**Updates for Rural Banking**

**National Rural Livelihood Mission (NRLM) – Aajeevika**

The Ministry of Rural Development (MoRD), Government of India (GOI) launched National Rural Livelihoods Mission (NRLM) in 2011, after restructuring the Swarnjayanthi Gram Swarozgari Yojana (SGSY). The central objective of the NRLM is to eliminate rural poverty through creation and strengthening of institutional platforms of the rural poor. The NRLM has been designed to provide a combination of financial resources and technical assistance to enable the states adopt a comprehensive livelihoods approach that encompasses four inter-linked components viz.,

(a) mobilization of all rural poor households into functionally effective self-help groups

(SHGs), SHG federations and other organizations;

(b) enhancing access to financial, technical and marketing services;

(c) building capacities and skills of the poor and promotion of sustainable livelihoods;

(d) improving the inclusive delivery of social and economic support services to the poor.

The mandate of NRLM is to cover 70 million poor rural households in more than 600 districts, 6,000 blocks, 250,000 Gram Panchayats and 600,000 villages in the country through self-managed community institutions and support them for livelihoods over a period of eight to ten years.

In order to augment the resources required for implementation of NRLM in 13 high poverty states with special problems, the GOI has entered into an agreement with the World Bank (IDA credit) for an assistance equal to USD 1.00 billion over XII Plan period, which was later scaled down to USD 500 million with the closing date extended up to 31st December, 2017. This part of the NRLM that is being implemented with the support of the World Bank in 13 states, 130 districts and 374 blocks is called National Rural Livelihoods Project (NRLP). But in terms of strategy and components, NRLP falls under the overall ambit of NRLM.

**Key Features of NRLM**

1. Universal Social Mobilization:

To begin with, NRLM would ensure that at least one member from each identified rural poor household, preferably a woman, is brought under the Self Help Group (SHG) network in a time bound manner. Subsequently, both women and men would be organized for addressing livelihoods issues i.e. farmers’ organizations, milk producers’ cooperatives, weavers associations, etc. All these institutions are inclusive and no poor would be left out of them. NRLM would ensure adequate coverage of vulnerable sections of the society such that 50% of the beneficiaries are SC/STs, 15% are minorities and 3% are persons with disability, while keeping in view the ultimate target of 100% coverage of BPL families.

2. Participatory identification of poor (PIP):

 NRLM will undertake community based process i.e. participation of the poor process to identify its target group. Participatory process based on sound methodology and tools (social mapping and well being categorization, deprivation indicators) Over the years, the participatory method of identifying the poor have been developed and applied successfully in the states like AP, Kerala, Tamil Nadu and Odisha.

The households identified as poor through the P.I.P process will be accepted as NRLM target group and will be eligible for all the benefits under the programme. The list finalized after PIP process will be vetted by the Gram Sabha and approved by the Gram Panchayat.

Till the PIP process is undertaken by the State in a particular district/Block, the rural households already included in the official BPL list will be targeted under NRLM. As already provided in the Framework for implementation of NRLM, up to 30% of the total membership of the SHGs may be from among the population marginally above the poverty line, subject to the approval of the BPL members of the group. This 30% also includes the excluded poor, those who are really as poor as those included in BPL list but their name does not figure in the list.

3. Promotion of Institutions of the poor:

Institutions of the poor such as SHGs and their village level and higher level federations are necessary to provide space, voice and resources for the poor and for reducing their dependence on external agencies. They empower them and also act as instruments of knowledge and technology dissemination, and hubs of production, collectivization and commerce. NRLM, therefore, would focus on setting up these institutions at various levels. In addition, NRLM would promote specialized institutions like Livelihoods collectives, producers’ cooperatives/companies for livelihoods promotion through deriving economies of scale, backward and forward linkages, and access to information, credit, technology, markets etc. The Livelihoods collectives would enable the poor to optimize their limited resources.

4. Strengthening all existing SHGs and federations of the poor

 There are existing institutions of the poor women formed by Government efforts and efforts of NGOs. NRLM would strengthen all existing institutions of the poor in a partnership mode. The self-help promoting institutions both in the Government and in the NGO sector would promote social accountability practices to introduce greater transparency. This would be in addition to the mechanisms that would be evolved by SRLMs and state governments. The learning from one another underpins the key processes of learning in NRLM.

