

Role of Regional Rural Banks in Microfinance: A Study of Selected Two Districts in West Bengal



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Abstract

There is no denying that since more than three decades the working of the microfinance through the SHGs emerges as a major development policy to cope with the threat of poverty and financial exclusion particularly in the rural areas. Only two to five percent of the 500 million poorest households in the world have access to institutional credit. Of which, women receive a disproportionately small share of credit from formal banking institutions. However, The Women's Self Help Group movement is bringing about a profound transformation in rural areas of India and Microfinance Institutions (MFIs) has been playing a significant role in facilitating inclusion, as they are uniquely positioned in reaching out to the rural poor. Regional Rural Banks (RRBs) from an important role in this regard in the rural financial sector. In the present paper we have made an attempt to make a micro level evaluative study of the performance RRBs in the field of Microfinance under Swarnjayanti Gram Swarozgar Yojana (SGSY) in two district of West Bengal, on the basis of secondary sources of data. The study concluded that there remains wide variation in the performance of RRBs in rural microfinance over the districts of West Bengal.

Keywords: Regional Rural Banks (RRBs), Microfinance, Swarnjayanti Gram Swarozgar Yojana (SGSY), Microfinance Institutions (MFIs), Financial Inclusion.

Introduction

Economic growth follows financial inclusion. In order to achieve the objective of growth with equity, it is imperative that infrastructure is developed with financial inclusion. In the recent times Government of India and financial regulators has taken several steps towards financial inclusion for achieving inclusive development. Among them microfinance approach is one whose primary aim is to bring the disadvantaged section of people under the purview of the formal financial institutions. In developing economies, the banks, as mobilisers of savings and allocators of credit for production and investment, have a very critical role. As a financial intermediary, the banks contribute to the economic growth of the country. However, it is disheartening to note that the number of people with access to the products and services offered by the banking system continues to be very limited even years after introduction of inclusive banking initiatives in the country through measures such as the cooperative movement, nationalization of banks, creation of regional rural banks, etc. Banks used to serve mainly the richer rural borrowers, not the ones who have nothing to give as collaterals. Over the past five years, the Reserve Bank of India and other policy makers have given a deep attention to the financial inclusion and achieved discernible progress in improving access to financial services for the masses.

However, the progress is far from satisfactory as evidenced by the World Bank Survey (2012). According to the survey findings, only 35 per cent of Indian adults had access to a formal bank account. Only 2 per cent of adults used an account to receive payment from a family member living in another area. NSSO data reveal that 45.9 million farmer households in the country (51.4%), out of a total of 89.3 million households do not access credit, either from institutional or non-institutional sources. Further, despite the vast network of bank branches, only 27% of total farm households are indebted to formal sources.

Under the above circumstances microfinance has emerged as a powerful tool for easy access to financial inclusion to the rural needy poor, specially the rural women. Credit goes to Md Yunus who first paved the way by showing that the poor are also credit worthy through his research project in the year 1976. His financial institution Grameen Bank at Bangladesh starts with a small amount of money worth of 27\$ and providing this amount to a group of 42 families in a view that these families would create small items related to our everyday life for sell. Now it is a history that by 2006 the bank branches are numbered over 2100 and its success inspired more than 40 countries across the world. At present it becomes a model of the World Bank. It has been proved by Prof. Yunus that the poor are indeed efficient enough to manage credit and repay loans in due times with due interest. Experience of different anti-poverty and other welfare programmes within the country and elsewhere have shown that the key to its success lies in the participation of community based organizations at the grassroots level. People's participation in credit delivery, recovery and linking of formal credit institutions to borrowers through the intermediation of self-help groups (SHGs) have been recognized as a supplementary mechanism for providing credit support to the rural poor. In the present paper we have tried to make a comparative analysis of the physical and financial performance of the RRBs in CoochBehar and Bankura districts of West Bengal under SGSY with the help of number of self help groups formed, Gradation pattern, savings linkage, credit linkage and project linkage self help groups during the period 2009 to 2013.

Review of Literature

Large numbers of studies have been made internationally as well as nationally on the working of the micro finance and of the self help groups in this regard. We oblige to mention selectively some of them in the following paragraphs.

