



PERFORMANCE OF KARNATAKA VIKAS GRAMEENA BANK : AN ANALYSIS OF PRIORITY SECTOR LENDING

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ABSTRACT :

Rural Banking in India refers to a set up of financial institutions for the economic improvement of rural poor in rural areas. The Karnataka Vikas Grameena Bank is the one of the leading RRBs in Karnataka and has occupied an unique place in the multiagency approach applied to provide agricultural and rural credit in rural areas of Karnataka. The KVG Bank has the front runner in catering to the needs of the farmers, traders, rural artisans, Professionals, self-employed, contractors and all other sections of the society. In this paper an attempt is made to evaluate the role of the Karnataka Vikas Grameena Bank towards priority sector lending in Karnataka, through the parameters like disbursement of loan to various priority sectors like Agriculture, allied Activities, SSI units and Trade or Services. The study reported that, the KVG Bank has provided highest loan to agriculture as compare to other sector of the rural area and playing the significant role towards the development of agriculture sector. Further it is noted that the priority sector advances of the bank to allied activities is insignificant reflecting its utter negligence of allied activities.



KEYWORDS : Disbursement of loans, Priority Sectors, Non Priority Sectors.

1. INTRODUCTION:

Rural India comprises 73 percent of the country population, but its share in the total national income is less than 45 percent. The rural sector is characterized by low income levels, poor quality of life and a weak human capital-base.¹ Finance is the most important part of any development process. Now a day's Regional Rural Bank especially in rural areas play a very significant role in the economic as well as rural development. The overall development of the economy depends to a large extent on the banking sector, as financial institutions as suppliers of capital for production of goods and services which in turn raises income and standard of living of the people. The Regional Rural banks were established on October, 2nd 1975. The main objectives of these banks are to provide credit and other facilities particularly to small and marginal farmers, agricultural labourers, rural artisans and small entrepreneurs so as to develop agriculture, trade, commerce, industry and other productive activities in rural areas. The rural banks bridge the credit gaps existing in the rural areas and they are supposed to be effective instruments of economic development in rural India. They will extend productive credit to the rural community and have purely rural orientation in their activity. As on 31st March, 2018 there are 56 RRBs are playing a significant role in developing agriculture and rural economy in India. The

present study is concentrating on the Karnataka Vikas Grameena Bank, which is high performing RRB in Karnataka.

2. KARNATAKA VIKAS GRAMEENA BANK: AN OVERVIEW

The Karnataka Vikas Grameena Bank is the one of the most leading Regional Rural Bank in Karnataka. It has emerged after the amalgamation of the four erstwhile Grameena Banks with its area of operation spread over nine districts now caters to 1/3rd of the geographical area of the state and thereby has earned the opportunity of serving a larger section of the rural population. The government has decided to restructure 49 RRBs. The committee for restructuring consisted of representative of RBI and the NABARD and the chairman of four public sector banks. The year 2005-06 is memorable due to historic event of amalgamation of erstwhile four Regional Rural Banks sponsored by Syndicate Bank in the state of Karnataka, viz., Malaprabha Grameena Bank & Bijapur Grameena Bank (Started in the year 1976), Varada Grameena Bank & Netravati Grameena Bank (Started in the year 1985) which were working under 9 districts amalgamated by a Government of India notification dated 12th September 2005, to form the Karnataka Vikas Grameena Bank. Thus the new bank now operates in nine districts of the state viz., Dakshina Kannada, Udupi, Uttarakannada, Haveri, Gadag, Dharwad, Belgaum, Bagalkot and Bijapur. The new bank started with the organisational set up consists of a three tier system, with the Head Office being at Dharwad, ten Regional Offices at Bagalkot, Belgaum, Bijapur, Chikodi, Dharwad, Gadag, Gokak, Haveri, Kumta and Mangalore and followed by 636 branches of the bank. KVG Bank is a scheduled Bank with share capital contributed in the ratio of 50:15:35 by the Central Government, Government of Karnataka and the Sponsor Bank respectively. The Bank has a net worth of Rs. 1693.37crores at March 31st, 2018 and is considered as one of the strongest and most vibrant RRBs in the country. The Bank is actively involved in overall development of rural areas since the very beginning. The Bank is on core banking platform and services offered by bank branches are excellent. "Customers Delight" is the motto of the Bank. On par with other commercial Banks and also new generation Banks KVG Bank has been offering a wide range of innovative products and services in tune with customers expectations and aspirations. The upliftment of weaker sections and the down trodden has been the major agenda of the bank. Besides this the Bank has been a front runner in catering to the needs of the Farmers, Traders, Rural Artisans, Professional and self-employed, Contractors and all sections of the society.