5. Emphasis on Training, Capacity building and skill building

 NRLM would ensure that the poor are provided with the requisite skills for: managing their institutions, linking up with markets, managing their existing livelihoods, enhancing their credit absorption capacity and credit worthiness, etc. A multi-pronged approach is envisaged for continuous capacity building of the targeted families, SHGs, their federations, government functionaries, bankers, NGOs and other key stakeholders. Particular focus would be on developing and engaging community professionals and community resource persons for capacity building of SHGs and their federations and other collectives. NRLM would make extensive use of ICT to make knowledge dissemination and capacity building more effective.

6. Revolving Fund and Community investment support Fund (C.I.F)

 A Revolving Fund would be provided to eligible SHGs as an incentive to inculcate the habit of thrift and accumulate their own funds towards meeting their credit needs in the long-run and immediate consumption needs in the short-run. The C.I.F would be a corpus and used for meeting the members’ credit needs directly and as catalytic capital for leveraging repeat bank finance. The C.I.F would be routed to the SHGs through the Federations. The key to coming out of poverty is continuous and easy access to finance, at reasonable rates, till they accumulate their own funds in large measure.

7. Universal Financial Inclusion

NRLM would work towards achieving universal financial inclusion, beyond basic banking services to all the poor households, SHGs and their federations. NRLM would work on both demand and supply side of Financial Inclusion. On the demand side, it would promote financial literacy among the poor and provides catalytic capital to the SHGs and their federations. On the supply side, it would coordinate with the financial sector and encourage use of Information, Communication & Technology (ICT) based financial technologies, business correspondents and community facilitators like ‘Bank Mitras’. It would also work towards universal coverage of rural poor against loss of life, health and assets. Further, it would work on remittances, especially in areas where migration is endemic.

8. Provision of Interest Subvention

 The rural poor need credit at low rate of interest and in multiple doses to make their ventures economically viable. In order to ensure affordable credit, NRLM has a provision for subvention on interest rate. The Honourable Finance Minister in his budget speech for 2013-14 proposed to provide interest subvention to women SHGs who avail loans upto Rs. 3 lakhs at 7% per annum. The women SHGs will get an additional subvention of 3% if they repay in time, reducing the effective rate of interest to 4%. The initiative, in its first phase will focus on 150 most backward districts, including the integrated action plan (IAP) districts. All the women SHGs promoted by NRLM or other Central or State Govt. line departments or NGOs or by NABARD under WSHG program, which are linked with the banks, will be eligible to avail the benefits of the scheme.

9. Funding Pattern:

NRLM is a Centrally Sponsored Scheme and the financing of the programme would be shared between the Centre and the States in the ratio of 75:25 (90:10 in case of North Eastern States including Sikkim; completely from the Centre in case of UTs). The Central allocation earmarked for the States would broadly be distributed in relation to the incidence of poverty in the States.

10. Phased Implementation:

 Social capital of the poor consists of the institutions of the poor, their leaders, community professionals and more importantly community resource persons (poor women whose lives have been transformed through the support of their institutions). Building up social capital takes some time in the initial years, but it multiplies rapidly after some time. If the social capital of the poor does not play the lead role in NRLM, then it would not be a people’s programme. Further, it is important to ensure that the quality and effectiveness of the interventions is not diluted. Therefore, a phased implementation approach is adopted in NRLM. NRLM would reach all districts by the end of 12th Five-year Plan.

11. Intensive blocks.

 The blocks that are taken up for implementation of NRLM, ‘intensive blocks’, would have access to a full complement of trained professional staff and cover a whole range of activities of universal and intense social and financial inclusion, livelihoods, partnerships etc. However, in the remaining blocks or non-intensive blocks, the activities may be limited in scope and intensity.

12. Rural Self Employment Training Institutes (RSETIs).

 RSETI concept is built on the model pioneered by Rural Development Self Employment Institute (RUDSETI) – a collaborative partnership between SDME Trust, Syndicate Bank and Canara Bank. The model envisages transforming unemployed youth into confident self- employed entrepreneurs through a short duration experiential learning programme followed by systematic long duration hand holding support. The need-based training builds entrepreneurship qualities, improves self-confidence, reduces risk of failure and develops the trainees into change agents. Banks are fully involved in selection, training and post training follow up stages. The needs of the poor articulated through the institutions of the poor would guide RSETIs in preparing the participants/trainees in their pursuits of self-employment and enterprises. NRLM would encourage public sector banks to set up RSETIs in all districts of the country.

