CHAPTER-V

RURAL CREDIT IN INDIA:
PERSPECTIVES AND PROSPECTS AND
CONTRIBUTION OF M.G. BANK FOR
FINANCIAL ASSISTANCE TO THE SHGs
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INTRODUCTION

Credit is an important input in the process of development. It has been a major policy initiative in the country to ensure the provision of timely and sufficient. Credit is a large segment of rural population as possible. This has guided the formulation of public policy in the country. The rural credit system in India is evolved through different phases as a result of there initiatives. There has been a substantial broadening of the infrastructure for credit delivery resulting in increased outreach and reduction in the influence of informs agencies as evidenced by the increase in the share of institutional sources of the cash debts of rural households.

RURAL CREDIT-INCIDENCE OF FINANCIAL EXCLUSION

A certain amount of increase is prevailing the rural credit structure and the carrying need for better credit distribution amongst the vast informal sector and under developed regions and states. It has become apparent farmer indebtedness and the associated agrarian as well as agricultural development crisis have become a dominant aspect of rural economic scheme. The crisis is not confined to the farm community. A very large number of unorganized non farm enterprises which absorb the shocks of poor employment growth in agriculture and organized industry and which can their only on the basis of external credit support are faced with severe financial exclusion.
MAGNITUDE OF FINANCIAL EXCLUSION

The NSS and other field surveys have well documented the incidence of financial exclusion of the rural population. Of the 148 million rural households more than 60 percent receive no loans from institutional or non-institutional agencies. Of the 89 million farmer households more than 50 percent do not enjoy any such facility. Among the indebted rural or farm household, about 43 percent are serviced by money lenders and other non-institutional agencies. The share of institutional agencies in total rural indebtedness has slipped from 64 percent in 1991 to 57 percent in 2002; the share of money lenders alone has shot up from 17.5 percent to 29.6 percent. Thus, about 48 percent of all rural households, 51 percent of farm households and 78 percent of non-farm households do not have access to banking services.

The low level of access to bank credit is much more severe amongst unorganized non-farm enterprises. Data from one NSS round shows that only 4.13 percent of these enterprises had access to institutional credit and another 4.10 percent had access to non-institutional credit including those from relatives and money lenders. Thus of the estimated 58 million enterprises as of March 2007 a preponderant number is without institutional credit support. Further, their remarks are swelling with an absolute reduction in organized sector employment and with over 70 percent of cultivator households being marginal farmers and not being able to eke out a decent living in farming are possibly carrying for opportunities in allied activities and outside farming as micro enterprises.
The serious vacuum created in the rural credit architecture has not been addressed adequately. Without the expansion of the rural/branch network by the financially strong and dominant public sector banks with appropriately qualified staff for diversified agriculture and micro-enterprises, the objectives of rapid credit expansion are sure to be stifled.

The banking system requires a more broad based and strong institutional structure reasonably widespread regionally and functionally. In such a rural credit structure catering to the needs of farm and non farm enterprises alike the public sector banks have to take a lead, expand their branch network even as they corp. cooperative and other local agencies to supplement and support their banking business appoint qualified staff for farm and non farm lending and undertake to expand their credit base amongst the informal sectors.

RURAL CREDIT-POLICY DIMENSIONS AND INSTITUTIONAL MEASURES

Rural credit in India is surveyed through a multi agency system comprising of (I) Co operatives (II) commercial banks and (III) Regional Rural Banks. Progressive institutionalization of rural credit has been a major policy in the country. This is aimed of ensuring timely and increased flow of credit to the farm sector, reduce imbalances and to provide increased credit support to the special programmes. This a rural network for formal financial institutions for channel sing funds efficiently to sectors and target groups in the rural economy in accordance with the national development plans has been put in place.
EVOLUTION AND GROWTH STATE INTERVENTIONS FOR RURAL CREDIT IN INDIA

The evolution of the rural credit is traced to the late 18th century period during the British administration in the country. In 1793 British Government issued regulations providing taccavi loans to proprietors, farmers, sub-ordinate tenants, and royals for embankments, tanks water sources etc. After a century the Government intervened in rural credit through the enactment of Land Improvement Loans Act 1871. The Act empowered the local governments to advance long term loans from state funds for the improvement of land and to frame rules suitable to conditions in the issue of such loans. The Government enacts the Deccan Agriculturists Relief Act 1879 which helped in preventing the transfer of land to non-agriculturists and in checking up of further rise in rural indebtedness.

Famine Commission (1881) examined all issues pertaining to rural finance and suggested the provision of public funds for land improvement works and the extension of Deccan Act to other provinces. The land improvement Act 1883 and the Agriculturists Loan Act 1884 was passed. Public Funds became open to farmers for obtaining loans. This marked the beginning of government performing the role of a banker and it continued to operate till 1947 and even after that. Frederick Nicholson in his report (1895) highlighted the weaknesses of non-institutional sources and advocated the setting up of co-operative societies on Reifesian lines in different party of the country to develop thrift prudence and self reliance in the peasantry.
In 1894 an agricultural bank was setup in Mysore strictly on Co-operative principle. The main purpose of establishing such a bank was to meet the ordinary requirements of cultivation, agricultural improvement and debt redemption. By 1898 by such banks were started in India. In 1901 the Finance Committee under Sir Edward Law recommended setting up of societies which formed the basis of co-operative societies Act 1904.

