



CREDIT FLOW TO AGRICULTURE SECTOR FROM INSTITUTIONAL SOURCES IN KARNATAKA: WITH SPECIAL REFERENCE TO REGIONAL RURAL BANKS

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ABSTRACT :

The institutional finance has been conceived to play an important role in the agricultural development of India. A large number of institutional agencies are involved in the disbursement of credit to agriculture. However, the persistence of money lenders in the rural credit market is still a major concern. Against this background the present study has made an attempt to study the growth of formal institutional agencies in Karnataka and also examined the quantum of loans issued by formal institutional agencies viz., Co-operative banks, Regional Rural banks and Scheduled commercial banks in Karnataka. This study is mainly based on secondary data collected from NABARD annual reports of various issues and Co-operative banks reports, and statistical reports of government of Karnataka. Simple statistical tools like percentage and ratios have been employed for the analysis. The study reveals that the proportion of all the formal institutional agencies tended to increase with the increasing years during the reference period. The proportion of credit amount provided to agriculture by Co-operative banks, RRBs and Scheduled commercial banks tended to increase with the increasing years i.e. from 2005-06 to 2017-18. However, the data on percentage of credit amount provided to agriculture by Co-operative banks, RRBs and Scheduled commercial banks indicates that, there is an up and down trends was found over a period of time. Among the institutional agencies, it has also been observed that, the proportion of credit disbursed to agriculture was found to be quite significant in scheduled commercial banks as compared to the Co-operative banks and Regional Rural banks. The study has suggested that all formal financial institutions should work together and complement each other. Linkage among the formal financial institutions at all level is needed for improving credit flow to agriculture in general and in Karnataka in particular.



KEYWORDS : Agriculture, Institutional agencies, Co-operative banks, Regional Rural banks, scheduled commercial banks and Credit.

1. INTRODUCTION

Agriculture is the backbone of the Indian economy, 60 per cent of the population depends on agricultural sector. It provides raw materials to the agro based and allied industries. Agriculture contributes 18 per cent to the national income. According to the 2011 census, three out of every four Indian live in the rural areas. The Rural areas in the country are confronted with various problems like unemployment, poverty and poor standard of living. Further with increasing population pressure there is a need to increase food and fibre production. Under these circumstances, agricultural development becomes imperative mainly to absorb the surplus manpower and generate gain full employment in a predominantly agrarian economy.

Agriculture is away life, a tradition which, for centuries has shaped the thought, the outlook, the culture and the economic life of the majority of the people in India. Agriculture signifies a lifeline for majority of the population and its modernisation and commercialisation are of significant importance. Thus, the importance of credit for agriculture in India has assumed and added significance in view of its pivotal role in the national agrarian economy. Indian agriculture though varied and having a great potentiality is still in backward condition for various reasons. This is mainly because of its subsistence nature, caused by smaller holdings and poor capital investment ability by farmers themselves owing to poor economic conditions. Further, with the advent of green revolution and commercialisation of agriculture, the capital needs in Agriculture also has increased substantially and by many folds. Therefore, there is a greater need for institutional credit as vital input to support agriculture and allied activities for promoting modern methods of production and for sustained farm returns.

Institutional credit was prompted in Karnataka through several policy mechanisms by establishing network of institutions. Over the years, there has been a significant shift from the subsistence level of production to market oriented commercial production. Diversification and commercialization in agriculture have resulted in shifting of cropping pattern from traditional crops to commercial and high value crops and produced for new markets. In all these, institutional credit played a very important role in the development of agrarian sector. It acted as a means to provide control over resources to enable the farmers to acquire the required capital for increasing agricultural production. Against this background the present study has been undertaken.

2. REGIONAL RURAL BANKS

Rural development has to play a phenomenal role in the overall socio-economic development of a country like India, where the majority of the population lives in rural areas. The rural sector affects directly or indirectly almost all the economic activities in the country and provides employment to the maximum number of people. A large part of the revenue of the government is also generated from the rural. The necessity of rural finance was felt to provide protection & reliance to rural people like moneylenders, landlords & traders etc. but they exploit farmers and small entrepreneurs by charging exorbitant rate of interest & force farmers to sell their product at low price to them. Rural people also face the risk of unpredictable production of crops due to high dependency on monsoon. Including problem of finance they also suffer from lack of seeds, fertilizers, water supply and other facilities which lead to rural in debtness'.