(Source- RBI and Ministry of Rural Development Govt. of India)

**Recommendations of Committee on H R Policy for RRBs.**

A comprehensive Human Resource Policy based on the Thorat Committee Recommendations was implemented from September 2008. Banking has undergone a change since then, including the technological developments i at RRBs as well. RRBs have migrated to CBS and NEFT and rapid roll out of ATMs and BC network will take place under the  geographical    cluster approach. The RRBs have also been advised to set up Ultra Small Branches (USBs) till such time business volumes justify a full fledged branch.

The Performance Norms for RRBs have been prescribed under MoU executed between Government of India, RRBs and its sponsor banks. Keeping in view the above developments, a need was felt to revisit the manpower planning / staffing pattern in RRBs.  In addition, the categorisation of banks and branches based on business levels taking in to account the recent merger of RRBs was also one of the factor which prompted the Govt to look in to these matters. A committee was appointed under the chairmanship of Shri S K Mitra Executive Director NABARD.

The terms of reference of the Committee were as under:

i. Laying down norms for categorisation of RRBs and its branches based on   business volume etc.

ii. Assessment of technological up-gradation in RRBs and

(a) assessment of required manpower and staffing pattern of Head Office,   Controlling   Office, Branches etc.

(b)  skill development needs of employees of RRBs.

The recommendations of the said committee in brief are as under:

a) Senior level staffing pattern- Currently, the Chairman and General Manager/s (GM) are on deputation from the respective sponsor banks. The Committee, having regard to the enlarging size of the RRBs and also keeping in view the number of branches and personnel to be controlled, has recommended that RRBs in category I may have an officer in Scale V as Chairman, RRBs in categories II & III may have an officer in Scale VI as Chairman, while RRBs in category IV may have an officer in Scale VII as Chairman. In order to attract talented and competent officers to serve as Chairman RRB, the post should be sufficiently incentivised by giving higher scale salary and perquisites.

b) Categorization of RRB Branches-The Committee recommended that RRB branches be classified as A to E categories based on branch business level and advances level as on 31March every year.The committee felt that keeping in view the high C:D ratio in the case of RRBs due to predominance of agriculture loans extended by the RRB branches and to further encourage them to enhance credit flow in rural areas, the loan portfolio level should also be considered along with the total business level adopted for branch categorizationThe committee felt that this will have an impact in increasing the loan portfolio, per employee productivity/profitability and proper deployment of staff based on need*.* Further, where the advances in RRB branches are more, the work load increases and requires higher level of manpower due to the fact that advances of the bank are more risk prone than deposits.

c) RRBs may explore the possibility of introducing concept of single window operation in small branches and for small amounts

d) Committee has recommended for retention of the overall ceiling of 8% of total staff in administrative offices viz., Head Office and Regional Office excluding the staff in Inspection and IT departments as suggested by the Thorat Committee**.**

e) The training on various aspects of CBS and MIS generation should be undertaken on a continuous basis, even in banks which have trained their staff in CBS, as the new modules of MIS get introduced continuously.CBS / MIS training is better done through vendors and the trained Master Trainers of RRBs. To have adequate training facility RRBs having 200 branches and/or 1000 staff may establish their own Staff Training Centre for facilitating continuous training to their staff

f) Corpus fund of`100 crores as recommended by Dr Chakrabarty Committee on Recapitalisation of RRBs for improving CRAR (2010) and accepted by GoI, may be provided to NABARD for providing capacity building support to RRBs and for effective monitoring.

g) The categorization of RRBs be utilised for deciding the staffing pattern in respect of other officers in the RRBs

h) Issue of having one RO at each District Headquarter was examined by the committee and it was felt that there is uneven spread of branch network in districts and on several occasions the districts are being further bifurcated by the State governments, therefore, this may not be a suitable proposition to recommend creation of ROs at each district Head Quarters. ROs may therefore be setup based on the thumb rule of 60-65 branches to be supervised by one RO.

i) Considering the time required for full technology adoption and stabilization, committee has opined that its recommendations may be implemented from the year 2013-14 based on the business level as on 31.3.2013.

