RRBS: CHARIOT OF SELF HELP GROUPS IN INDIA

Ms. Arvinder Kaur, Assistant Professor, PG Department of Commerce, PG Govt. College, Sector-46, Chandigarh

ABSTRACT

The banks play the role of financial intermediaries in the economic development of a state. The credit disbursed by the banks is the main tool for resource allocation in the economy. Regional Rural Banks play a vital role in the agriculture and rural development of India. The RRBs as a group have become strong intermediary for financial inclusion in rural areas by opening a large number of "No Frill" accounts and by financing under General Credit Card (GCC). RRBs are ideally suited for achieving financial inclusion. Amalgamation, recapitalization, interest subvention etc. are some of the measures taken with a view to strengthen the RRBs for playing greater role in agriculture, rural lending and financial inclusion. RRBs are key financing institution at the rural level, which takes the responsibility of fulfilling the credit requirements of Self Help Groups (SHGs). The RRBs also play a very crucial role in Self Help Groups (SHGs) - Bank linkage Through this paper an attempt has been made to assess the role of RRBs in last few years focusing on their contribution in the field of micro financing.

Key Words: Self Help Groups (SHGs), SHG-Bank Linkage Programme (SBLP), Regional Rural Banks (RRBs), NABARD, Microfinance

INTRODUCTION

Banks play an important role in the mobilization and allocation of resources in any country (Ibrahim 2010). Rural people in India are facing problems in the inadequate supply of credit. In India where still 40% of the rural population is non-bankable and living in an acute shortage of employment opportunities, our rural poor are forced to borrow from the money lenders at exorbitant interest rate, which often exploit these poor for their own advantage. The major source of credit to the rural households, particularly low-income working households, has been the informal sector. Informal sector advances loans at very high rates of interest; the terms and conditions attached to such loans have given rise to an elaborate structure of intimidation of both economic and non-economic conditions in the rural population in India (Nathan & Ramachandran 2001). The main goal of establishing regional rural banks in India was to provide credit to the rural people who are not economically strong enough, especially the small and marginal farmers, artisans, agricultural labours, and even small entrepreneurs." RRBs are region based and rural oriented banks which have been set up to correct the regional imbalance and functional deficiencies in the institutional credit structure that is the weaker section of the rural economy".

According to the National Commission on Agriculture, a strong foundation of agriculture is a necessary condition for sustained and rapid economic and social development in India. Without this, it will be impossible to accelerate growth and ensure sustained improvement of the economy (GOI 2006). An overwhelming majority of the poor is in rural areas and they continue to depend on agriculture for want of any other livelihood opportunities outside the sector. Thus, the development of agriculture is a pre-requisite for the overall development of our country. However, like other sectors, agriculture also needs some basic facilities for its development. The availability of timely credit has been identified as one of the main requirements of agricultural sector. It is rightly observed that, the lesson of universal agrarian history from Rome to Scotland is that credit is essential for agricultural developments. Neither the condition of the country nor the nature and tenures, nor the position of agriculture, affects the one great fact that agriculturist must borrow (NABARD 2007).