RURAL CREDIT-THE POST INDEPENDENCE PERIOD

There was no uniform law governing banking activities in India in the pre-independence period Banking system suffered from the following major weakness;

- Largely urban oriented
- Non-consideration of agriculture sector as an economic proposition
- Risk/security concerns in their lending practice
- Focus on short term credit only.

In 1948 the Banking Regulation Act was passed which provided the legal frame work for the regulation of the banking system by Reserve Bank of India. The Act came into fore in March 1949

The Rural Banking Enquiry Committee (1949) found that the commercial banks had not shown any appreciable interest in agricultural/rural development and had not gone beyond taluka head quarters but the committee found the co-operative system quite satisfactory. The All India Rural Credit Survey Committee was appointed to make a survey of the rural credit system. The Report (1954) showed that four years after independence the informal
credit sector accounted for the bulk of rural lending with money lenders contributing close to 70 per cent of the total. The average annual interest rate on these loans exceeded 20 percent. In contrast commercial banks accounted for less than one percent of borrowings. The Report concluded that financial backwardness was a root cause of rural poverty and that commercial banks needed to be harnessed to enhance formal rural credit. The conclusions of this Report have guided the Indian Government's policy towards rural credit market. The Committee on Co-operatives (1960) (Orehta) recommended a strong and stable institutional framework for co-operative societies. In 1964 the Agricultural Finance Sub Committee (Godgil Committee) examined the question of frame, both short term and long term and felt that co-operative financing agencies provided the best and lasting solution to the problems of rural credit. It recommended linking credit with marketing, proper supervision, efficient end use, greater efforts to mobilize deposits and greater participation of commercial banks in agricultural credit. The RBI set up Rural Credit Review Committee in 1966. It recommended for launching of Small Farmers Development Agency (SFDA) and original Farmers and Agricultural Labourers in each of the selected district to help potentially viable small and marginal farmers.

In spite of all these measures agriculture, small scale industries and other related rural sectors did not get the attention they deserved. The Government therefore in 1968 formed National Credit Council and imposed social control over banks. The Gadgil (1968) Study Group setup by the council recommended involvement of commercial banks in rural credit through branch expansion and direct lending FKF Nariman Committee of Bankers (1969)
proposed that each bank should concentrate on certain districts which led to the introduction of lead bank scheme to help develop integrated banking facilities.

**RURAL CREDIT AND POST NATIONALIZATION PERIOD**

This period coincides with the period between nationalization of banks and implementation of economic reforms. Government appointed the Banking Commission (otherwise known as Sariaya Committee). Credit Guarantee corporation was established in 1971 to give comprehensive credit guarantee schemes to individual small borrowers in priority sectors and other neglected sectors. RBI implemented DRI scheme in 1972 to provide bank loans to weaker sections at concessional rate of 4per cent (2per cent below the turn bank rate). The Government advised public sector banks that their priority sector lending should reach a level of not less than 1/3rd of their outstanding credit by 1979. Private sector banks too were advised like wise.

Government introduced other schemes for rural credit like 20 point programme, Drought Prone Area Programme, Tribal Area Development Programme, Command Area Development Programme and Poverty Eradication Programme etc.

**POST REFORM PERIOD AND RURAL CREDIT**

By 1991 the share of money lenders in total credit had reduced to 15per cent and the share of commercial banks soared to 29per cent. The total number of locations with at least one bank branch had increased from under 2000 in 1951 to over 30000. By the year 2000 the Indian rural banking sector
accounted for the rupee equivalent of 26,768 million dollars as deposits and 10,834 million dollars as loans outstanding. In terms of populations reached the rural sector accounted for 125 million savings accounts and 25 million borrowing accounts.

These changes in borrowing practices were caused by an aggressive policy of state intervention in rural credit markets due to the policy of the Indian government and the RBI. The policy instruments to achieve these objectives included the expansion of the institutional structure of formal sector lending institutions; secondly directed lending and thirdly concessional or subsidized credit.

**RURAL CREDIT AND THE ROLE OF COMMERCIAL BANKS**

Co-operatives were the only institutions providing institutional credit to the rural sector till the commercial banks emerged on the same in a big way particularly after nationalization of major commercial banks in the year 1969. The formal financial system now enjoys a tremendous outreach. A taskforce constituted to review the performance of co-operatives has made a number of recommendations for strengthening the co-operative banks and improving their operational efficiency through provision of recapitalization support removal of dual control so as to ensure that they emerge as member driven professional societies.

The entry of commercial banks in the field of rural credit was accompanied by major policy initiatives aimed at;

(i) Expanding their branch network and
(ii) Earmarking a portion of bank credit for priority sector.

