

INTERNATIONAL JOURNAL OF RESEARCH IN COMMERCE, ECONOMICS & MANAGEMENT

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MICRO-CREDIT THROUGH REGIONAL RURAL BANKS (RRBs)-A CASE STUDY OF SAPTAGIRI GRAMEENA BANK WITH FOCUS ON CHITTOOR DISTRICT

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ABSTRACT

The paper aims at studying the Micro-credit through Regional Rural Banks (RRBs)-A case study of Saptagiri Grameena Bank with focus on Chittoor district. Micro-credit means providing very poor families with very small loans to help them engage in productive activities or grow their tiny businesses. Micro-credit has received an extensive recognition as a strategy for poverty alleviation and for economic empowerment of the poor. In the last few years there is growing importance of micro-credit as it is considered as the most effective approach to economic empowerment of the poor in general and women in particular. Regional Rural Banks (RRBs) were established since 1975 under the provisions of the RRBs Act 1976 with a view to developing the rural economy as well as to creating an alternative channel to 'co-operative credit structure' in order to ensure sufficient institutional credit for rural and agricultural sector. In other words, RRBs were established to take the banking services to the door steps of rural masses especially in remote rural areas with no access to banking services. Basically, RRBs were introduced in to banking sector for the upliftment of rural economy. Though the vast network of bank branches of RRBs may definitely reached to the unreached poor of the rural India, as far the banking and financial services are concerned. The present paper seeks to examine (i) MFI-Bank Linkage Programme, Progress under MFI-Bank Linkage Programme (ii) Progress under Microfinance - Savings of SHGs with RRBs (iii) Progress under Microfinance - Bank loans disbursed to SHGs by RRBs (iv) Progress under Microfinance - Bank loans outstanding against SHGs of RRBs (v) Progress of Saptagiri Grameena Bank in provision of Micro-Credit in Chittoor district (vi) Credit linked, loans disbursed and outstanding loans against SHGs in Chittoor district. It is concluded that Saptagiri Grameena Bank is pioneer in lending SHGs. The bank has been continuously standing first in SHGs financing in Chittoor district since inception of the scheme.

KEYWORDS

Micro-credit, Regional Rural Banks, SHGs

INTRODUCTION

icro-credit is the extension of very small loans to impoverished borrowers who typically lack collateral, steady employment and verifiable history. It is designed not only to support entrepreneurship and alleviate poverty, but also in cases to empower women and uplift entire communities by extension. In many communities, women lack the highly stable employment histories that traditional lenders tend to require. Many are illiterate, and therefore unable to complete paper work required to get conventional loans from formal financial banking institutions.

Micro-credit is part of microfinance, which provides a wider range of financial services, especially savings accounts, to the poor. Micro credit is generally considered to have originated with the Grameena Bank founded in Bangladesh in 1983. Many traditional banks subsequently introduced micro credit despite initial misgivings. The United Nations declared 2005 the international year of micro credit. As of 2012, micro credit is widely used in developing countries and is presented as having 'enormous potential as tool of poverty alleviation.

HISTORY OF MICRO CREDIT

EARLY BEGINNINGS OF MICRO CREDIT

Ideas relating to micro credit can be found at various times in modern history. Jonathan Swift inspired the Irish Loan Funds of the 18th and 19th centuries. In the mid-19th century, Individualist anarchist Lysander Spooner wrote about the benefits of numerous small loans for entrepreneurial activities to the poor as a way to alleviate poverty.^[9] At about the same time, but independently to Spooner, Friedrich Wilhelm Raiffeisen founded the first cooperative lending banks to support farmers in rural Germany. In the 1950s, Akhtar Hameed Khan began distributing group-oriented credit in East Pakistan. Khan used the Comilla Model, in which credit is distributed through community-based initiatives. The project failed due to the over-involvement of the Pakistani government, and the hierarchies created within communities as certain members began to exert more control over loans than others.

MODERN MICRO CREDIT

Nobel laureate Muhammad Yunus, the founder of Grameen Bank, which is generally considered the first modern micro credit institution. The origins of micro credit in its current practical incarnation can be linked to several organizations founded in Bangladesh, especially the Grameen Bank. The Grameen Bank, which is generally considered the first modern micro credit institution, was founded in 1983 by Muhammad Yunus. Yunus began the project in a small town called Jobra, using his own money to deliver small loans at low-interest rates to the rural poor. Grameen Bank was followed by organizations such as BRAC in 1972 and ASA in 1978. Micro credit reached Latin America with the establishment of PRODEM in Bolivia in 1986; a bank that later transformed into the for-profit BancoSol. Micro credit quickly became a popular tool for economic development, with hundreds of institutions emerging throughout the third world. Though the Grameen Bank was formed initially as a non-profit organization dependent upon government subsidies, it later became a corporate entity and was renamed Grameen II in 2002. Muhammad Yunus was awarded the Nobel Peace Prize in 2006 for his work providing micro credit services to the poor.