Regional Rural Banks were established under the provisions of an Ordinance promulgated on 26th September, 1975 and the RRB Act, 1976 with an objective to ensure sufficient institutional credit for agriculture and other rural sectors. The RRBs mobilize financial resources from rural / semi-urban areas and grant loans and advances mostly to small and marginal farmers, agricultural laborers and rural artisans. RRBs are jointly owned by GOI, the concerned State Government and Sponsor Banks (27 scheduled commercial banks and one State Cooperative Bank); the issued capital of a RRB is shared by the owners in the proportion of 50%, 15% and 35% respectively. RRBs were supposed to evolve as specialized rural financial institutions for developing the rural economy by providing credit to small and marginal farmers, agricultural labourers, artisans and small entrepreneurs. Over the years, the RRBs, which are often viewed as the small man's bank, have taken deep roots and have become a sort of inseparable part of the rural credit structure. They have played a key role in rural institutional financing in terms of geographical coverage, clientele outreach and business volume and contribution to development of the rural economy. Introduction of RRBs was an important step forward to fulfil the social development objective of specially the rural sector which was outreach of a rural economy. The GOI initiated the process of amalgamation of RRBs with a view to provide better customer service by having better infrastructure, computerization, experience work force, common publicity and marketing efforts etc. As a result of amalgamation, the no. of RRBs has been reduced from 196 to 56 as on 31 mar 2015. The number of branches of RRBs increased to 20059 districts as on 31 mar 2015, covering 644 notified districts of 26 states of India and the UT of Pondicherry. A remarkable growth has been recorded in the growth parameters of RRBs in 2014-15. There is an evident of 13 percent growth in the aggregate deposits, 17 percent in borrowings, and 16 percent in outstanding loans and advances during this period. A remarkable feature of their performance over the past four decades has been the massive expansion of their retail network in rural areas.

RRBS, CHARIOT OF MICRO-FINANCE & SHG

Micro financing by definition refers to" the entire range of financial services rendered to poor and including skill up gradation entrepreneurial development that would enable them to overcome poverty." Micro finance has been recognized and accepted as one the new development paradigm for alleviating poverty through social and economic development of the poor with social emphasis on empowering poor. Self-help group are born out of micro-finance with the main objective of development of rural economy. The need of micro financing arises because the rural India requires sources of finance for poverty alleviation, procurement of agriculture and farms unit, to pay its debt and maintain social and economic status in the village and to bring down the cost of providing credit in the rural areas.

The Indian micro finance sector has seen tremendous growth in the last few years. GOI has taken initiatives to widen the reach of RRBs all over India, especially in rural areas where commercial banks and other financial institution are beyond the reach of rural poor. Micro financing is one of the distinctive functional areas of RRBs.

The two important models of microfinance involving credit linkages with banks in India are

(i) **SHG - Bank Linkage Model:** This model involves the SHGs financed directly by the banks viz., CBs (Public Sector and Private Sector), RRBs and Cooperative Banks.

(ii) **MFI - Bank Linkage Model:** This model covers financing of Micro Finance Institutions (MFIs) by banking agencies for on-lending to SHGs and other small borrowers.

SHG is a holistic programme of micro-enterprises covering all aspects of self-employment, organization of the rural poor into self Help groups and their capacity building, planning of activity clusters, infrastructure build up, technology, credit and marketing. Self-Help Group refers to self-governed, peer controlled, informal group of people with same socio-economic background and having a desire to collectively perform common purposes. Here poor people voluntarily come together to save whatever amount they can save conveniently out of their earnings, to mutually agree to contribute to a common fund and to lend to the members for meeting their productive and emergent needs. SHGs have been able to mobilize small savings either on weekly or monthly basis from persons who were not expected to have any savings. They have been able to effectively recycle the resources generated among the members for meeting the emergent credit needs of members of the group. SHGs or self-help group consist of group of 15-20 people who comes together with an objective of creating the financial cushion in the times of individual or collective exigencies.

RRBs also play a vital role of helping SELF HELP PROMOTIONAL INSTITUTION (SHPIs), by provide the social mobilisation role at the local community level. So NABARD initiated a project to support RRBs to function as social intermediary. The scheme envisages the RRBs to select 10 branches for the task of promoting and nurturing SHGs using the services of branch staff, involving the branch manager and the local sub-staff.