This led to opening of branches in rural areas which had no banking facilities. With this the average population per branch office declines from around 65000 in 1969 to 17000 in 1980 and further to 15000 in or arch 2000. Public sector banks also opened specialized branches to extend credit to agriculture and other forms of credit to rural area. They adopted villages, took over PACs from weak DCCBs and organized Farmers service societies to reach their rural clientele.

Priority Sector Lending’s

Priority sector comprises agriculture small scale industry, small road and water transport operators, retail traders, small business, professional and self employed persons, Self Help Groups, (SHGs) haring, consumption loans for weaker sections government sponsored poverty alleviation and employment generation programmes etc.

Priority sector lendings are intended for ensuring that credit was channeled to various sectors of the economy in accord once with the national planning priorities Banks have been advised to raise the proportion of their advances to 40per cent for the priority sectors.

Schemes for Promoting Rural Credit

With a view to improving the flow of credit to agriculture and rural sector public sector banks were advised in the year 1994 to formulate special Agricultural Credit Plan (SACP) with self set targets for disbursement.
As an innovative measure of credit delivery all the banks are implementing Kisan Credit Card Scheme for the farmers to enable them to readily purchase agricultural inputs such as seeds, fertilizers, pesticides etc and draw cash for their production needs.

Rural Infrastructural Development Fund is operationalised through NABARD with the purpose of assisting the state governments in quick completion of projects relating to rural infrastructure.

National Bank for Agriculture and Rural Development was established in 1982 to consolidable the various arrangements made by RBI to promote/supervise institutions and channel credit to rural areas. RBI introduced a scheme of service Area Approach for Commercial Banks in 1989 with a view to assign specific areas to each bank branch in which it can concentrate on focused lending and contribute to the accelerated development of the area.

The Regional Rural Banks first started in 1975 are expected to combine the expertise of the commercial banks with the local feel and familiarity of the co-operatives. The primary objective for setting up these banks was to remove the disabilities in the co-operatives such as low resource mobilization, poor appraisal, inadequate credit supervision, low absorptive capacity managerial weaknesses etc and the weakness of commercial banking system such as high cost structure and attitudinal shortcomings of their staff which was largely urban oriented. Setting up of Local Area Banks (LABs) has been allowed in order to provide an institutional mechanism in the private sector for promoting sector savings as well as channelising adequate credit for promoting rural viable economic activities.
The main concern of the Government of India is to provide credit to the rural poor. So that, they are able to come out of the stranglehold of poverty through available employment opportunities leading to increased and sustained incomes. However, it is important to take into account the cost effectiveness of the credit delivery system, the ability to provide non-credit inputs to help self employment activities ability to generate enduring relationship with the client.

EMERGENCE OF SELF-HELP GROUPS

The above developments and the policy measures has led to fostering linkages between the formal and the informal credit delivery systems and the role of the voluntary sector comprising Self Help Groups (SHGs) and non governmental organizations (NGOs)

A sizeable section of the rural poor did not have access to the formal credit institutions. The poor need assistance in small doses at different times suitable to them and for a variety of purposes and the formal credit delivery system is not adequately equipped for the purpose. This has led to promotion of informal groups (SHGs) of the rural poor for pooling their small savings/thrift with a view to helping themselves in financing their emergent needs either with the help of NGOs or otherwise. The SHG is normally a response to a percented need, besides being centered around specific production activities.

Various studies by different agencies have shown that the self help savings and credit groups (SHGs) have the potential to bring together the formal banking structure and the rural poor for mutual benefit. The benefit for the formal credit institutions (banks) lies in externalisation of part of the credit
cycle viz., assessment of credit needs, approach, disbursal, supervision, and repayment, reduction in the formal paperwork, involved and a consequent reduction in transaction costs and assured very of loans through poor pressure support. These groups (SHGs) use social collateral and poor pressure effectively as against physical collateral which the poor being asset less, lack.

The effectiveness of routing financial assistance to the poor through the (SHGs) led to the Central Government according priority to coverage of (SHGs) by banks with the help from NABARD and SIDBI.

The (SHGs) programme, Kisan Credit Card movement and other related programmes of the government have brought about a change in the mindset of millions of farmers/villagers of the our country. The SHG Bank linkage programme in particular has proved its efficacy in reaching and banking the un-reached with lower translation cost and better repayment performance. The traditional mode of cultivation is slowly changing and the cropping habit is moving in favor of commercial crops. Further, rural non-farmer sector as a supplementary source of living is gaining significance. These changes, if continued in a sustained manner would bring prosperity to rural economy and agricultural sector in particular. Acceleration in agricultural growth would be achieved before long. There is need to address the issues like necessary legal and institutional changes relating to governance, regulation and functioning of co-operative banks and regional rural banks and attitudinal change of commercial banks for financing agriculture and rural sector which would not impinge on the viability or compromise on prudential norms.
FINANCIAL INCLUSION – INSTITUTIONALISATION MILESTONES

