixteen states for the year 2008 and portrayed the status of financial inclusion. They adopted cross sectional regression analysis to know the impact of selected independent variables on financial inclusion. The results indicated that the financial inclusion created a positive impact on SHG bank linkage model. They concluded that Self Help Group linkage model was a highly successful operated model of microfinance in India and it would reduce transaction costs which would facilitate proper monitoring of funds.

Research Gap:

The review of literature shows that many studies have been conducted on analyzing the impact of micro finance loan to self help groups. Further few studies also focused on problems of micro finance institutions. But studies on management of microfinance in general and especially savings of SHGs, distribution of micro finance loan, effective utilization of micro finance loan, problems in obtaining loan and repayment of loan and satisfaction on implementation of micro finance program have not been analysed so far. Hence, the present study has been undertaken to cover the above research gap.

Objectives of the study:

1. To understand the role of Regional Rural Banks and Self Help Groups in rural set up.

2. To identify the resource mobilization of RRB's and SHG's in the rural environment.

3. To analyse the importance of RRB and SHG integration through bank linkage programme.

4. To offer suggestions and recommendation for its effective implementation.

Research Methodology:

Nature of Research: It is a descriptive research in nature and tries to identify the role of Regional Rural Banks in promoting Self Help Groups.

Data Collection: The research paper is purely based on secondary data, published by the Micro Credit Innovations Department of National Bank for Agriculture and Rural Development, Head quartered at Mumbai, Maharashtra.

The area of operation of RRBs is limited to the area as notified by Government of India covering one or more districts in the State. RRBs also perform a variety of different functions such as:

- Providing banking facilities to rural and semi-urban areas.
- Carrying out government operations like disbursement of wages of MGNREGA workers, distribution of pensions etc.
- Providing Para-Banking facilities like locker facilities, debit and credit cards.
- Small financial banks

The organizational structure for RRB's varies from branch to branch and depends upon the nature and size of business done by the branch. The Head Office of an RRB normally had three to seven departments. The decision making hierarchy of officials in a Regional Rural Bank will be Board of Directors, Chairman & Managing Director, General Manager, Chief Manager/Regional Managers, Senior Manager, Manager, Officer / Assistant.

Regional Rural Banks were conceived as low cost institutions having a rural ethos, local feel and pro poor focus. Every bank was to be sponsored by a "Public Sector Bank", however, they were planned as the self sustaining credit institution which were able to refinance their internal resources in themselves and were excepted from the statutory pre-emptions. However, RRBs may have branches set up for urban operations and their area of operation may include urban areas too.

There were 196 RRBs sponsored by 27 Scheduled Commercial Banks and one State Cooperative Bank were operating in the country with a network of 14,484 branches spread over 523 districts as on March 31, 2005. The government started the process of consolidation and amalgamation in 2005, bringing the number down to 82 in 2010. As of March-end 2011, the total number of RRBs stood at 82. This number fell to 64 in March 2013. As of March 2014, the number of RRBs has been reduced to 57. After the 2014 elections, the new NDA government has put hold on further amalgamation of the Regional Rural Banks. The focus of the new government is to improve their performance and exploring new avenues of investments in the same. The government has amalgamated three more RRB's viz., Punjab Gramin Bank, Malwa Gramin Bank and Sutlej Gramin Bank into a single RRB with effect from January 1, 2019. Therefore, now there are only 53 RRB's functioning in the country. Regional Rural Banks are regulated by National Bank for Agriculture and Rural Development (NABARD). Currently seven states viz. Tripura, Nagaland, Manipur, Mizoram, Arunachal Pradesh Meghalaya and Puducherry, have state-level RRBs. Gujarat and Karnataka too have demanded formation of state level RRB. Some measures were taken by the Reserve Bank of India also. It allowed the RRBs to relocate their branches if they were making losses at one location for more than 3 years. They were also allowed to finance the non-target groups to the extent not exceeding 40 percent of their incremental lending. This limit was subsequently enhanced to 60 percent in 1994. As a result, the RRBs diversified into a range of non-priority sector (NPS) advances, including jewel and deposit-linked loans, consumer loans and home loans Some efforts were done by NABARD with funding support of the Swiss Development Corporation (SDC).

Union Cabinet has approved extension of scheme of recapitalization of Regional Rural Banks (RRBs) for next three years (upto 2019-20). This will enable RRBs to maintain minimum prescribed Capital to Risk Weighted Assets Ratio (CRAR) of 9%. It will ensure strong capital structure and minimum required level of CRAR. This will facilitate financial stability of RRBs and enable them to play greater role in financial inclusion and meeting credit requirements of rural areas. The scheme of Recapitalization of RRBs was started in 2010-11 and was extended twice in the year 2012-13 and 2015-16. The last extension was upto March 2017. Total amount of Rs. 1107.20 crore, as Central Government share, out of Rs. 1450 crore, was released to RRBs upto March, 2017. The remaining amount of Rs.342.80 crore will be utilized to provide recapitalization support to RRBs whose CRAR is below 9%, during the extended three years period.