Amin and Pebley (1994) in reviewing gender inequality within households have observed that BRAC's loan contributed to increase women's mobility outside the home and their control on household resources and household decision making power. They also revealed that the incidence of abandonment reduces with the receiving of micro-credit loans.

Jai (1996) in his study analyzed the role of RRBs in Economic Development and revealed that RRBs played 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.

Mayoux (1997) points out that the impact of microfinance on women varies from woman to woman. These differences arise due to the difference in productive activities or different background. Sometimes, microfinance mainly benefits the women who are already better off,

whereas the poor women are either neglected by the microfinance programmes or are least able to benefit because of their low resource base, lack of skills and market contacts. However, poorer women can also be more free and motivated to use credit for production.

Kumaran (1997) has made a case study of three SHGs, viz. active, passive and dissolved in Andhra Pradesh and found that the main factors responsible for active functioning of SHGs were solidarity and cohesiveness. On the other hand, passivity and dissolved were mainly on account of irregularities in savings and repayment of loan and lack of mutual trust and confidence among the members.

Zaman (2001) by assessing the poverty and vulnerability impacts of micro finance in Bangladesh comes to the conclusion that, SHGs play significant roles in reducing the vulnerability of the poor through income and consumption smoothing.

Jayaraman (2002) shows very clearly after reviewing the performance of fisher women under different SHGs they are performing very well in availing, utilizing and repaying of micro-credit in time. Not only this study also reveals that this kind of SHG activities also reduces usury and illicit liquor in their society.

Sen (2005) has made a study on the SHGs in West Bengal and found that the dependence on the internal resources is quite high because of the weak or inadequate bank linkage. The author also found that most of the poor households are ignorant of basic services and programmes to which they are entitled. Lack of intensive facilitation is the stumbling block. The author reports the lack of capacity building initiative without which the basic objective of the SHGs cannot be achieved.

Tessie Swope (2005) after a brief discussion in an independent study on micro-finance pointed out five main criticisms against it. They are: it does not reach to the poorest members of a population, it is not financially sustainable for institutions, it is potentially harmful to women (husbands zealous), it can create large debt for the poor and it is not universal in application.

Loganathan and Asokan (2006) in their study pointed out that there are vast variations in development of SHGs among the states and among the regions. Among the regions, southern region is the best region in financing SHGs. Next to that the performance of central region, eastern region and western region is moderate. The northern and north east regions are comparatively poor in financing SHGs.

Mittal (2016) argues in his study about collective defaults made by borrowers, high rate of interest charged by MFIs, dozens of suicide cases in Andhra Pradesh done by MFIs borrowers due to pressure of repayment.

Dey (2015) in his study discusses about the issues coming in the way of microfinance which includes high transaction cost, lack of access to

funding, late payment, low education, loan default, client retention, negligence of urban poor, high interest rates and low outreach.

Singh and Gupta (2017) in their study pointed out that, NABARD played an essential role in empowering women through the initiation of self-help groups and self help group bank linkage programs and participation of women in SHG created a considerable impact on their social and economic development.

Rai and Shrivastava (2018) after a brief discussion in their study on challenges faced by Indian

Micro finance institutions opined that, though micro finance industry is growing rapidly with the current pace of time they are facing a lot of issues in implementing their scheme. Both externals and internals factors lead to create hurdle in the way of microfinance. Due emphasis should be taken by government of India, SHGs, MFIs, NABARD and other regulatory bodies to eliminate these challenges coming in the way of micro finance.

Study Design

The first section of this write-up covers the introduction. Our second section deals with the objective of the study, Research Methodology and study area. In section three we discuss about the Physical Growth and Physical performance of SHGs in our study districts CoochBehar and Bankura. In section four we made a critical assessment of Financial Performance of the SHGs in the said districts. Finally we try to give some findings and concluding remarks in fifth section of this write-up.