DISTINCTIVE FEATURES OF MODERN MICRO CREDIT

(a) GROUP LENDING

Lending to groups has long been a key part of micro credit; micro credit initially began with the principle of lending to individuals. Despite the use of solidarity circles in 1970s Jobra, Grameen Bank and other early micro credit institutions initially focused on individual lending. Indeed, Muhammad Yunus propagated the notion that every person has the potential to become an entrepreneur. The use of group-lending was motivated by economics of scale, as the costs associated with monitoring loans and enforcing repayment are significantly lower when credit is distributed to groups rather than individuals. Many times the loan to one

participant in group-lending depends upon the successful repayment from another member, thus transferring repayment responsibility off of micro credit institutions to loan recipients.

(b) LENDING TO WOMEN

Lending to women has become an important principle in micro credit, with banks and NGOs such as BancoSol, WWB, and ProMujer catering to women exclusively. Pro Mujer also implemented a new strategy to combine micro credits with health-care services, since the health of their clients is crucial to the success of micro credits. Though Grameen Bank initially tried to lend to both men and women at equal rates, women presently make up ninety-five percent of the bank's clients. Women continue to make up seventy-five percent of all micro credit recipients worldwide. Exclusive lending to women began in the 1980s when Grameen Bank found that women have higher repayment rates, and tend to accept smaller loans than men. Subsequently, many institutions have used the goal of empowering women to justify their disproportionate loans to women.

MFI-BANK LINKAGE PROGRAMME

Micro Finance Institutions (MFIs) act as an important conduit for extending financial services to the micro credit sector in the country by raising resources from Banks and other institutions and extending loans to JLG / members. MFIs are of different legal entities viz. (1) NGO MFIs - registered under the Societies Registration Act, 1860 or the Indian Trusts Act, 1880; (2) Cooperative MFIs - registered under the State Cooperative Societies Act or Mutually Aided Cooperative Societies Act or Multi State Cooperative Societies Act; (3) NBFC MFIs incorporated under Section 25 of Companies Act, 1956; (4) NBFC MFIs incorporated under the Companies Act, 1956 and registered with RBI. The Reserve Bank of India has since notified guidelines for the lending operations to a new class of financial organizations named as NBFC - MFIs, subject to certain conditions regarding the capital to be employed, lending to members, cap on interest to be charged and margin to be retained, etc. The RBI amendment of fixing margin caps of 12% over the cost of borrowing rather than cost of funds to the MFI has done little to reduce cost of credit for poor. The loans extended to these NBFC-MFIs by banks now qualify for priority sector lending category.

PROGRESS UNDER MFI-BANK LINKAGE PROGRAMME

In addition to their internal resources, MFIs obtain bulk loans from Banks / other Financial Institutions for providing micro credit to its members.

TABLE-1: PROGRESS UNDER MFI-BANK LINKAGE PROGRAMME (Rs.crore)

Particulars	2009-10		2010-11		2011-12		2012-13	
	No. of MFIs	Amount	No. of MFIs	Amount	No. of MFIs	Amount	No. of MFIs	Amount
Loans disbursed by Banks to mfis	779 (34%)	10728.50 (187.4%)	471 (39.5%)	8448.96 (21.3%)	465 (1.3%)	5205.29 (38.39%)	426 (-8.4%)	7839.51 (50.6%)
Loans outstanding against MFIs as on 31 March	1659 (13.4%)	13955.75 (178.6%)	2315 (39.5%)	13730.62 (-2.0%)	1960 (15.3%)	11450.35 (-16.6%)	2042 (4.2%)	14425.84 (26.0%)
Fresh loans as % age to Loans outstanding		76.9		61.5		45.5		54.3

Source: NABARD, 2013

Note: 1 (figures in the parenthesis indicate percentage growth/decline over the previous year)

Note: 2 Actual number of MFIs availing loans from Banks would be less than the figures shown as most of MFIs avail loans from more than one Bank/more than one loan account.

After 3 years of the MF crisis, the MFIs seem to be on the path of regaining the confidence of the clients as well as with the lending institutions. Fresh loans issued to MFIs by Banks showed a 50% increase over the previous year low, while the number of MFIs having access to fresh loans declined by 8.4% indicating selective lending by the Banks. The spurt in loan outstanding in banks books is perhaps the highest compared to previous years. This could be largely due to the existing NPAs and large quantum of restructured assets (CDR), which continues to be a matter of concern.