Rural India comprises 73 percent of the country's 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 (Singh 2010). 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 at as suppliers of capital for production of goods and services which in turn raises income and standard of living of the people (Baligatti and Danappanavar 2016).

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 laborers', rural artisans and small entrepreneurs so as to develop agriculture, trade, commerce, industry and other productive activities in rural areas. The aim of rural banks is to 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 they will have purely rural orientation in their activity and in the manner of extending their activity. The history of regional rural banks in India dates back to the year 1975. It's the Narsimham committee that conceptualized the foundation of regional rural banks in India. The committee felt the need of 'regionally oriented rural banks' that would address the problems and requirements of the rural people with local feel, yet with the same level of professionalism of commercial banks. Five regional rural banks were set up on October 2nd with a total authorized capital of Rs. 1 Crore, which later augmented

to Rs. 5 Crore. There were five commercial banks, viz. Punjab National Bank, State Bank of India, Syndicate Bank, United Bank of India and United Commercial Bank, which sponsored the regional rural banks. The equities of rural banks were divided in a proportion of 50:35:15 among the Central Government, the Sponsor bank and the concerned State Government (Kacharu Sanap 2013).

3. OBJECTIVES OF THE STUDY

- The main objectives of the study are to;
- Study the growth of formal institutional agencies in Karnataka;
- Examine the quantum of loans issued by formal institutional agencies in Karnataka; and
- Suggest Policy prescriptions to improve the agricultural finance in formal institutional agencies.

4. DATA BASE AND METHODOLOGY

This study is mainly based on secondary data collected from various annual reports of NABARD, Co-operative banks, and statistical reports of government of Karnataka. For collection of the secondary data on financial performance of the formal institutional agencies in Karnataka, thirteen years i.e. from 2005-2006 to 2017-2018 were taken as the reference period. The accounting year of the bank commences on 1st April of every year and ends on 31st March of next year. Simple statistical tools like percentage and ratios have been employed for the analysis. The results were presented through bar diagrams.

5. DATA ANALYSIS AND INTERPRETATION

Agriculture sector occupies a predominant role or place not only in the Indian economy but also in Karnataka State. This sector has been commercialized and diversified through the use of modern technologies which have enhanced the credit need in the agricultural sector. In this connection the credit has been recognized as the life blood of all Economic activities. According to an old proverb "Credit supports the farmers as the hangman's rope supports the hanged". This statement is fully true in the context of the farmers of Karnataka state. The fact is that farmers in the State cannot expect their credit needs which have to come from savings. It is mainly because their incomes from farm operations are sufficient only to provide minimum necessities of life. Therefore, they have to depend upon institutional banking agencies i.e., Cooperative banks; Commercial banks and Regional rural banks. These institutions needs to play a vital role in the socio and economic development of the country and state, particularly in the rural areas for the development of agriculture and allied sectors.