Objectives of the Study

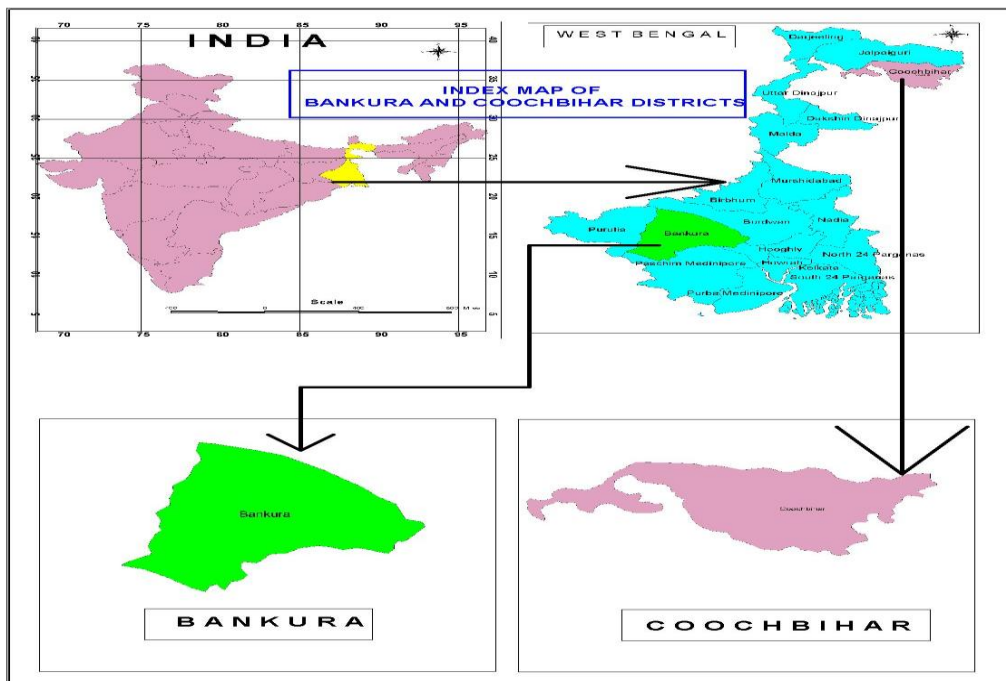
1. To find out the workability of the RRBs in the field of micro-finance and SHGs under SGSY in the proposed area.

2. To find out the variation in physical & financial achievements of the RRBs regarding microfinance activities among the districts of West Bengal.
3. To find out how far the physical growth of SHGs associated with the financial achievement of the groups?
4. To make a compare of the growth of SHG movement under SGSY in the two regions of West Bengal.

Research Methodology and Study Area

This study is based on the secondary data and literature. Secondary data has been collected from various sources like District Rural Development Cells, Panchayat and Rural Development Department, Government of West Bengal, Census Report 2011 and data collected from articles published in journals. A very simple mathematical tool has been used for the presentation of the data. All the computations are being made on the basis of the data receipt from district Rural Development Cell. Simple Bar diagram graphs have been used to represent the data graphically. For the purpose of the study we have purposively selected two districts from the rural economy of West Bengal. These two districts are Cooch Behar and Bankura. We select these two districts because of the fact that these two districts are backward districts as per our census definition. Another reason is that the geographical location of these two districts. The district Cooch Behar is located at the northern portion of our state and the other district Bankura is situated in the southern portion of the state economy of West Bengal. Locations of the sample districts in India as well as in West Bengal are given in Map I.

Map I



Physical Performance of the RRBS in Microfinance

To measure the physical performance of the SHGs formed under RRBs we have taken three parameters under consideration. These

three parameters are total number of SHGs formed since inception, number of SHGs that have passed Grade I, number of SHGs that have passed Grade II. We can have a look regarding first parameter from Table 2.

Table-2
Growth and Formation of SHGs by RRBs
(CoochBehar and Bankura)