**Rajiv Gandhi Panchayat Sashaktikaran Abhiyan (RGPSA)**

Government has taken a special initiative for expanding the outreach and enhancing the quality of training for Panchayati Raj Institutes. National Capability Building Framework (NCBF) 2014 has been prepared for effective implementation of Rajiv Gandhi Panchayat Sashaktikaran Abhiyan (RGPSA) after extensive consultations with state governments and non-government organisations. The Ministry of Panchayati Raj has taken the initiative of bringing out Handbooks, manuals for training of Panchayati Raj Institutes and shared with state governments on the issues related to sanitation, drinking water and governance in panchayats.

 The RGPSA has been launched to strengthen panchayati raj system across the country during 12th five-year plan. RGPSA supports need based activities including administrative and technical expertise and infrastructure for gram panchayats, capacity building and training, e-enabling of panchayats and special support for panchayat processes.

 The objectives of RGPSA are-

a) Enhance capacities and effectiveness of Panchayats and the Gram Sabhas;

b) Enable democratic decision-making and accountability in Panchayats and promote people's participation;

c) Strengthen the institutional structure for knowledge creation and capacity building of Panchayats;

d) Promote devolution of powers and responsibilities to Panchayats according to the spirit of the Constitution and PESA Act;

e) Strengthen Gram Sabhas to function effectively as the basic forum of people's participation, transparency and accountability within the Panchayat system;

f) Create and strengthen democratic local self-government in areas where Panchayats do not exist;

g) Strengthen the constitutionally mandated framework on which Panchayats are founded.

The funding of RGPSA for state plans is on a 75:25 sharing basis by central and state governments respectively. For northeastern states, the ratio is 90:10.

**Rashtriya Fasal Bima Karyakram (RFBK) / National Crop Insurance Proqramme (NCIP)**

In order to serve farmers in a better way, a Central Sector Scheme of National Crop Insurance Programme (NCIP) / Rashtriya Fasal Bima Karyakram (RFBK) has been formulated by the Govt. of India by merging Modified National Agricultural Insurance Scheme (MNAIS), Weather Based Crop Insurance Scheme (WBCIS), and Pilot Coconut Palm Insurance Scheme (CPIS). Based on the recommendations of evaluation, experience gained through the implementation of various crop insurance schemes and the views of the stakeholders, States and appraisal agencies, various improvements / changes have been incorporated in the component-schemes to make them more farmers friendly

Main features of NCIP component-schemes of MNAIS & WBCIS are as under-

a) MNAIS & WBCIS will be extended to all the districts from Rabi 2013-14 and NAIS will be rolled back simultaneously, with provision of compulsory coverage of the loanee farmers.

b) Two indemnity levels of 80% & 90% would be available instead of three i.e. 70%,80% & 90% under MNAIS component.

c) States which are initially unable to implement MNAIS at village/village panchayat level may be allowed to implement it at higher unit area level (up to a cluster of maximum 15 villages) with prior approval-of DAC for 3-5 years.

d) States implementing MNAIS at village/village panchayat level would be entitled for 50% reimbursement of incremental expenses of CCEs from Govt.of India subject to a cap

e) Provision for add-on/index plus products for horticultural crops tor compensating losses due to perils of hailstorm' cloudburst etc under WBCIS component

f) 5000 AWS will be created through ppp mode with viability gap funding that is shared with the states on 50:50 basis

The scheme will come into force with immediate effect from Rabi 2013-14. Loanee farmers will be covered on compulsory basis under the component scheme of NCIP notified by the concerned State while non-loanee farmers will choose either MNAIS or WBCIS component'

Private sector Insurers with adequate infrastructure and experience will be permitted to implement NCPI besides Agriculture Insurance Company of India (AlC)

Modified National Agricultural Insurance Scheme (MNAIS)

The objectives of MNAIS are as under: -

i) To provide insurance coverage and financial support to the farmers in the event of prevented sowing and failure of any of the notified crop as a result of natural calamities, pests & diseases

ii) To encourage farmers to adopt progressive farming practices' high value inputs and

 better technology in Agriculture

iii) To help stabilize farm incomes particularly in disaster years'

SALIENT FEATURES OF THE SCHEME

ln addition to Agriculture Insurance Company of India Ltd ' Private sector insurance companies with adequate infrastructure and experience will be allowed on selective basis to implement scheme by the implementing states from out of the companies short listed by the Department of Agriculture & Cooperation.