The agency wise details of loans extended to MFIs are shown in Table-below

TABLE-2: LOANS TO MFIS BY BANKS/FINANCIAL INSTITUTIONS

Financing Agency	Period	Loans disbursed to MFIs During the year (Rs.crore)		Loan outstanding against MFIs As on 31 st March (Rs.crore)	
		No. of mfis	Amount	No. of mfis	Amount
All Commercial banks	2009-10	645	8038.61	1407	10095.32
	2010-11	460	7601.02	2153	10646.84
	2011-12	336	4950.98	1684	9810.98
	2012-13	368	7422.66	1769	12467.72
Regional Rural Banks	2009-10	46	24.14	103	52.22
	2010-11	9	4.16	23	42.01
	2011-12	113	13.28	128	37.51
	2012-13	14	4.58	153	70.66
Cooperative Banks	2009-10	0	0	3	0.01
	2010-11	NA	NA	NA	NA
	2011-12	4	1.61	19	4.75
	2012-13	3	4.00	18	6.83
SIDBI	2009-10	88	2665.75	146	3808.20
	2010-11	2	843.78	139	3041.77
	2011-12	12	239.42	129	1597.11
	2012-13	41	408.27	102	1880.63
Total	2009-10	779	10728.50	1659	13955.75
	2010-11	471	8448.96	2315	13730.62
	2011-12	465	5205.29	1960	11450.35
	2012-13	426	7839.51	2042	14425.84

Source: NABARD, 2013

Among the agencies lending funds to MFIs, the major share belonged to Commercial Banks recording over `2,500 crore increased disbursements, while Small Industries Development Bank of India (SIDBI) recorded a meagre increase of `160 crore disbursements over that of the previous year

REGIONAL RURAL BANKS AS A MICRO-CREDIT PROVIDERS

Besides the public and private banks in Indian banking sector, a new category of scheduled commercial banks came in to existence in 1976 when six Regional Rural Banks (RRBs) established under the Regional Rural Banks ordinance 1975. This ordinance was promulgated by the government of India on September 26, 1975. The ordinance was subsequently replaced by the RRBs act, 1976.

Although the commercial and cooperative banks achieved a high reach and disbursement of credit, there existed a vast gap in the area of rural credit. To fill this gap, a new set up of banks, namely RRBs was introduced in the banking sector. The RRBs were set up as banking institutions which combine the local feel and familiar with rural problems, which the cooperative possess and degree of business organization, ability to mobilize deposits, access to money markets and modernized outlook which the commercial banks have. The major objective of setting up RRBs was to develop the rural economy for providing for the purpose of development of agriculture, trade, commerce, industry and other productive activities in the rural areas, credit and other facilities, particularly to small and marginal farmers, agricultural laborers, artisans and small entrepreneurs.

The number of RRBs rose from 6 in the 1975 to 196 in 2005. These 196 RRBs operate in 500 districts with a network of 14,313 branches excluding satellite branches and extension counters. After the commencement of consolidation and amalgamation process of RRBs initiated by the government in September 2005, in terms of section 23 A of the RRBs declined to 91 as on March 2009, operating in 25 states across 586 districts with network of 14,970 branches.

Basically, RRBs were introduced in the banking sector for the upliftment of rural economy. Through the vast network of bank branches RRBs may definitely reached to the unreached poor of rural India, as far as the banking and financial services are concerned.

TABLE-3: PROGRESS UNDER MICROFINANCE - SAVINGS OF SHGs WITH RRBs (Amount ₹ lakh).

Sr. No.	Period	Total Savings of SHGs with Banks		Out of Total - Under SGSY		Out of Total Exclusive Women SHGs	
		No. of SHGs	Saving amount	No. of SHGs	Saving amount	No. of SHGs	Saving amount
1	2008-09	1628588	198975	433912	77454.74	1336219	177115.36
2	2009-10	1820870	129937.49	462370	26850.40	1240342	99686.25
3	2010-11	1983397	143539.67	618032	33775.29	1649422	119244.83
4	2011-12	2127368	130013.93	691304	30194.22	1698705	103229.53
5	2012-13	2038008	152710.20	758306	61018.71	1683036	128054.08

Source: NABARD, 2009, 10,11,12,13.

TABLE-4: PROGRESS UNDER MICROFINANCE - BANK LOANS DISBURSED TO SHGs BY RRBs

Sr.No.	Period	Loans disbursed to SHGs		Out of Total - Under SGSY		Out of Total Exclusive Women SHGs	
		No. of SHGs	Loans disbursed	No. of SHGs	Loans disbursed	No. of SHGs	Loans disbursed
1	2008-09	405569	319349.01	81662	65527.74	355184	283439.65
2	2009-10	376797	333320.06	67531	68241.02	284120	273912.79
3	2010-11	296773	319761.59	75922	83848.02	257258	286447.78
4	2011-12	304809	502605.15	67873	98224.12	263478	455458.33
5	2012-13	312010	562652.22	58890	73536.00	273835	519987.39

Source: NABARD, 2009, 10,11,12,13.