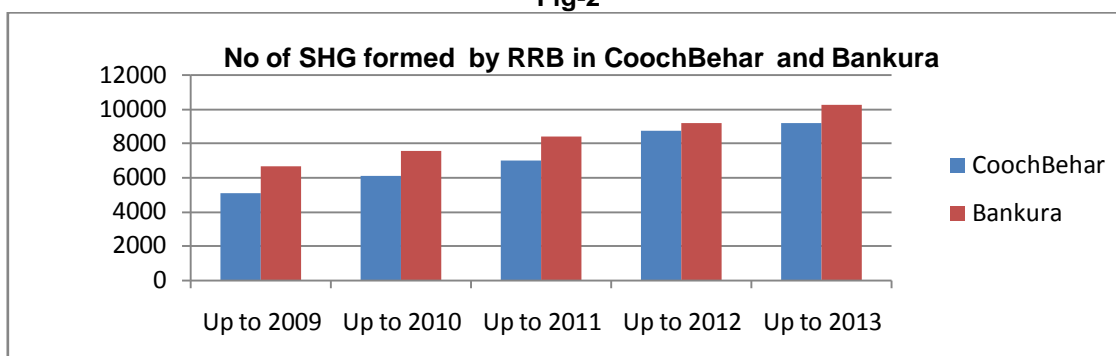
Period (Since 1.4.99 to)	Group formed in CoochBehar		Group formed in Bankura	
	By RRB (UBK Gramin)	Growth of SHGs (compared to previous year)	By RRB (BGVB)	Growth of SHGs (compared to previous year)
Up to 2009	5126	-----	6678	-----
Up to 2010	6135	19.68	7565	13.28
Up to 2011	7002	14.13	8413	11.21
Up to 2012	8754	25.02	9175	9.06
Up to 2013	9176	4.82	10262	11.85

Source: Panchayat & Rural Development Department, WB

If we consider the cumulative figures of group formed by RRB in the said districts for the given years then above table allows us to conclude that district Bankura is continuously in better position compared to district CoochBehar. But we get the opposite findings except the year 2013, for the said districts as depicted in the

above table when we consider the growth of SHGs compared to the previous year. Again we get 79.00 percent and 53.67 percent growth rate as calculated value for CoochBehar and Bankura respectively for the year 2013 considering 2009 as base year.

Fig-2



Again, Gradation is an important indicator to measure the performance of the groups already formed. For our selected districts the same performance of the SHGs is given in table 3 and 4 for Grade I and Grade II respectively. If we consider the percentage of groups that have passed Grade I and Grade II from Tables- 3 and 4, it is clear that the

CoochBehar shows better performance for both I and II Gradation of the groups compared to Bankura. Not only that, we have also observed consistently higher percentage in CoochBehar compare to Bankura in case of both the number of SHG that have passed Grade I and Grade II.

Table-3
Number of SHGs that have passed Grade I
(CoochBehar and Bankura)

Period (Since 1.4.99 to)	CoochBehar			Bankura		
	Total no. of SHGs formed by UBK Gramin Bank	No. of SHGs that have passed Grade I	In Percentage figure	Total no. of SHGs formed by BGVB	No. of SHGs that have passed Grade I	In Percentage figure
Upto March 2009	5126	4058	79.17	6678	4176	62.53
Upto March 2010	6135	5302	86.42	7565	5778	76.38
Upto March 2011	7002	6595	94.19	8413	6459	76.77
Upto March 2012	8754	7929	90.58	9175	7414	80.81
Upto March 2013	9176	8236	89.76	10262	8465	82.49

Source: DRDC Cooch Behar & Bankura.