SINCE EARLY 1900’S

1904 - Co-operative Societies Act
1954 - Rural Credit Survey Committee
1955 - State Bank of India created for rural penetration
1969 - 19 Commercial Bank Nationalised, All India Rural Credit Review Committee
1970 - Lead Bank Scheme - State/District
1975 - Regional Rural Bank - Hybrid banks
1980 - 6 more Commercial Banks nationalize
1992 - SHG – Bank Linkage Programme
2001 - Kisan Credit/Swarojgar Credit Card/Grain Tatkal Card
2006 - Committee on Financial Inclusion Set up.
Measuring Financial Exclusion

Rural Households
(147.9 million)

Farmers
89.35 million Households

Small marginal Farmers
74.07 million

Financially Excluded
40.27 million

Financially Included
34.70 million

Non-farming Households
58.55 million

other than small and marginal farmers
14.38 million

Financially Excluded
5.66 million

Financially Included
8.72 million

5.16 per cent of the rural households are excluded
### Table-5.1

State wise Exclusion

<table>
<thead>
<tr>
<th>Extent of Financial Exclusion (in per cent)</th>
<th>States</th>
</tr>
</thead>
<tbody>
<tr>
<td>&gt; 75</td>
<td>Meghalaya, Arunachal Pradesh, Mizoram, Manipur, Assam, Uttaraksha, Jharkhand</td>
</tr>
<tr>
<td>50 to 75</td>
<td>Bihar, Chattisgarh, Orissa, Himachal Pradesh, J &amp; K, UP, Nagaland, Tripura, Sikkim</td>
</tr>
<tr>
<td>25 to 50</td>
<td>Karnataka, Kerla, MP, Maharashtra, Punjab, Tamilnadu, West Bengal,</td>
</tr>
<tr>
<td>&lt; 25</td>
<td>Andhra Pradesh,</td>
</tr>
</tbody>
</table>

### Table-5.2

State wise Exclusion in Population

(Figures in ‘000)

<table>
<thead>
<tr>
<th>Social Group</th>
<th>Population</th>
<th>Per cent Included</th>
<th>per cent Excluded</th>
</tr>
</thead>
<tbody>
<tr>
<td>S.C</td>
<td>15592.6</td>
<td>50.23</td>
<td>49.77</td>
</tr>
<tr>
<td>S.T</td>
<td>11924.1</td>
<td>36.32</td>
<td>63.68</td>
</tr>
<tr>
<td>OBC</td>
<td>37043</td>
<td>51.42</td>
<td>48.58</td>
</tr>
<tr>
<td>Others</td>
<td>24688.4</td>
<td>49.42</td>
<td>50.58</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>89248.1</strong></td>
<td><strong>48.64</strong></td>
<td><strong>51.36</strong></td>
</tr>
</tbody>
</table>
INITIATIVES FOR FINANCIAL INCLUSION

a. SHG- Bank Linkage Programme-2.2 million SHGs with loans outstanding of Rs.11397.50 million (average size of SHG-15 members and 90 per cent women SHGs)

b. MFI – Bank Linkage

c. Women Entrepreneurs Development Programmes (Micro Enterprises) with NGO assistance
   i. Credit – marketing related
   ii. Rural Entrepreneurship programme with the help of Banks and NGOs (25 per cent women)
   iii. Area Development Programmes in Clusters – skills upgradation and capacity building

d. Farmers Clubs 18,000 with the help of banks for technological transfer, banking promotion schemes

e. Joint Liability Groups of Farmers (850 JLGs with Rs.124 million finance) (4-10 farmers)

f. Kisan Credit Cards – for quick credit to farmer’s 59.1 million cards.

g. Swarojagar Credit Cards – for unorganized poor people – both rural and urban

h. Gramin Tatkal Card – project for loans up to Rs.50,000 without collateral for families credit needs. (pilot schemes launched)

i. Business correspondent and facilitators (January 2006 – to enhance rural outreach)
CONTRIBUTION OF MALAPRABHA GRAMEENA BANK FOR FINANCIAL ASSISTANCE TO THE SHGs

The analysis in this part of the thesis is focussed on the responses of the bank officers relating to the following aspects

- District wise analysis of the data relating to deposits of the Self Help Groups covered by the study.
- Bank advances to self help groups under the SHG-bank linkage, Here too the analysis is made on the basis of the data obtained from the bank officers from the branches covered by the study in the four districts of Dharwad, Haveri, Gadag and Belgaum
- Cumulative credit linkages of SHGs and outstanding amount of bank credit in the four districts covered by the study.
- Talukawise distribution of SHG accounts with the banks in the four districts
- Talukawise distribution of deposits with the banks covered by the study in the study area.
- Cumulative credit linkage and outstanding amount of the banks with the SHGs
• Purpose wise analysis of the Financial assistance to SHGs by banks
• Steps taken by respondent bank officers for the recovery of loan from the self-help groups
• The incidence of diversion and missutilisation of bank loans by SHGs.
• The overall recovery position of the selected banks in relation to SHG loans.