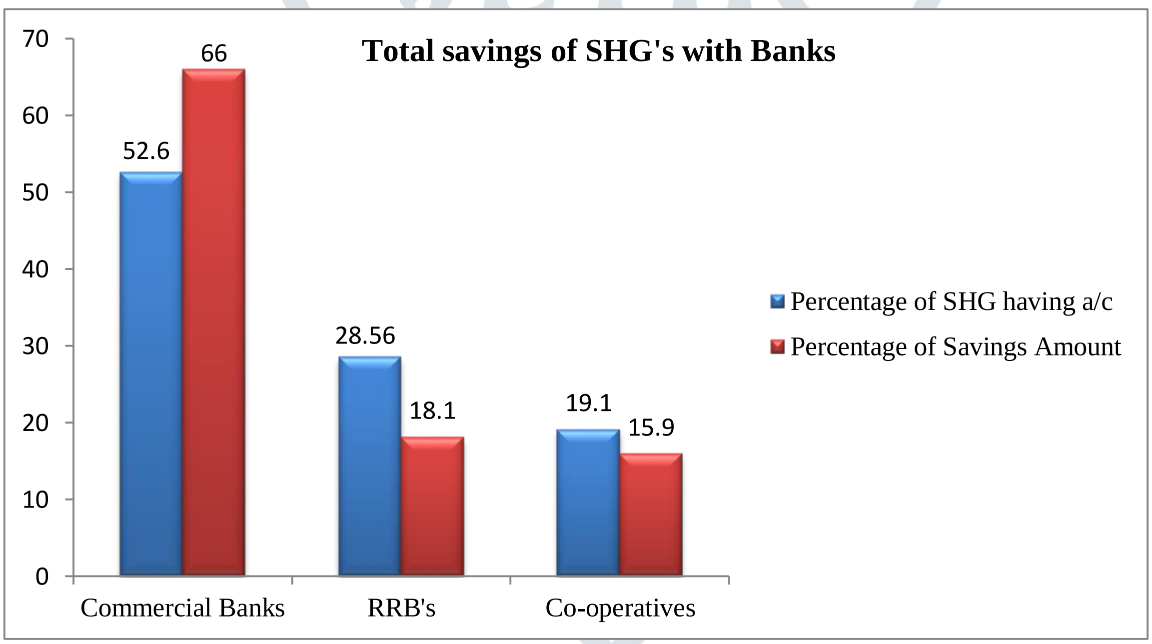
As per NABARD annual report of 2015-16, now there are 7.9 million Self Help Groups with a total thrift and deposits of Rs. 1,36,914 million, annual loan off take of Rs. 3,72,869 million, touching lives of almost 101 million households.

During 2015-16, banks and financial institutions provided loans to 18.32 lakh SHG's (23.2% of the total SHG's) as compared to 16.26 lakh SHG's (21.1% of total SHG's) during 2014-15. There is an overall 35% increase in the amount of loan disbursed by banks to SHG's during 2015-16, taking it to 37,287 crore as against 27,582 crore during 2014-15. The average loan disbursement per group during 2015-16 was Rs. 2.03 lakh which showed a healthy increase of 20% from Rs. 1.69 lakh during 2014-15.

The following table depicts the information.

Name of the Agency	Total Savings of SHGs with Banks as on 31 March 2016		Loans disbursed to SHGs by Banks during the year		Total Outstanding Bank Loans against SHGs		NPAs	
	No. of SHGs	Savings Amount	No. of SHGs	Loans disbursed	No. of SHGs	Loan Outstanding	Amount of Gross NPA	NPA (%)
Commercial Banks	41,40,111	9,03,389	11,32,281	25,18,497	26,26,364	37,14,562	2,32,140	6.25
% Share	52.6	66.0	61.8	67.5	56.2	65.0	62.98	
Regional Rural Banks	22,56,811	2,48,428	4,70,399	9,16,493	14,45,476	16,10,935	1,06,429	6.61
% Share	28.56	18.1	25.7	24.6	30.9	28.2	28.87	
Cooperative Banks	15,06,080	2,17,322	2,29,643	2,93,700	6,00,781	3,86,426	30,054	7.78
% Share	19.1	15.9	12.5	7.9	12.9	6.8	8.15	
Total (in Rs. Lakh)	**79,03,002**	**13,69,139**	**18,32,323**	**37,28,690**	**46,72,621**	**57,11,923**	**3,68,623**	**6.45**

Source: Status of Micro Finance in India 2015-16, Micro Credit Innovations Department, NABARD, Mumbai.