Fig-3

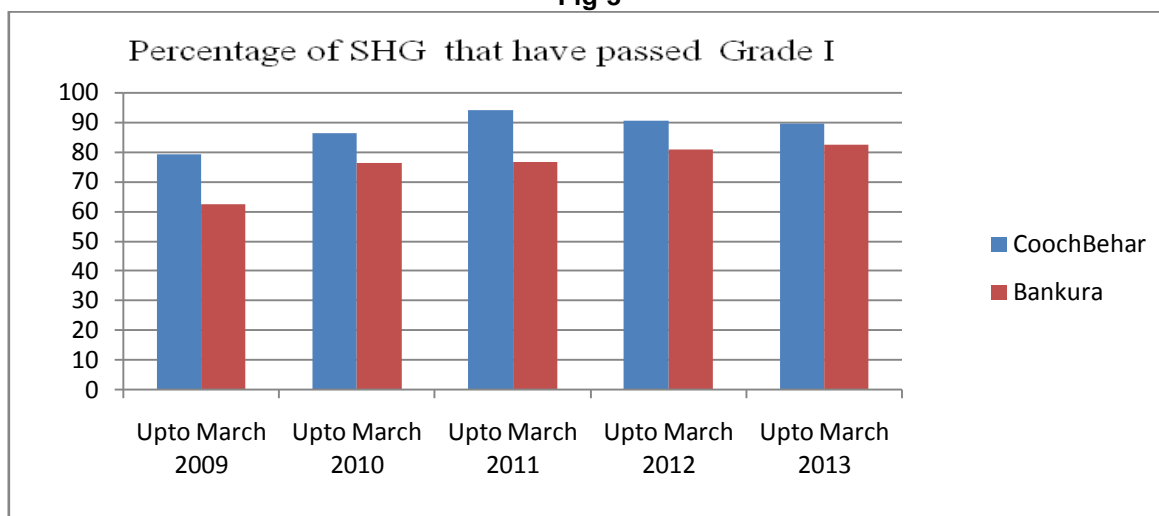
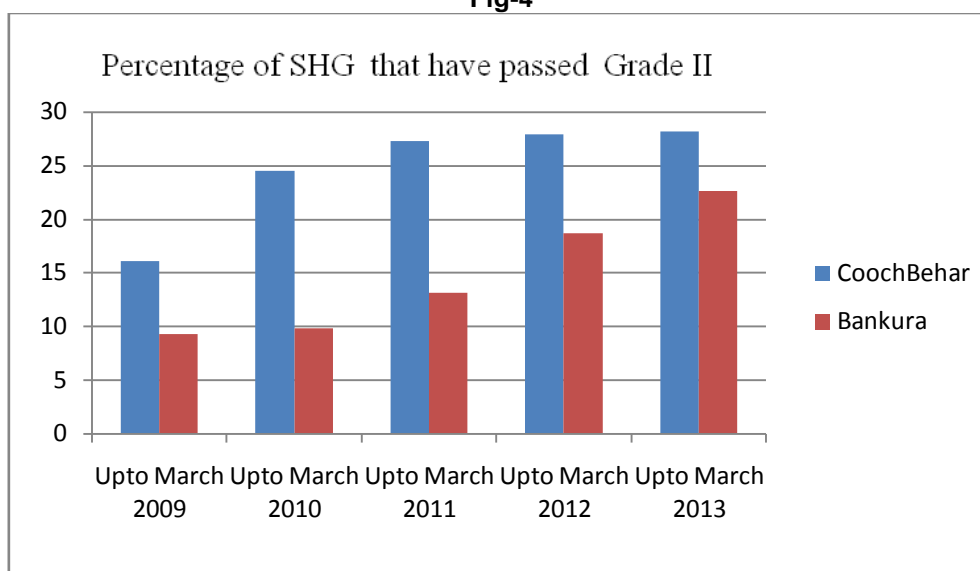


Table-4
Number of SHGs that have passed Grade II (CoochBehar and Bankura)

Period (Since 1.4.99 to)	CoochBehar			Bankura		
	Total no. of SHGs formed by UBK Gramin Bank	No. of SHGs that have passed Grade II	In Percentage figure	Total no. of SHGs formed by BGVB	No. of SHGs that have passed Grade II	In Percentage figure
Upto March 2009	5126	826	16.11	6678	624	9.34
Upto March 2010	6135	1504	24.52	7565	746	9.86
Upto March 2011	7002	1914	27.34	8413	1108	13.17
Upto March 2012	8754	2443	27.91	9175	1716	18.70
Upto March 2013	9176	2586	28.18	10262	2321	22.62

Source: DRDC Cooch Behar & Bankura.

Fig-4



Financial Performance of the RRBs in Microfinance

In this section we have tried to assess the overall financial performance of the SHGs of our Samples by the number of savings linked SHGs and by the number of credit link SHGs. In savings linked

analysis importance has been given to per SHG savings and for credit link we have given importance to per SHG credit disbursement and per SHG member credit disbursement. All is given in tables 5 and 6 respectively. Again table 5 is being divided in 5A and 5B giving the information of saving link for

CoochBehar and Bankura respectively. Similarly, table 6A and 6B provide us the credit link of the SHGs in our Sub-Samples.

If we consider the per SHG savings of our Sub-Samples considering the time frame up to March 2013 by RRBs, then we see that the SHGs of CoochBehar are succeeded to perform nearly five times more saving than the SHGs of Sub-Sample II. The other reference years also exhibits more or less the same kind of results. Again, if we have a look on

disbursement of bank credit to SHGs by the regional rural banks (RRBs), then also we see that the SHGs of our first sample CoochBehar have succeeded to avail more amount of money as credit from the formal institutions compare to the SHGs of our second sample Bankura. On an average it figures to more than one and half times in our first sub-sample than our second sub-sample. Same is more or less true, as revealed from tables 6A and 6B, in case of credit disbursement to per SHG members also.