DEPOSITS OF SHGS WITH BANKS-A DISTRICT WISE ANALYSIS

The details of the deposits of the self help Groups reveal some significant facts. The data obtained from the bank official relating to the deposits of the SHGs have indicated the following trends;

1) The total deposits of the respondent banks in Belgaum District was the highest at Rs. 5108325 thousand compared to Rs. 3129646 thousands of the respondent bank is Dharwad district, Rs. 1743171 thousands in Gadag district and Rs 1590019 thousand in Haveri district

2) The deposits of the self-Help Groups (SHGs) covered by the study were maximum at Rs 51511 thousand Belgaum district followed by Rs 18786 thousands in Dharwad district and Rs. 15960 thousands in Haveri district and Rs. 12910 thousand in Gadag district.

3) The ratios of SHG deposits with the total deposits of respond banks do not show any uniform trend. The ratio of SHG deposits to total bank deposits in Belgaum district was 1.00 percent. The said ratio was 0.60
per cent in Dharwad district 1.00 per cent in Haveri district and 0.74 per cent in Gadag district. The details are provided in the following table.

Table-5.3

District wise deposits of SHGs in the Banks

(In thousands)

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Particulars</th>
<th>Dharwad</th>
<th>Haveri</th>
<th>Gadag</th>
<th>Belgaum</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Total deposit of the bank</td>
<td>3129646</td>
<td>1590019</td>
<td>1743171</td>
<td>5108325</td>
</tr>
<tr>
<td>2</td>
<td>SHG Deposit</td>
<td>18786</td>
<td>15960</td>
<td>12910</td>
<td>51511</td>
</tr>
<tr>
<td>3</td>
<td>Share of SHG Deposit</td>
<td>0.60</td>
<td>1.00</td>
<td>0.74</td>
<td>1.00</td>
</tr>
</tbody>
</table>

Source: Annual Report, MG Bank, 2005-06

BANK ADVANCES TO SELF-HELP GROUPS: DISTRICT WISE ANALYSIS

The trend of the banks in Belgaum district covered by the study leading the respondent banks in other three districts has been found in the direction of advances in aggregate terms as well as the advances to SHGs in particular. The following broad trends of the advances of banks and the share of SHGs in total advances are observed from the data obtained from the bank officials covered by the study.
1. Total advances of respondent banks were Rs 602,133,5 thousand of Belgaum district, Rs. 30,401,7 of Dharwad, Rs. 276,014,9 thousands of Haveri and Rs. 200,587,4 thousands of banks in Gadag district.

2. Banks advances to SHGs were Rs. 20,131,6 thousands in Belgaum district, Rs. 11,685,5 thousands in Haveri district, Rs. 78,603 thousands in Dharwad district and Rs. 66,554 thousands by banks in Gadag district.

3. The ratio of loans to SHGs in relation to their total loans was the highest at 4.23 percent in Haveri district compared to 3.34 percent in Belgaum district, 3.33 percent in Gadag district and 2.60 percent in Dharwad district.

There is no uniformity in the loans to SHGs in relation to total loans by banks in the 4 districts covered by the study. The following table provides the details.

**Table-5.4**

*District wise Cumulative Credit Linkage and Outstanding Amount of Banks (In thousands)*

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Particulars</th>
<th>Dharwad</th>
<th>Haveri</th>
<th>Gadag</th>
<th>Belaum</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Total Advance of the Bank amount</td>
<td>302,101,7</td>
<td>276,014,9</td>
<td>200,587,4</td>
<td>602,133,5</td>
</tr>
<tr>
<td>2</td>
<td>SHG Advance of the Bank</td>
<td>78,603</td>
<td>116,855</td>
<td>66,554</td>
<td>201,316</td>
</tr>
<tr>
<td>3</td>
<td>Share of SHG Advance</td>
<td>2.69</td>
<td>4.23</td>
<td>3.31</td>
<td>3.34</td>
</tr>
</tbody>
</table>

*Source: Annual Report, MG Bank, 2005-06.*
DISTRICT WISE ADVANCES BY BANKS TO SELF-HELP GROUPS

The data obtained from the respondent bank officials on the cumulative credit linkage of SHG have revealed some significant facts.

1. The number of Self Help Groups which were credit linked during 2006 were maximum at 1250 in Belgaum district followed 795 in Haveri district, 635 in Gadag district and 614 in Dharwad district. The total number of SHGs credit linked to banks was 3294.

2. Amount of bank loan to SHGs during the year 2000 was Rs. 148468 thousand in Belgaum district, followed by Rs. 89693 thousands in Haveri district, Rs, 67626 thousand in Gadag district, and Rs 36709 thousands in Dharwad district.

3. Cumulative linkage of SHG bank credit linkage was 8773 SHGs in Belgaum district, 5054 in Haveri, 4007 in Dharwad district and 3338 in Gadag district.

4. Cumulative bank loan to SHGs since inception amounted to Rs 466729 thousands in Belgaum district followed by Rs 262979 thousands in Haveri district Rs 175804 thousands in Dharwad district and 150602 thousands in Gadag district.