REVIEW OF LITERATURE

Development of an Indian economy has been an outcome of changes in the banking sector. The relationship between the financial system and economic growth has been analyzed by a large number of studies. In India also many studies are conducted by various autonomous agencies like NABARD, SIDBI, BIRD etc. including RBI from time to time particularly regarding micro finance. Most of the studies are on the impact assessment of the beneficiaries of microfinance. There have been various studies on growth of micro finance, SHGs and growing empowerment through micro finance. In this paper the focus is on the performance of RRBs in the field of micro finance by showing the growth process in the loan disbursed to SHGs under micro finance, saving of SHGs under micro finance by RRBs, loan by RRBs to micro finance institution, loan outstanding of SHGs under micro finance Most of the studies focus on Self-Help Groups (Agarwal, Shalini 2007; Gopisetti, Rambabu 2007; Gaonkar, Maya Sairoba 2008; Sarkar, Soumitra 2008; Nagarajan, P.S 2009). Some studies are also conducted on poverty reduction and empowerment (Prakash, Jayasheela 2009). Some researchers have also worked on group based credit programmes (Sarangi, Niranjan 2008). Studies are also conducted where the researcher has evaluated the performance of Regional Rural Banks (Abdul, Hadi (2005).

In this context, microfinance has emerged as a financial innovation tool to serve the millions of poor households that are out of reach of the formal banking and financial institutions. Microfinance is the result of financial service innovations which includes microcredit, micro savings, money transfer vehicles and micro insurance. It is a special kind of financial service designed to cater the needs of poor people who are unemployed, entrepreneurs or farmers who are not bankable. Microfinance has become, in recent years, a fulcrum for development initiatives for the poor, particularly in the Third World countries and is regarded as an important tool for poverty alleviation. The microfinance revolution, particularly the success stories of institutions like Grameen Bank in Bangladesh has attracted several economists to study microfinance. "Microcredit is a critical anti-poverty tool and a wise investment in human capital." The emerging microfinance revolution with appropriate designed financial products and services enable the poor to expand and diversify their economic activities, increase their incomes and improve their social wellbeing (Bennett and Cuevas, 1996; Ledgerwood, 1999).

NABARD (1986) published “A study on RRBs viability”, which was conducted by Agriculture Finance Corporation in 1986 on behalf of NABARD. The study revealed that viability of RRBs was essentially dependent upon the fund management strategy, margin between resources mobility and their deployment and on the control exercised on current and future costs with advances. The proportion of the establishment costs to total cost and expansion of branches were the critical factors, which affected their viability. The study further concluded that RRBs incurred losses due to defects in their systems as such, there was need to rectify these and make them viable. The main suggestions of the study included improvement in the infrastructure facilities and opening of branches by commercial banks in such areas where RRBs were already in function. Naidu, L.K. (1998) conducted a study on RRBs taking a sample of 48 beneficiaries of rural artisans in Cuddapah district of Andhra Pradesh under Rayale Seen Gramin Bank. In this study, it was concluded that the beneficiaries were able to find an increase in their income because of the finance provided by the bank. Kalkundrickars (1990) in his study on “Performance and Growth of regional Rural Banks in Karnataka” found that these banks had benefited the beneficiaries in raising their income, productivity, employment and use of modern practices and rehabilitate rural artisans. Kumar Raj (1993) carried out a study on the topic “Growth and Performance of RRBs in Haryana”. On the basis of the study of RRBs of Haryana, it is found that there was an enormous increase in deposits and outstanding advances. The researcher felt the need to increase the share capital and to ensure efficient us of distribution channels of finance to beneficiaries. A. K. Jai Prakash (1996) conducted a study with the objective of analyzing the role of RRBs in Economic Development and revealed that RRBs have been playing a vital role in the field of rural development. Moreover, RRBs were more efficient in disbursal of loans to the rural borrowers as compared to the commercial banks. Support from the state Governments, local participation, and proper supervision of loans and opening urban branches were some steps recommended to make RRBs further efficient.