5.1 Growth of Formal Institutional Agencies in Karnataka

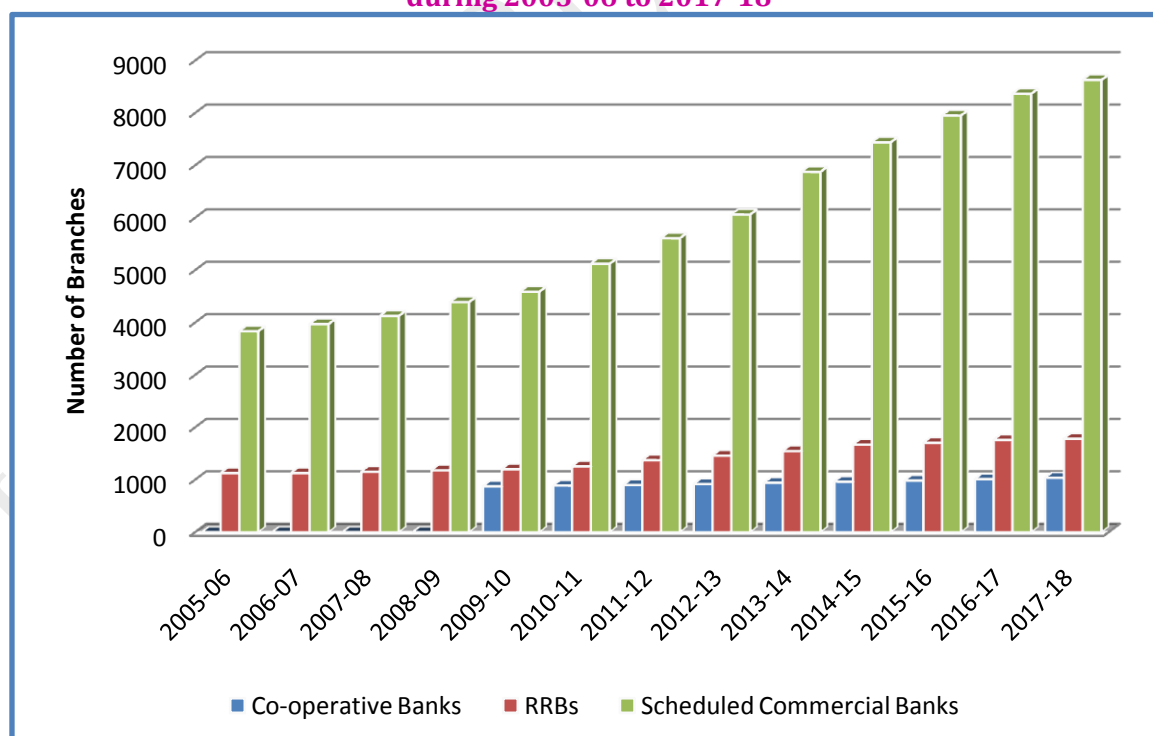
Table 1 presents the data on growth of formal agencies in Karnataka during the period from 2005-06 to 2017-18. The tabulated data clearly shows that at the aggregate level the proportion of all the formal institutional agencies tended to increase with the increasing years from 2005-06 to 2017-18. Around 4962 and 11452 formal institutional agencies were working during the year 2005-06 and 2017-18, respectively. Among the institutional agencies the proportion of scheduled commercial banks was found to be higher as compared to the Co-operative banks and RRBs during the years from 2005-06 to 2017-18. The proportion of Co-operative banks was 875 and 1037 in the year 2009-10 and 2017-18, respectively. While, the proportion of RRBs was 1127 and 1784 in the year 2005-06 and 2017-18, respectively. Similarly, the proportion of Scheduled commercial banks was 3835 and 8631 in the year 2005-06 and 2017-18, respectively. The growth of formal institutional agencies in Karnataka over a period of time has been depicted in Figure 1.

Table 1
Growth of Formal Institutional Agencies in Karnataka,
during 2005-06 to 2017-18

Year	Co-operative Banks	RRBs	Scheduled Commercial Banks	All
2005-06	NA	1127	3835	4962
2006-07	NA	1128	3971	5099
2007-08	NA	1153	4127	5280
2008-09	NA	1180	4391	5571
2009-10	875	1201	4589	6665
2010-11	890	1256	5122	7268
2011-12	901	1374	5610	7885
2012-13	918	1460	6062	8440
2013-14	943	1547	6876	9366
2014-15	963	1671	7440	10074
2015-16	985	1705	7952	10642
2016-17	1012	1760	8367	11139
2017-18	1037	1784	8631	11452

Source: Economic Survey of Karnataka (Various issues).

Figure 1
Growth of Formal Institutional Agencies in Karnataka,
during 2005-06 to 2017-18



Source: Table 1.

5.2. Credit Flow to Agriculture by Co-operative Banks in Karnataka

Co-operative banks have been play an important role, not only in the economic development of the state, but also providing timely credit to the agriculture and allied activities in Karnataka. The Government of Karnataka is subsidizing the Co-operatives by providing interest- subsidy through budgetary provisions. Since the implementation of the recommendations of Prof. Vaidyanathan Committee the role of the State Government in respect of Agricultural credit has chanced form a regulator, supervisor to the role of being a Friend, Philosopher and Guide. All statutes, circulars and orders which were coming in the way of day to day internal affairs of the institutions have been withdrawn. A new era of Co-operative credit structure through self-governance and independent decision making has come in to being and it is hoped that the Co-operatives will become professionally efficient and financially viable in the years to come.