CROPS COVERED

i. Food crops (Cereals, Millets & Pulses)

ii. Oilseeds

iii. Annual Commercial / Horticultural crops

The Crops are covered subject to availability of

 i) The past yield data based on crop cutting experiments for adequate number of years.

 ii) Requisite number of crop cutting experiments is conducted for estimating the yield

 during the proposed season.

Ten years historical data is adequate for setting premium rates’ fixing indemnity limit and threshold yield etc. Wherever such historical yield data at insurance unit is not available for some years data of nearest neighboring unit / weighted average of contiguous units / next higher unit be adopted subject to appropriate loadings in the premium rate, if necessary

Modified NAIS is to be implemented as a full-fledged component of NCIP throughout the country. All farmers including share croppers, tenant farmers growing the notified crops in the notified area are eligible for the coverage.

Losses arising out of war & nuclear risks, malicious damage and other preventable risks are excluded.

SUM INSURED / LIMIT OF COVERAGE

In case of Loanee farmers under Compulsory Component, the Sum Insured would be at least equal to the amount of crop loan sanctioned/advanced, which may extend up to the value of the threshold yield of the insured crop at the option of insured farmer. Where value of the threshold yield is lower than the loan amount per unit area, the higher of the two is the Sum Insured. Multiplying the Notional Threshold Yield (district/ region/state level) with the Minimum Support Price (MSP) of the current year arrives at the value of Threshold Yield. Wherever Current year's MSP is not available, MSP of previous year shall be adopted. The crops for which, MSP is not declared, farm gate price established by the marketing department / board shall be adopted.

Further, in case of loanee farmers, the Insurance Charges payable by the farmers shall be financed by loan disbursing office of the Bank, and will be treated as additional component to the Scale of Finance for the purpose of obtaining loan.

For farmers covered on voluntary basis the sum-insured is up to the value of Threshold yield of the insured crop. lf the farmer so desires he may be provided with higher level of risk coverage. Sum insured up to 100% of threshold/average yield of notified area with normal premium subsidy but sum insured above 100% and up to 150% of the value of average yield without premium subsidy.

Premium Rates & SUBSIDY

Premium rates are to be worked out on actuarial basis, the premium required to be paid by the farmer is subsidized on the following basis

|  |  |  |
| --- | --- | --- |
| Sr No  | Premium slab | Subsidy by Central Govt. and State Govt. on 50:50 basis and premium payable by the farmer |
| 1 | Upto2% |  NIL |
| 2 | >2 – 5% | 40 % subject to minimum net premium of 2 % |
| 3 | >5 – 10 % | 50% subject to minimum net premium of 3 % |
| 4 | >10 -15% | 60% subject to minimum net premium of 5 % |
| 5 | >15%  | 75% subject to minimum net premium of 6 % |

However premium rates will be capped at 11% and 9% (of sum insured) for food & oil seeds crops of kharif and rabi seasons respectively and for annual commercial / horticulture crops it is proposed at 13 %

(Source- Department of Agriculture & Cooperation, Ministry of Agriculture, Government

 of India)

**Revisiting the SHG Bank Linkage Programme -SHG2**

Self Help Group is a homogeneous group of micro entrepreneurs with affinity among themselves, voluntarily formed to save whatever amount they can conveniently save out of their earnings and mutually agree to contribute to a common fund of the group from which small loans are given to the members for meeting their productive and emergent credit needs at such rate of interest, period of loan and other terms as the group may decide. The SHG - Bank Linkage Programme is a major plank of the strategy for delivering financial services to the poor in a sustainable manner.

A pilot project was designed in 1992 as a partnership model between three agencies, viz., the SHGs, banks and NGOs. This was reviewed by a working group in 1995 that led to the evolution of a streamlined set of RBI approved guidelines to banks to enable SHGs to open bank accounts, based on a simple “inter se” agreement. This was coupled with a commitment by NABARD to provide refinance and promotional support to banks for the SHG - Bank Linkage Programme. SHG-bank linkage programme has so far been the most preferred and viable model for financial inclusion of the hitherto unreached poor. The programme confronts many challenges and for further scaling up, these challenges need to be addressed. The challenges which need to be addressed are-

a) Inadequate outreach in many regions,

b) Delays in opening of SHG accounts and disbursement of loans,

c) Impounding of savings by banks as collateral,

d) Non-approval of repeat loans even when the first loans were repaid promptly,

e) Multiple membership and borrowings by SHG members within and outside SHGs and

f) Limited banker interface and monitoring

Having regard to these points, NABARD has issued following guidelines of SHG-2 to enable financing banks to respond to the changing requirements of members of SHGs.