OBJECTIVE OF STUDY

1. To have an understanding of the role of RRBs in micro financing.
2. To compare the growth trends of RRBs with respect to SHGs in the last nine years from 2006-07 to 2014-15on parameters of loan disbursed, saving deposit
3. To analyse the growth of self-help groups with the aid of MFIs.
4. To study the role of NABARD on micro financing specially in self employment generation
5. To study Problems affecting growth of Microfinance Institutions

RESEARCH METHODOLOGY

The study has been made mainly to understand the performance of regional rural banks in India in the field of micro financing. The present study is diagnostic and exploratory in nature and makes use of secondary data. The relevant secondary data have been collected mainly through the data bases of Reserve Bank of India (RBI), National Bank for Agricultural and Rural Development (NABARD). The journals like the Banker and the Journal of Indian Institute of Bankers have also been referred. An attempt is made here in this paper to examine the rural credit structure of the country and the role played by the RRBs.

GROWTH OF MICRO FINANCE BY REGIONAL RURAL BANKS IN INDIA

To achieve objective of micro finance, RBI and NABARD have issued guidelines to various financial institutions to furnish and compile data on progress of micro finance. The focus is on the increasing role of regional rural banks in micro financing like savings of SHGs with RRBs, loan disbursed to SHGs by RRBs, loan provided to micro finance institution by RRBs and RRBs loan outstanding against SHGs. The data is compared over the financial years to depict the trends. As various institutions are involved in micro finance, there was a need of proper regulatory body which can fully monitor, supervise and promote the MFIs working in India. The Micro Finance Institutions (Development and regulation) Bill, 2011 is a major step in the microfinance sector. The proposed bill clarifies all doubts pertaining to regulation of the MFIs by appointing RBI as the sole regulator for all MFIs. In order to improve the bank linkages for rural India, the government has provided interest subvention to SHG's to provide bank loan at 7% interest and an additional interest subvention of 3% on prompt repayment in 250 backward districts. The government is making several interventions to build confidence among banks to lend to this section of society.

PROGRESS OF REGIONAL RURAL BANKS UNDER MICRO FINANCE

The progress of micro financing by RRBs especially through SHGs can be judged and analyzed by looking at the statistics pertaining to growth trends of various parameters such as number of SHGs getting loan, depositing their savings, outstanding bank loan of SHGs, loan disbursed to MFIs etc over a period of time. For this data from 2006-07 onwards till 2014-15 is presented below with growth over the years.

Table-1: Loan Disbursed to SHGS by RRB

YEAR	NO. OF SHGs	GROWTH %	AMOUNT (Rs. CR)	GROWTH %
2006-07	381199		2052.75	
2007-08	327650	-14.05	2651.84	29.18
2008-09	405569	23.78	3193.49	20.43
2009-10	376797	-7.09	3333.20	4.37
2010-11	296773	-21.24	3197.61	-4.07
2011-12	304809	2.71	5026.05	57.18
2012-13	312010	2.36	5626.52	11.95
2013-14	333420	6.86	6288.13	11.76

2014-15	522139	56.60	7725.22	22.85

Source: NABARD handbook- Source of Micro Finance in India

As per the data available on the website, RRBs line up second after commercial banks in terms of financing to SHGs. In the above section, loan disbursed to SHGs by RRBs under micro finance has been shown. The year 2008-09 saw an immense growth in the no. of SHGs with a loan amount of 3193.49 Cr, where as in the next year no. of SHGs has declined to 376797 but amount of loan disbursed saw a growth of 4.4%. The year 2011-12, witnessed an enormous growth in the amount of loan disbursed to SHGs that is of 5026.05 Cr, which is more than 50% as compared to 2006-07. During the years 2012-13 and 2013-14 the loan amount was increased at almost same rate. Financial year 2014-15 recorded highest increase in numbers of SHG by 55.6% with loan disbursement of 7725.22 cr. Over the years the growth in number of SHGs from 2006-07 to 2014-15 is 36.97% and amount disbursed is 276.33%. Loan disbursement to SHGs has grown considerably over the years.