With the advantage of vast network of branches in the country, commercial banks enjoy the prominence. More than half (41.40 lakh, 52.39%) of the SHGs in the country maintain their savings account with Commercial Banks. During 2015-16, Commercial Banks had disbursed Rs. 25,185 crore (Rs. 17,334 crore in 2014-15) to 11.32 lakh SHGs (8.56 lakh in 2014-15) with an average of Rs. 2,22,482 (Rs. 2,02,567 in 2014-15) per SHG, against national average of Rs. 2,03,495. Commercial banks accounted for 67.5% of bank loans disbursed to 61.8% SHGs during the year. The share of RRBs in credit disbursement to SHGs stood at 24.6%. However, the number of SHGs declined substantially to 25.7% from 32.1%. The average loan disbursement by RRBs during the year was Rs. 1,94,833. The share of Cooperatives both in number of SHGs provided bank loan during the year as well as the quantum of loan disbursed declined in 2015-16 as compared to previous year. The average loan per SHG provided by Cooperatives was Rs. 1,27,894.

The following table depicts the Savings of SHG's with different financial institutions in the Karnataka (as on 31st March 2016)

Commercial Bank		Regional Rural Bank (RRB)		Co-operative societies		Total (amount in Lakh rupees)	
No. of SHG	Savings Amount	No. of SHG	Savings Amount	No. of SHG	Savings Amount	No. of SHG	Savings Amount
6,05,154	79,879.15	1,37,921	16,132.89	2,19,371	48,230.09	9,62,446	1,44,242.13

Source: Status of Micro finance in India 2015-16, Micro Credit Innovation Department, NABARD, Mumbai.

The following table depicts the total loan disbursed to SHG's from different financial institutions in the Karnataka (as on 31st March 2016)

Commercial Bank		Regional Rural Bank (RRB)		Co-operative societies		Total (amount in Lakh rupees)	
No. of SHG	Loan disbursed	No. of SHG	Loan disbursed	No. of SHG	Loan disbursed	No. of SHG	Loan disbursed
1,95,477	4,83,737.82	43,056	65,159.58	42,856	77,010.73	2,81,389	6,25,908.13

Source: Status of Micro finance in India 2015-16, Micro Credit Innovation Department, NABARD, Mumbai.

As it is evident from the above table, that commercial banks enjoy lion's share in mobilizing more savings from SHG's, loan disbursement due to their large network spread through out the country. However, in the recent past, government realized that most RRB's were making losses. The RRB concept was based upon the policy that they would lend only to the weaker sections of rural society, charging lower interest rates, opening branches in remote and rural areas and keep a low cost profile. But the commercial motivation was absent. Initially the banks expanded and by the end of year 1985 RRB's had opened 12,606 branches. During this period their credit deposit Ratio (C.D.R) expanded very fast. In 1976 it was 165% and gradually declined to 104 % in December 1986. The Credit Deposit Ratio continuously declined thereafter. Later, the questions started being raised about the viability of these banks. The Khusrau Committee of 1989, noted that the weaknesses of RRBs are endemic to the system and non-viability is built into it, and the only option was to merge the RRBs with the sponsor banks. The objective of serving the weaker sections effectively could be achieved only by self-sustaining credit institutions. RRBs were finding themselves unable to sustain because of the mounting losses due to imprudent commercial policy. Thus, Khusrau Committee (aka Agricultural Credit Review Committee) said that the RRBs have no justifiable cause for continuance and recommended their mergers with sponsor banks. Therefore RRB's despite their presence in rural areas, because of their weak number are not able to perform on par with commercial banks.

Suggestions:

Subsequent to review of the financial status of RRBs by the Union Finance Minister in August, 2009, it was felt that a large number of RRBs had a low Capital to Risk weighted Assets Ratio (CRAR). A committee was therefore constituted in September, 2009 under the Chairmanship of K C Chakrabarty, Deputy Governor, RBI to analyse the financials of the RRBs and to suggest measures including re-capitalisation to bring the CRAR of RRBs to at least 9% in a sustainable manner by 2012. The Committee submitted its report in May, 2010. The following points were recommended by the committee:

- RRBs to have CRAR of at least 7% as of 31 March 2011 and at least 9% from 31 March 2012 onwards.
- A fund of Rs.100 crore to be set up for training and capacity building of the RRB staff.

The Government of India recently approved the recapitalization of Regional Rural Banks (RRBs) to improve their Capital to Risk Weighted Assets Ratio CRAR). Share of Central Government i.e. Rs.1, 100 crore will be released as per provisions made by the Department of Expenditure in 2010-11 and 2011-12. However, release of Government of India share will be contingent on proportionate release of State Government and Sponsor Bank share.

- An additional amount of Rs.700 crore as contingency fund to meet the requirement of the weak RRBs, particularly those in the North Eastern and Eastern Region, the necessary provision will be made in the Budget as and when the need arises.

Conclusion:

Regional Rural Banks, does play a vital role in resource mobilization of self help group, due to their local presence. It is pathetic to identify that, these banks could not compete on par with commercial banks due to their poor number. Therefore the mergers and amalgamation process initiated to bring in financial strength to these banks and in the near future, these banks would perform the greater role, for which they have been constituted.

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