5. Accounts outstanding of SHGs with banks were 4650 in Belgaum district followed by 2620 in Haveri district 1775 in Gadag district and 1724 in Dharwad district.

6. Maximum amount of 198087 thousands was outstanding with SHGs by banks in Belgaum district followed by Rs. 109250 thousand in Haveri district, Rs. 74025 thousand in Gadag district and Rs. 64677 thousand in Dharwad district. The following table provides the details
Table-5.5

Districtwise Cumulative credit linkage of SHGs with Banks

(In thousands)

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Particulars</th>
<th>Dharwad</th>
<th>Haveri</th>
<th>Gadag</th>
<th>Belaum</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Credit Linkage During the current Year since 1st April (No.)</td>
<td>795</td>
<td>614</td>
<td>365</td>
<td>1250</td>
<td>3294</td>
</tr>
<tr>
<td>2</td>
<td>Of the above no of report groups (No.)</td>
<td>405</td>
<td>219</td>
<td>335</td>
<td>470</td>
<td>1429</td>
</tr>
<tr>
<td>3</td>
<td>Amount of Bank Loan</td>
<td>89693</td>
<td>36709</td>
<td>67626</td>
<td>148468</td>
<td>342496</td>
</tr>
</tbody>
</table>

CUMMULATIVE CR. LINKAGE

| 5       | Cumulative credit linkage (since inception) (No) | 5054    | 4007   | 3338  | 8773   | 21172  |
| 6       | Cumulative bank loan (since inception) (Amt)     | 262979  | 175804 | 150602| 466729 | 1056114|
| 7       | Accounts outstanding                             | 2620    | 1724   | 1775  | 4650   | 10769  |
| 7       | Outstanding Amount                               | 109250  | 64677  | 74025 | 198087 | 446039 |

Source: Annual Report, MG Bank, 2005-06

TALUKWISE DISTRACTION OF SHG ACCOUNTS WITH BANKS IN THE STUDY AREA

The data obtained from the respondent banks in the four talukas about the bank accounts held by the SHG have revealed the following trends.

1. Maximum of SB accounts of 1233 by SHGs were found in banks in Ranebennur taluka followed by 1085 SB accounts of SHGs in Banks in
Hirekerur taluka, 960 SB accounts with banks in Hongal taluka and 585 SB accounts held by SHGs with banks in Savanur taluka.

2. Maximum accounts of Rs 6375 thousands of outstanding amount was held in SB accounts by SHGs in Ranebennur taluka followed by Rs. 5383 thousand in banks in Hirekerur taluk, Rs 4200 thousand in banks in Hongal tuluka and Rs. 2800 thousand in SB accounts of banks in Savanur taluka. The following table provides the details.

**Table-5.6**

**Taluka wise Distribution of SHGs accounts with Banks**

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Particulars</th>
<th>Ranebennur</th>
<th>Hirekerur</th>
<th>Hangal</th>
<th>Savanur</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>No. of SHGs having SB A/c (No.)</td>
<td>1233</td>
<td>1085</td>
<td>960</td>
<td>585</td>
</tr>
<tr>
<td>2</td>
<td>Total outstanding of SHGs in SB Accounts (Amt.)</td>
<td>6375</td>
<td>5383</td>
<td>4200</td>
<td>2800</td>
</tr>
</tbody>
</table>

**Source:** Annual Report, MG Bank, 2005-06

Taluka wise deposit of SHGs with Banks Taluka wise analysis of the deposits of the Self-Help Groups with the bank branches covered by the study has revealed the following details.

1. The respondent branches of the banks covered by the study in Ranebannur taluka had the maximum of deposits of Rs.431668 thousands followed by Rs Rs 392210 thousand of deposits of bank branches in Hirekerur taluka, Rs 386140 thousand of deposits in
banks in Hangal taluka and Rs 321911 thousand of deposits in Savanur taluka.

2. Deposits if self-help groups in these banks was the maximum of Rs. 4325 thousand in Ranebennur taluka followed by Rs. 4200 thousand in Hirekerur taluka, Rs 3211 in Hongal taluka and Rs. 2882 thousand in Savanur taluka.

3. Share of Self Help Groups in the total deposits of the respondent bank branches was 1.07 per cent in Hirekerur taluka, 1.07 per cent in Ranebennur taluka 0.83 per cent in Hangal taluka and 0.08 per cent in Savanur taluka. The following table provides the details

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Particulars</th>
<th>Ranebennur</th>
<th>Hirekerur</th>
<th>Hangal</th>
<th>Savanur</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Total deposit of the bank</td>
<td>431668</td>
<td>392210</td>
<td>386140</td>
<td>321911</td>
</tr>
<tr>
<td>2</td>
<td>SHG Deposit</td>
<td>4325</td>
<td>4200</td>
<td>3211</td>
<td>2872</td>
</tr>
<tr>
<td>3</td>
<td>Share of SHG Deposit (In percent)</td>
<td>1.01</td>
<td>1.07</td>
<td>0.83</td>
<td>0.08</td>
</tr>
</tbody>
</table>

Source: Annual Report, MG Bank, 2005-06

CUMULATIVE CREDIT LINKAGE AND OUTSTANDING AMOUNT OF SHGS IN SELECTED VILLAGES

Amount of bank loan to SHGs in selected villages are maximum at Rs 18350 thousand in Ranebennur taluka followed by Rs 172000 in Hirekerur taluka, Rs 14880 in Hangal taluka and Rs 9790 thousand in Savanur taluka.
Cumulative credit linkage of SHGs was maximum at 1186 in Ranebennur taluka followed by 992 in Hirekerur taluka, 840 in Hangal taluka and 450 in Savanur taluka.