3. PRIORITY SECTOR LENDING:

Priority sectors are those sectors of the economy which may not get timely and adequate credit, and may be ignored because they are low income generating sectors. But for the overall and holistic development of an economy and the country – the progress of these sectors are important too, and they have been given a special status as „priority sector“ , for their benefit and for banks to follow RBI rules and regulations with respect to priority sector lending. The concept was properly introduced as per recommendations of Work Group of Krishnaswami committee in 1980, there after banks have been regularly issued directives on priority sector loans. Revision on rules/regulations has been made latest by M.V. Nair Committee in 2012.

Priority Sector Lending is an important role given by the Reserve Bank of India (RBI) to the banks for providing a specified portion of the bank lending to few specific sectors like agriculture or small scale industries. Basically this is meant for all round development of the economy apart from only focusing on the financial sector. Banks have also been assigned to play a greater developmental role for upliftment of rural and urban areas. The banks in India have an important responsibility of canalizing the funds with most important sectors to fulfill the predetermined objectives.

Priority sector plays a key role in the economic development of the country. Therefore, the Central (Federal) Government of any country gives this sector priority (first preference) in obtaining loans from banks at a low rate of interest. For more than four decades, the Reserve Bank of India (RBI) has required all public and private banks to direct a fixed percentage of lending to "priority sectors," which it defines as underserved or priority areas for economic growth. Today, state-owned and private

banks must make 40 percent of all loans to the priority sector, whereas foreign banks have a minimum requirement of 32 percent.

Priority sector refers to those sectors of the economy which, though viable and creditworthy, may not get timely and adequate credit in the absence of a special dispensation. Typically, priority sector loans are small value loans to farmers for agriculture and allied activities, micro and small enterprises, poor people for housing, students for education, other low income groups and weaker sections.

As per Reserve Bank of India, Priority sector includes the following:

1. Agriculture and Allied Activities, dairy, fishery, animal husbandry, poultry, bee-keeping and sericulture.
2. Small scale industries (including setting up of industrial estates)
3. Small road and water transport operators (owning up to 10 vehicles).
4. Small business (Original cost of equipment used for business not to exceed 20 lakh)
5. Retail trade (advances to private retail traders up to 10 lakh)
6. Professional and self-employed persons (borrowing limit not exceeding 10 lakh of which not more than Rs.2 lakh for working capital; in the case of qualified medical practitioners setting up practice in rural areas, the limits are Rs.15 lakh and Rs.3 lakh
7. respectively and purchase of one motor vehicle within these limits can be included under priority sector)
8. State sponsored organizations for Scheduled Castes/Scheduled Tribes
9. Education (educational loans granted to individuals by banks)
10. Housing [both direct and indirect – loans up to 5 Lakhs (direct loans upto Rs 10 lakh in urban/ metropolitan areas), Loans upto Rs.1 lakh and Rs.2 lakh for repairing of houses in rural/ semi-urban and urban areas respectively].
11. Consumption loans (under the consumption credit scheme for weaker sections)
12. Micro-credit provided by banks either directly or through any intermediary; Loans to self help groups(SHG) / Non Governmental Organizations (NGOs) for on lending to SHGs
13. Loans to the software industry (having credit limit not exceeding Rs 1 crore from the banking system)
14. Loans to specified industries in the food and agro-processing sector having investment in plant and machinery up to Rs 5 crore.
15. Investment by banks in venture capital (venture capital funds/ companies registered with SEBI).

REVIEW OF LITERATURE:

Anand (1992) calculated the economies of priority sector lending in banking structure, with regard to the same he raised a question whether priority sector is responsible for low profitability of banks or not. In the analysis the author concluded that concessional fixation rates at low levels are not advisable as this leads to diversion of loans away from agriculture and this also cause inflation. However, the analysis revealed that priority sector advances are not responsible for low profitability and are not a drag on profitability(SC, 1992).