Product level changes

Allowing voluntary savings-

The savings capacity and potential varies across members. Therefore, the concept of voluntary savings by members over and above the compulsory savings provides an opportunity for banks. Having regard to this, such SHG members are encouraged to open individual bank accounts /revive their existing “no frill accounts” by depositing the surplus so as to facilitate them to steadily graduate from community banking to individual banking.

However, until the members of SHGs graduate to the level of opening and maintaining individual bank accounts, there is a need to create a suitable alternate framework within the group. SHG members with greater savings potential may be allowed to park their surplus fund within the group in the form of voluntary savings over and above the compulsory savings mandated in the group and a suitable accounting system may be started in the SHG for this purpose.

Voluntary savings can be reckoned in two ways; (1) not forming a part of the group corpus (2) as a part of group corpus and utilized for intra group lending. In case of (2), it will also be reckoned for assessing the quantum of loan to the group from bank.

However, it is desirable that the additional savings by group members does not entitle the concerned members to seek proportionately higher dosage of credit for themselves. The SHGs should have freedom to decide as to whether the voluntary savings by members of the group are eligible for proportionate share in the interest income or dividend from the group.

Modifications in credit product-

Purpose of bank loan- As indicated by RBI in its circular (Ref: RPCD. FID.

BC.No.06/ 12.01.001/ 2011-12 dated 1 July, 2011) the banks are expected to meet the entire credit requirements of SHG members for (a) income generation activities, (b) social needs like housing, education, marriage, etc., and (c) debt swapping, etc.

Cash Credit / Overdraft facility to SHGs

Banks may now extend financial support by way of Cash Credit / overdraft for SHGs. There are instances of non-sanction of repeat loans to SHGs, as also cases of limiting need based credit. Sanction of a cash credit / overdraft system of lending for SHGs for a longer operational tenure may therefore be adopted to overcome these issues and to permit SHGs to have larger loans in tune with increasing pooled savings. This approach will provide considerable flexibility to SHGs in meeting their frequent needs as well as help them in reducing their cost of borrowings. The loan limit may be sanctioned for a period of three to five years based on the projected savings of the SHGs up to the end of 3 to 5 years, thus avoiding repeated documentation. Drawable limits for each year can however, be fixed within this aggregate ceiling as a multiple of actual pooled savings reached. sanction of credit by SHG to its individual members will be guided as per their terms and duration as decided by the groups. SHG should ensure continuance of financial discipline at the member level. With a view to ensure financial discipline between the SHG and the banks, banks may insist for servicing of interest at monthly rests.

Similar to approaches applicable in KCC, the bank could insist that every drawal be repaid within twelve months from the date of drawal or insist for turnover of at least 25-30% of the principal drawn in the first half of the year while reviewing the operations of the credit limit

Banks approving repeat cycles of cash credit to SHGs may sanction larger credit approvals beyond a multiple of four times of SHG’s corpus. These approvals may be done based on the performance review of existing operations, actual growth in SHG’s own corpus and the debt servicing history and capacity of SHG.

In mature SHGs that have been supported with a few cycles of credit; the requirement of credit for purchase of capital assets, etc would increase. This would necessitate that the bank approves a different type of credit accommodation like term loans to these groups in addition to the cash credit limit.

Enabling Joint Liability Groups (JLGs) within SHGs-

A few members of an SHG may graduate faster to start or expand economic activities requiring much higher levels of loans than required by other SHG members. In such cases, the other members may not like to stand mutual guarantee for a few large sized loans. In such cases, a smaller “Joint Liability Group (JLG)” from members of an SHG may be created. The members of JLG will continue to remain members of the SHGs and continue to participate in the activities of SHGs as earlier. Banks may encourage creation of such enterprise / livelihood based JLGs as a separate entity.

Improving Risk Mitigation Systems-

 In order to further strengthen the banker’s comfort and confidence in financing of SHGs, a few risk mitigation mechanisms, viz; self-rating tools by SHGs, conduct of audits at SHG level, etc are recommended. Banks could source SHG-level Business Facilitators (Auditors) from amongst active SHG members or NGOs or other agencies, which promote SHGs, or existing BCs of the bank to enable the audit process in SHGs.