Table-5A
Saving A/C Linkage of SHGs
(CoochBehar)

Period (Since 1.4.99 to)	Savings Linked SHGs	Amount Saved (Rs. In Lakh)	Per SHG Saving(Rs.)
Upto March 2009	5126	413.49	8066.52
Upto March 2010	6135	1232.39	20087.85
Upto March 2011	7002	3872.42	55304.48
Upto March 2012	8754	3965.97	45304.67
Upto March 2013	9176	3987.07	43451.07

Source: DRDC Cooch Behar.

Table-5B
Saving A/C Linkage of SHGs
(Bankura)

Period (Since 1.4.99 to)	Savings Linked SHGs	Amount Saved (Rs. In Lakh)	Per SHG Saving(Rs.)
Upto March 2009	6678	167.65	2510.48
Upto March 2010	7565	622.85	8233.31
Upto March 2011	8413	688.69	8186.02
Upto March 2012	9175	748.14	8154.11
Upto March 2013	10262	846.20	8245.95

Source: DRDC Bankura

Fig-5

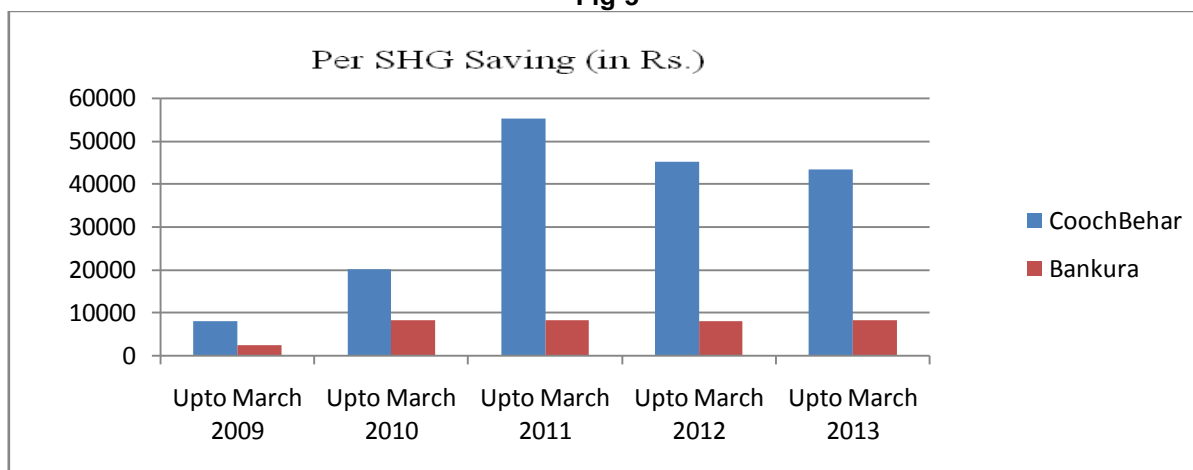


Table-6A
Cash Credit (C/C) Linkage of SHGs
(CoochBehar)

Period (Since 1.4.99 to)	Credit-Linked SHGs	No. of SHG members linked to credit	Amount Disbursed (Rs. In Lakh)	Per SHG disbursement (Rs.)	Per member disbursement (Rs.)
Upto March 2009	3002	29825	1036.40	34523.65	3474.94
Upto March 2010	3972	44655	1647.34	41473.82	3689.04
Upto March 2011	4988	53339	3537.17	70913.59	6631.49
Upto March 2012	5343	55368	3770.27	70564.66	6809.47
Upto March 2013	5655	59041	3998.03	70699.03	6771.62