Table 3 and 4 reveals that in respect of to aspect of SHG bank linkage RRBs have achieved phenomenal progress, particularly in rural and semi rural areas women SHGs have loans share in SHGs to whom loans disbursed and the loan amounts to SHGs.

TABLE-5: PROGRESS UNDER MICROFINANCE - BANK LOANS OUTSTANDING AGAINST SHGs OF RRBs

Sr.No	Period	Total Outstanding Bank Loans against SHGs		Out of Total - Under SGSY		Out of Total Exclusive Women SHGs	
		No. of SHGs	Loan Outstanding	No. of SHGs	Loan Outstanding	No. of SHGs	Loan Outstanding
1	2008-09	977834	522441.61	258890	150810.18	724179	414723.74
2	2009-10	1103980	614458.24	368795	172593.66	843697	467992.52
3	2010-11	1281493	743005.23	425492	232543.46	1116182	648931.55
4	2011-12	1293809	861357.81	476063	259879.86	1069035	734845.10
5	2012-13	1327367	1052122.91	460817	306837.35	1145086	908473.35

Source: NABARD, 2009, 10,11,12,13.

From table 5 it can be found that loan outstanding of the bank against SHGs has been increasing year after year during period 2008-09 and 2012-2013.

PROGRESS OF SAPTAGIRI GRAMEENA BANK IN PROVISION OF MICRO-CREDIT IN CHITTOOR DISTRICT

ABOUT THE BANK

Saptagiri Grameena Bank has been formed with the merger of Sri Venkateswara Grameena Bank, Chittoor district and Kanakadurga Grameena Bank, Gudivada, Krishna District w.e.f from 01/07/2006 with Head office at Chittoor, Chittoor District, Andhra Pradesh, in terms of Government of India GO dt 29/06/2006.

BANK OPERATIONAL AREA

Bank's Operational area is spread over across Chittoor and Krishna district in the state of Andhra Pradesh.

BRANCH NET WORK

The Bank is having 157 branches (102 branches in Chittoor district and 55 branches in Krishna district) and 1 Satellite Office. Of the 154 branches, 108 branches are in Rural, 37 are in semi-urban and 12 branches are in urban areas.

SHG Promotion and Bank Linkage by Saptagiri Grameena Bank.

The bank is pioneer in lending SHGs. the bank has continuously standing first in SHG financing in chittoor district since inception of the scheme. Credit linked, loans disbursed and outstanding loans against loans of Saptagiri Grameena Bank in chittoor district for three years were as follows.

TABLE 6-CREDIT LINKED, LOANS DISBURSED AND OUTSTANDING LOANS AGAINST SHGs IN CHITTOOR DISTRICT (Rs.in crores)

s.no	period	Credit linked during the year		Loans disbursed		outstanding loans against loans	
		No. of SHGs	Amount	No. of SHGs	Amount	Amount	%ge in total advance
1.	2010-11	14182	235.69	4375	24.75	48.79	27.81
2.	2011-12	16463	411.78	33676	558.46	16.31	25.23
3.	2012-13	16037	619.47	33862	563.00	27.62	22.89

Source: Head office books Saptagiri Grameena Bank, Chittoor.

Table 6 reveals that the amount of credit linked during year, Loans disbursed increased year by year. Percentage in total advance outstanding loans against SHGs decreased year by year.

CONCLUSION

Though statistical data regarding SHG bank linkage is impressive in terms of physical progress, that is number of SHGs linked to bank and financial progress that is in terms of SHG savings with banks, loans disbursed to SHGs all is not well with SHG bank linkage. At the National, a state and district level there is a huge supply-demand gap of credit. Credit itself is not cure all panacea for rural poverty alleviation to mitigate rural poverty they should be a holistic focus on rural poverties

house hold with a focus on implementing there financial capital, physical capital human capital and social capital those SHG which have entered the maturity phase or to graduate to the micro enter prises as collectivity entities or some of their members are facilitative to take of micro enterprise venture this ensures the mobility of SGH bank linkage programme as on effective strategy of eradication of rural poverty . It is concluded that Saptagiri Grameena Bank is pioneer in lending SHGs. The bank has been continuously standing first in SHGs financing in Chittoor district since inception of the scheme.

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Thanking you profoundly

Academically yours

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