Cumulative bank loan to SHGs in the selected villages has shown a similar trend of maximum amount of Rs 56220 thousand in Ranebennur taluka, Rs 46880 thousand and Hirekerur taluka 43800 thousand in Hangal taluka and Rs 28964 thousand in Savanur taluka.

Accounts outstanding again were the maximum at 580 in Ranebennur taluka followed by 495 in Hirekerur taluka 432 in Hangal taluka, and 245 in Savanur taluka.

Outstanding loan amount of the SHGs in the selected villages was maximum at Rs 24790 thousand in Ranebennur taluka followed by Rs 21350 thousand in Hirekerur taluka, Rs. 12350 thousand in Hangal taluka and Rs 10685 thousand in Savanur taluka.

The above financial aspects of cumulative credit linkage and the outstanding have indicated a similar trend in terms of their magnitude in selected villages of Ranebennur, Hirekerur, Hangal and Savanur. The following table provides the details.
Table-5.8
Cumulative Credit Linkage and Cumulative Amount of Loan to SHGs in selected Villages
(In thousands)

<table>
<thead>
<tr>
<th>SL No.</th>
<th>Particulars</th>
<th>Ranebennur</th>
<th>Hirekerur</th>
<th>Hangal</th>
<th>Savanur</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Amount of Bank Loan</td>
<td>18350</td>
<td>17200</td>
<td>14860</td>
<td>9790</td>
</tr>
<tr>
<td>2</td>
<td>Cumulative credit linkage (since inception) (No)</td>
<td>1186</td>
<td>992</td>
<td>840</td>
<td>450</td>
</tr>
<tr>
<td>3</td>
<td>Cumulative bank loan (since inception) (Amt)</td>
<td>56220</td>
<td>46880</td>
<td>43800</td>
<td>28964</td>
</tr>
<tr>
<td>4</td>
<td>Accounts outstanding</td>
<td>580</td>
<td>495</td>
<td>432</td>
<td>245</td>
</tr>
<tr>
<td>5</td>
<td>Outstanding Amount</td>
<td>24790</td>
<td>21350</td>
<td>18200</td>
<td>10685</td>
</tr>
</tbody>
</table>

Source: Annual Report, MG Bank, 2005-06

FINANCIAL ASSISTANCE TO SHGS BY BANKS-PURPOSE WISE ANALYSIS

Farm operations, small business and tiny industry, dairy operations, education, consumption and others have been the purposes for which the respondent banks in the study area have provided financial assistance to Self-Help Groups.

There has been a continuous rise in the financial assistance by banks to self help groups for all the above purposes during the five year period from 2000-01 to 2004-05. The increase in financial assistance during the 5 year period for farm operations has been almost seven terms. Financial assistance for small
business and tiny industry has gone up by nearly eight times while for dairy operations of the SHG members the financial assistance by banks increased nearly six times the increase financial assistance education purposes is more than three time. Consumption loans to SHG members by banks have increased by more than five times during five year period from 2000-01 to 2004-05.

The total increase in financial assistance and SHGs by banks rose by more than five times. During the five years from 2000-01 to 2004-05. The following table provides the details.

Table-5.9

Financial Assistance to SHG by Banks purpose wise Analysis

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Year</th>
<th>Amount of recovery percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2000-01</td>
<td>89.00</td>
</tr>
<tr>
<td>2</td>
<td>2001-02</td>
<td>91.08</td>
</tr>
<tr>
<td>3</td>
<td>2002-03</td>
<td>92.34</td>
</tr>
<tr>
<td>4</td>
<td>2003-04</td>
<td>94.15</td>
</tr>
<tr>
<td>5</td>
<td>2004-05</td>
<td>95.06</td>
</tr>
<tr>
<td>6</td>
<td>2005-06</td>
<td>96.10</td>
</tr>
</tbody>
</table>

Source: Annual Report, MG Bank, 2005-06

STEPS TAKEN BY BANKS FOR TIMELY RECOVERY OF LOANS FROM SELF HELP GROUPS

Issuing of legal notice, sending reminders have been the major steps taken by majority respondent bank officers for the recovery of loans from the
self help groups. Other steps taken by the bank officers include telephone
reminders and issuing of notice to surety/co-obligant.