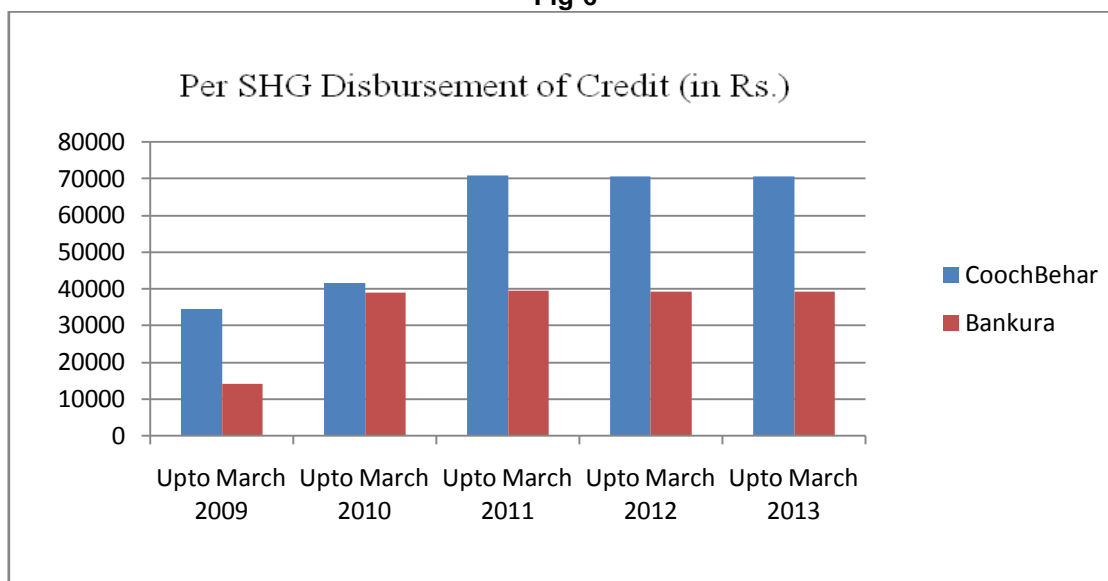
Source: DRDC Cooch Behar.

Table-6B
Cash Credit (C/C) Linkage of SHGs
(Bankura)

Period (Since 1.4.99 to)	Credit-Linked SHGs	No. of SHG members linked to credit	Amount Disbursed (Rs. In Lakh)	Per SHG disbursement (Rs.)	Per member disbursement (Rs.)
Upto March 2009	3111	36726	435.63	14002.89	1186.16
Upto March 2010	5143	56539	2009.85	39079.33	3554.80
Upto March 2011	5777	62979	2280.47	39474.99	3621.00
Upto March 2012	6135	81762	2412.37	39321.43	2950.48
Upto March 2013	6665	92062	2620.65	39319.58	2846.61

Source: DRDC Bankura.

Fig-6



It is very clear from the preceding paragraphs that in terms of facts and figures the working of the RRB in CoochBehar is quite good than the working of the RRB in Bankura.

Some Important Findings and Conclusion

From the above discussions we see that in terms of growth of SHGs our two Sub-Samples differ in a very high level of percentage. If we make a comparison of growth of SHGs under SGSY by all the MFIs considering the time-frame 2009-2013 then we see that the two growth rates for CoochBehar and Bankura are 88.87 and 48.88 percent respectively. Same growth of SHGs by RRBs is 79.00 percent and 53.67 percent for CoochBehar and Bankura respectively. In both cases CoochBehar gains higher percentage. Again, the above facts permit us to conclude that the RRBs play an important role in rural microfinance under SGSY.

In case of the gradation of the SHGs formed by RRBs, we find higher percentage in case of our first Sub-Sample compared to our second Sub-Sample. The number of SHG that have passed Grade-I in CoochBehar up to March 2009 is 79.17 percent. The same for Bankura in same reference period stands at 62.53 percent. Again, if we consider the time frame up to March 2013 then the two percentage figure becomes 89.76 and 82.49 percent respectively for CoochBehar and Bankura. We also observed consistently higher percentage in

CoochBehar compare to Bankura in case of number of SHG that have passed Grade II. Finally, per SHG saving, per SHG loan disbursement and per SHG member loan disbursement all are again consistently very high in CoochBehar in comparison to Bankura.

Thus we can say, on the basis of above inferences that although RRBs play vital role in rural microfinance but the SHG movement by RRB is not uniform across the districts of West Bengal. This is true for our Sub-Samples also. Bankura is lagging behind of CoochBehar in all respect of our chosen indicators. But what remains to say here is that in spite of higher SHG saving in CoochBehar the per SHG credit disbursement is not so high in CoochBehar.

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