Versha Mohindra and GianKaur, (2011), concluded that over the years, RRBs have proved to be the most active agencies in the process of strengthening rural economy by purveying credit and mobilizing deposits from rural areas through their vast network even in the remotest areas of the country. Though the regional rural banks have faced a great threat initially, the introduction of financial sector reforms and other policy initiatives (including recapitalization)by Government of India, Reserve Bank of India and other agencies concerned for strengthening the financial position of regional rural banks have resulted in perceptible improvement in the functioning of these banks. Evidence from the above, regional rural banks are thus required to devote utmost attention to their performances to meet global aspirations.

Sumathi (2015), noted that Indian agriculture is one of the strong hold of the Indian economy and it accounts for 18.5 percent of the gross domestic product (GDP). Agriculture draws its significance from the fact that it has vital supply and demand links with the manufacturing sector and is a source of livelihood for the rural population of India, and it represents the backbone of rural livelihood security system.

5. METHODOLOGY

The present study is based on secondary data and has been collected from the Annual Reports of various years and official records of the KVG Bank. In this paper an attempt is made to examine the Performance Evaluation of KVG Bank towards the Priority Sector Lending. The study period is confined to 12 years from 2005-06 to 2017-18. In order to analyze the data and growth rate

RESULTS AND DISCUSSION:

6.1 Disbursement of Loan to Priority and Non priority Sector:

Priority Sector lending includes lending to those sectors that impact large sections of the population, the weaker sections and the sectors which are employment-intensive such as agriculture, and tiny and small enterprises. With a view to providing more credits to the segments under priority sector, RRBs are required to achieve a target of 60% of their outstanding advances for priority sector advances of which at least 25% (i.e. 15% of the total advances) are to be made to weaker sections of the society w.e.f. 2003-04. The Reserve Bank of India has revised Priority Sector Lending (PSL) norms for Regional Rural Banks. As per the new norms the PSL target has increased to 75% of total outstanding advances from the earlier 60%. The information relating to priority and non priority sector advances of KVG Bank is presented in table-1.

Table -1 Disbursement of Loan to Priority and Non priority Sector

(Amount of Rupees is in crores.)

Amount of Rupees is in crores.) Year	Total Loan disbursement	Priority Sector	% to Total Loans	Non- Priority Sector	%to total Loans
2005-06	845.21	647.81	76.64486	197.4	23.35514
2006-07	1100.19	859.1	78.08651	241.09	21.91349
2007-08	1275.15	1009.04	79.13108	266.11	20.86892
2008-09	1053.41	737.51	70.01168	315.9	29.98832
2009-10	1527.07	990.52	64.86409	536.55	35.13591
2010-11	2177.83	1452.61	66.69988	725.22	33.30012
2011-12	2942.03	2141.85	72.80177	800.18	27.19823
2012-13	3321.9	2568.85	77.33074	753.05	22.66926
2013-14	3560.48	2936.95	82.48747	623.53	17.51253
2014-15	5034.39	4000.030	79.45411	1034.36	20.54588
2015-16	5545.15	4509.81	81.32890	1035.34	18.67109
2016-17	5307.30	4401.43	82.93162	905.88	17.06856
2017-18	5400.83	4456.03	82.50639	874.75	16.19658

Table -1 reveals that the loan provided by the KVG Bank to priority sector has showing an increasing tend ranging from 647.81 crores (2005-06) to 4456.03 crores (2017-18). It is also observed that the share of advances of priority sector to the total lending is in the range of 76% to 81%. It is evident that the KVG Bank has achieved the target of PSL lending norms laid down by the RBI and also

bank has made extra effort to reach additional target of the priority sector to improve the weaker sections of the rural society.

Further it is also witnessed that the disbursement of loan to Non-priority sector is showing an increasing trend from 197.4 crores (2005-06) to 874.75crores (2017-18) It is important to observed from the table the loans issued to priority sector constitute more percentages than the loan provided to non priority sector.

FINDINGS OF THE STUDY:

The KVG Bank one of the leading Regional Rural Bank in Karnataka and front runner in meeting the financial needs of rural mass. The evaluation of the role of KVG Bank towards public sector lending reveals the following:

- The share of priority sector advances to the total lending of the bank has reached more than the PSL target fixed by the RBI (average-74.23%).
- There is a stagnant improvement in disbursement of non priority sector advances to total lending (average-25.77%).

CONCLUSIONS

The KVG Bank is playing a key role in disbursement of priority sector advances. There is significant improvement in lending to priority sector especially to agriculture sector, which is the backbone of our economy and the credit needs of small and marginal farmers have met. The bank is also making consistent efforts to meet the credit needs of trade and service activities in rural areas and contributing towards the overall growth of economy.

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