Building second tier institutions

 Experience gathered over the years in promotion and nurturing of SHGs suggests the need for a much longer and sustained hand holding by SHG Promoting Institutions (SHPIs) to ensure SHG’s sustainability. Members of well functioning or active members of SHGs and NGOs or other entities engaged in promotion of SHGs best provide these support services to SHGs. Such entities may be engaged by banks to serve as Business Facilitators for helping the bank to monitor the functioning of SHGs and take corrective action.

Strengthening the monitoring mechanism

It is essential that SHG and JLG financing finds an appropriate place in the bank’s corporate and strategic plans. Financing banks should also strengthen their monitoring of SHGs and capture SHG data through their CBS platforms.

Addressing Training requirements-

Considering the magnitude of training requirements of bank officers both at field level and controlling office level, banks may initiate suitable steps through their training establishments.

(Source- NABARD)

**Streamlining of Short Term Co-operative Credit Structure (STCCS)**

RBI had constituted an expert committee to have a relook at the functioning of the short-term cooperative credit structure (ST CCS) from the point of view of the role played by ST CCS in providing agricultural credit, to identify central cooperative banks (CCBs) and state cooperative banks (StCBs) which may not remain sustainable, and to suggest appropriate mechanisms for consolidation or delayering of the ST CCS and make recommendations for action to be taken by various stakeholders. Dr. Prakash Bakshi, Chairman, NABARD was the Chairman of this Expert Committee.

Report was submitted to RBI on 15th January 2013. The Committee made an in-depth analysis of the STCCS and examined various alternatives with a view to reducing the cost of credit, including feasibility of setting up of a two-tier STCCS as against the existing three-tier structure.

 Some of the important observations/ recommendations made by the committee include;

i) The Committee observed that 238 of the 370 CCBs in the country already have CRAR of 7% or above, and about two thirds of them would be able to internally generate enough capital to maintain a sustainable CRAR of at least 9% by 2016-17. About 209 of the 370 CCBs would require additional capital aggregating Rs 6,500 crore in four years to attain 9% CRAR by 2016-17. It is estimated that despite these measures, about 60 CCBs will not become sustainable and would need to be merged with other CCBs. The Committee has suggested a roadmap for such an exercise.

ii) Some of the CCBs do not have adequate capital to meet even the relaxed licensing norm of 4% CRAR. The Committee recommends that 31 March 2013 may be set as the deadline for these banks to mobilise the required capital either internally or from any other external source so as to achieve 4% CRAR, failing which RBI should take the necessary regulatory action.

iii) For providing safety of deposits and efficient loan services to farmers, the Committee has recommended that PACS should work only as business correspondents (BCs) on behalf of banks and should not themselves act as financial intermediaries. In addition, PACS should provide a range of other fee based financial and non-financial products. The immediate consequence of such a change would be that all depositors and borrowers in villages would become direct member clients of the CCBs.

iv) The Committee has also estimated that about 58 CCBs would generally not be able to mobilise the required capital, or their business sizes are so small that they would not be sustainable in the long run and would have to be therefore consolidated with other CCB(s).

v) Most of the CCBs and StCBs will also have to take concrete steps to improve their internal systems, human resources, and technology adoption. The Committee has also recommended various steps for improving the governance and management in StCBs and CCBs on the lines of recommendations of the Vaidyanathan Task Force.

vi) RBI to modify banking licence of any CCB to include additional operational area from which a PACS could work as BC of a CCB.

vii) 30 September 2013 to be set as deadline for all StCBs and CCBs to be fully operational on CBS and providing RTGS, NEFT, ATM and POS device based services.

viii) StCBs and CCBs to be fully included in the financial inclusion and EBT drive. Deposits of governments and government agencies to be also made in StCBs and CCBs which have achieved 7% CRAR and are on CBS.

ix) CCBs and StCBs to be covered by the banking Ombudsman or a similar mechanism that may be developed by RBI with NABARD.

x) A working group to be set up to make recommendations on the human resources requirements following the transition of StCBs and CCBs on CBS and other ICT platforms.

The recommendations of the Committee are expected to have significant impact in addressing issues related to cooperative credit structure.

(Source – RBI)