Table-2: Saving Deposit of SHGS With RRBs

YEAR	NO. OF SHGs	GROWTH %	AMOUNT (Rs. CR)	GROWTH %
2006-07	1183065		1158.29	
2007-08	1386838	17.22	1166.49	0.71
2008-09	1628588	17.43	1989.75	70.58
2009-10	1820870	11.81	1299.37	-34.70
2010-11	1983397	8.93	1435.40	10.47
2011-12	2127368	7.26	1300.13	-9.42
2012-13	2038008	-4.20	1527.10	17.46
2013-14	2111760	3.62	1959.86	28.34
2014-15	2161315	2.35	2346.57	19.73

Source: NABARD handbook

The saving accounts of SHGs with RRBs have increased with many folds in the last nine years, from 1183065 in the year 2006-07 to 2161315 in the year 2014-15. This clearly shows the increasing trend of rural and marginalised people including members of SHGs towards saving habits. Year 2008-09 recorded maximum growth in saving deposit amounts of 70.58% which was highest until now. The growth pattern of the saving amount does not seem to be consistent over the study period evidencing a negative growth during 2009-10 and 2011-12. over the last nine years numbers of SHGs having saving deposit with RRBs has increased by 82.6% and amount saved has increased by more than 100% at 102.59%.

Table-3: Loans Disbursed to Micro Finance Institutions by RRBs

YEAR	NO. OF MFIs	GROWTH %	AMOUNT (Rs. CR)	GROWTH %
2006-07	7		0.22	
2007-08	8	14.29	1.51	586.36
2008-09	59	637.50	13.5	794.04
2009-10	46	-22.03	24.14	78.81
2010-11	9	-80.43	4.16	-82.77
2011-12	113	1155.56	13.28	219.23
2012-13	14	-87.61	45.82	245.03
2013-14	16	14.29	163.17	256.11
2014-15	15	-6.25	163.52	0.21

Source: NABARD handbook

MFIs act as intermediaries between a bank and a borrower. Under MFIs –bank linkage model, the year 2011-12 saw tremendous growth in loan disbursed to micro finance institution. No. of MFIs getting loan from RRBs was to 113 in India which over the years has come down to 15 in 2014-15. Year 2014-15 recorded a highest amount of loan disbursed to MFIs i.e. Rs 163.52Cr, which was all time highest by RRBs in this period. Growth in amount of loan disbursed to MFIs is more that 74200% over the past 9 years.

Table-4: Bank Loan Outstanding of RRBs Against SHGS

YEAR	NO. OF SHGs	GROWTH %	AMOUNT (Rs. CR)	GROWTH %
2006-07	729255		2801.76	
2007-08	875716	20.08	4421.04	57.80
2008-09	977834	11.66	5224.41	18.17
2009-10	1103980	12.90	6144.58	17.61

2010-11	1281493	16.08	7430.05	20.92
2011-12	1293809	0.96	8613.57	15.93
2012-13	1327367	2.59	10521.23	22.15
2013-14	1227563	-7.52	11048.95	5.02

Though there has been a growth in the no. of SHGs in the study period, a marginal decline has been recorded in 2013-14. Over the years the growth of No. of SHGs is more than 68% and bank loan outstanding is more than 290%.

PROBLEMS AFFECTING GROWTH OF MICROFINANCE INSTITUTIONS

It is understood that although there have been various successful stories about microfinance institutions helping the poor, they face with many problems.

1. **Managerial Reasons:** One of the major problems which the MFIs can resolve is managerial problems. Poor record keeping and lack of managerial capacity are the major problems. For office bearers and group members, record keeping seems like a waste of time. Lack of record keeping can have its share of problems including increase in defaulters.