The responses of the bank officers indicate that maximum of 44.90
percent of them have followed the practice of issuing legal notice to borrowing
SHG for the delay in repayment of loans. Telephone reminders are made to the
concerned SHGs about the recovery of loan according to 33.06 percent of the
respondent officer.

A lesser number of 28.24 percent of the respondent officers have
indicated that they resorted to issuing of notice to surety/co-obligant and a
very small numbers of 3.80 percent mentioned the in sending to telephone
reminders about the loan repayment to the borrowing SHGs. The following tab
le provides the details

Table-5.10
Steps taken by Banks for Timely Recovery of Loans form the self help groups

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Types of tests</th>
<th>In Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Sending of reminders</td>
<td>33.06</td>
</tr>
<tr>
<td>2</td>
<td>Telephone reminders</td>
<td>3.80</td>
</tr>
<tr>
<td>3</td>
<td>Issuing Notice to Survey/coobligant</td>
<td>18.24</td>
</tr>
<tr>
<td>4</td>
<td>Issuing legal notice</td>
<td>44.90</td>
</tr>
<tr>
<td>5</td>
<td>Seizing property</td>
<td>--</td>
</tr>
<tr>
<td>6</td>
<td>Filing legal smits</td>
<td>--</td>
</tr>
<tr>
<td>7</td>
<td>Entrusting recovery work to private parties on Commission</td>
<td>--</td>
</tr>
<tr>
<td>8</td>
<td>Total</td>
<td>100</td>
</tr>
</tbody>
</table>
It is clear from the details in the above table that the practices like saizing property, filing legal suits, or intrusting the recovery work to provide parties an commission has not been resorted to by the banks involved in SHG financing.

DIVERTING MIS-UTILIZING THE BANK LOAN

The habit of diverting or misutilizing of the loan by the borrowers under the SHG Bank credit has been found to a tune of 10-20 percent according to large majority of 96.46 percent of the respondent officers of the banks covered by the study. However the incidence of diverting or miss utilizing the bank loans to a larger extent of 20-30 percent is indicated by a bare 3.54 percent of the total respondent officers. The following table provides the details.

Table-5.11

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>In Percentage of SHGs</th>
<th>Total SHGs (in %)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>10-20</td>
<td>96.46</td>
</tr>
<tr>
<td>2</td>
<td>20-30</td>
<td>3.54</td>
</tr>
<tr>
<td>3</td>
<td>30-40</td>
<td>--</td>
</tr>
<tr>
<td>4</td>
<td>40-50</td>
<td>---</td>
</tr>
<tr>
<td>5</td>
<td>More than 50</td>
<td>--</td>
</tr>
<tr>
<td>6</td>
<td>Total</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Annual Report, MG Bank, 2005-06
The responses indicated in the above table reveal the incidence of diverting bank loans to purposes other than the purposes for which the loan was obtained has been prevalent to some extent among the Shag/members. There is need for taking suitable steps to curb such tendencies the objective of promoting economic betterment of the poor through bank assistance is to be achieved

Recovery position of Banks In Relation to SHGs loans the responses of the respondent a bank officers indicate a very encouraging trend about loan recovery of banks from the SHGs. The recovery of loan from banks varied between 89 per cent to a maximum of 96 percent or more.

The year wise position regarding the loan recovery between 2000-01 and 2005-06 is indicative of a higher recovery rate. The recovery of loan by banks from the SHGs was 89 percent in 2000-01. It rose to 91.08 percent in 2001-02, 2002-03, 95.06 per cent, 92.34 per cent in 2002-03, 94.15 percent in 2004-05 and further to 96.10 percent in 2005-06. The following table provides the details
Table-5.12

Recovery of loans from SHGs by Bank

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Farm operation</td>
<td>123451</td>
<td>151676</td>
<td>188647</td>
<td>193876</td>
<td>211651</td>
<td>869301</td>
</tr>
<tr>
<td>2</td>
<td>Small Busnics &amp; Tiny</td>
<td>103124</td>
<td>147621</td>
<td>196532</td>
<td>200065</td>
<td>228014</td>
<td>875356</td>
</tr>
<tr>
<td>3</td>
<td>Dairy operation</td>
<td>209616</td>
<td>217497</td>
<td>238117</td>
<td>265831</td>
<td>285467</td>
<td>1216528</td>
</tr>
<tr>
<td>4</td>
<td>Education</td>
<td>617416</td>
<td>718961</td>
<td>816316</td>
<td>90015</td>
<td>94235</td>
<td>2336943</td>
</tr>
<tr>
<td>5</td>
<td>Consumption</td>
<td>173213</td>
<td>184781</td>
<td>190291</td>
<td>213162</td>
<td>236747</td>
<td>998194</td>
</tr>
<tr>
<td>6</td>
<td>Other</td>
<td>-</td>
<td>-</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>7</td>
<td>Total</td>
<td>1226820</td>
<td>1420536</td>
<td>1629903</td>
<td>962949</td>
<td>1056114</td>
<td>6296322</td>
</tr>
</tbody>
</table>

Source: Annual Report, MG Bank, 2005-06