2. **Shortage of Funds**: A very basic and crucial problem of MFIs is a shortage of sufficient funds as well as improper utilisation of available funds. The main reason of this is the nature of MFIs being for-profit motive, and hence restricted from taking public deposits.
3. **Little Knowledge**: Another hindrance in the growth of the microfinance sector is the little or no knowledge of the common people about microfinance arrangement and it is more difficult to serve them as microfinance clients as loans are disbursed on group lending concept and a past record of the group plays an important role in getting new loans.
4. **Legal Reasons:** Microfinance Institutions can be viewed as a social organization helping the poor and a profit organization too. In many countries, profit organizations are registered under different set of acts and non-profit organizations come under different legislations. These legalities sometimes create complications.
5. **Increase in Competition**: Because of increasing level of competition among the financial institutions serving in this sector, it has become mandatory for a MFI to make their pricing system quite transparent. Non-transparent pricing by MFIs restricts the borrowers to choose the loan products in a dilemma.
6. **“Unfortunate” Reasons:** Sometimes microfinance institutions have to face problems which cannot be resolved. These problems arise in cases when something “unfortunate” happens to a person or a community. A flood or famine can kill the hopes of farmers to pay their loans. Personal plights are another reason which might affect the MFI.
7. **Over Indebt ness or Multiple Lending:** One of the major drawbacks of MFI sector is Multiple Lending and Over-Indebtedness. Though competition is assumed to be good for a healthy business environment but in this case it is going against both the parties. In order to increase the market share, some of the MFIs are giving multiple loans to same borrowers which in some cases is leading to over-indebtedness

8. **Other Reasons:** Another important problem of the microfinance is that some of the members of the group either leave the group or move to another group. Since loans are disbursed on group basis, the group plays an important role in getting new loans either through SHG-Bank linkage or through MFIs.

CONCLUSION

Only by fulfilling the commercial mission of microfinance, lenders provide this valuable service over time-and generate its important development benefits. In the last two decades, two new aspects were incorporated into microfinance that made it a more effective and enduring development strategy. If micro lending was done well, it could be part of a sustainable development strategy. Over the years, savings of SHGs with RRBs and loan borrowed by them have been increasing drastically because of various Schemes launched by the Government such as Rajiv Gandhi Project, SJGSY and NRLM etc. At the same time growth in outstanding loan amount is decreasing year by year, which means that RRBs are presently in better position to recover their outstanding loan amount. In order to make microfinance system more vibrant and smooth, there is need of a regulatory environment that protects interest of stakeholders as well as promotes growth. This could also be made possible through field visits as a medium for monitoring the conditions on ground and correcting the unfavourable conditions. Moreover in order to enhance their business and funding their loan portfolio, a uniform policy and practice with regard to criteria of loaning as well as rate of interest should be adopted by all MFIs so that the entire MFI sector can become more competitive and systematic.

REFERENCES

Anil K Khandelwal, “Microfinance Development Strategy for India”, Economic and Political Weekly, March 31, 2007 54

Dr. C Rangarajan, Chairman, Economic Advisory Council to the Prime Minister, “Microfinance and its Future Directions”, May, 2005

Government of India Report of the Committee on Rural Banks, (Chairman M, Narasimhan).

In India: A Conventional Analysis”, JIMS-8M, Indian Journals.com.

Karam Pal and Jasvir Singh 2006. “Efficacy of Regional Rural Banks (RRBs)

Microfinance An Introduction Kabare Piyush Madhukar M.B.B.S (Mumbai), PGPM (Indian Institute of Management, Indore)

NABARD website

PiyushTiwari and S M Fahad, HDFC, “Concept paper- Microfinance Institutions in India”

RBI website

Report of the High-Level Committee on Agricultural Credit through Commercial Banks. Reserve Bank of India, Mumbai.

Report, “Status of Microfinance in India 2006-2007”, NABARD

Shri Y S P Thorat, Managing Director, NABARD, “Microfinance in India: Sectoral Issues and Challenges”, May, 2005

Syed Ibrahim, 2010. “Performance Evaluation of Regional Rural Banks in India”, International Business Research- CCSE, Vol-3, No.4.October.

Thakur, S. 1990. Two Decades of Indian Banking: The Service Sector Scenario, Chanakya Publications New Delhi, India.

The Future of microfinance in India: By Sukhwinder Singh Arora, Financial Sector Team, Policy Division, DFID.