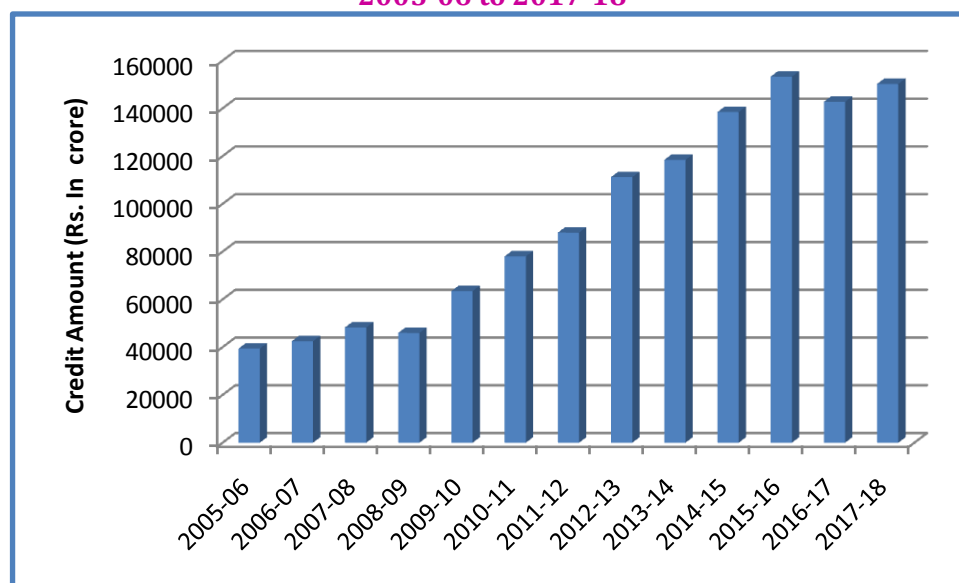
Table 2 provides the data on credit flow to agriculture by Co-operative Banks in Karnataka, during 2005-06 to 2017-18. The data clearly reveals that the proportion of credit amount provided to agriculture by co-operative banks tended to increase with the increasing years i.e. from 2005-06 to 2017-18 (except the years 2008-09 & 2016-17). The proportion of credit amount provided to agriculture by co-operative banks was estimated at Rs.39,404 crore and Rs. 1,50,242 crore in the year 2005-06 and 2017-18, respectively. Whereas, the percentage of credit amount provided to agriculture by co-operative banks indicates that, there is an up and down trends was found over a period of time. However, a negative growth was found in the years 2008-09 (-4.77 per cent) & 2016-17 (-6.87). The highest (38.17%) and lowest(5.24%) growth was found in the year 2009-10 and 2017-18, respectively. This implies that co-operative banking system is one of the important tools for the development of economic activities in the rural area in India in general and in Karnataka in particular. The credit flow to Agriculture by Co-operative Banks in Karnataka, during 2005-06 to 2017-18 has been shown in Figure 2.

Table 2
Credit Flow to Agriculture by Co-operative Banks in Karnataka, during 2005-06 to 2017-18

Year	Credit Amount (Rs.in crore)	Percentage Increase/Decrease over the previous year
2005-06	39,404	--
2006-07	42,480	7.81
2007-08	48,258	13.60
2008-09	45,956	-4.77
2009-10	63,497	38.17
2010-11	78,007	22.85
2011-12	87,963	12.76
2012-13	1,11,203	26.42
2013-14	1,18,422	6.49
2014-15	1,38,469	16.93
2015-16	1,53,295	10.71
2016-17	1,42,758	-6.87
2017-18	1,50,242	5.24

Source: NABARD Annual Reports (Various issues).

Figure 2
Agricultural Loan Disbursement by Co-operative Banks in Karnataka, during 2005-06 to 2017-18



Source: Table 2.

5.3. Credit Flow to Agriculture by Regional Rural Banks in Karnataka

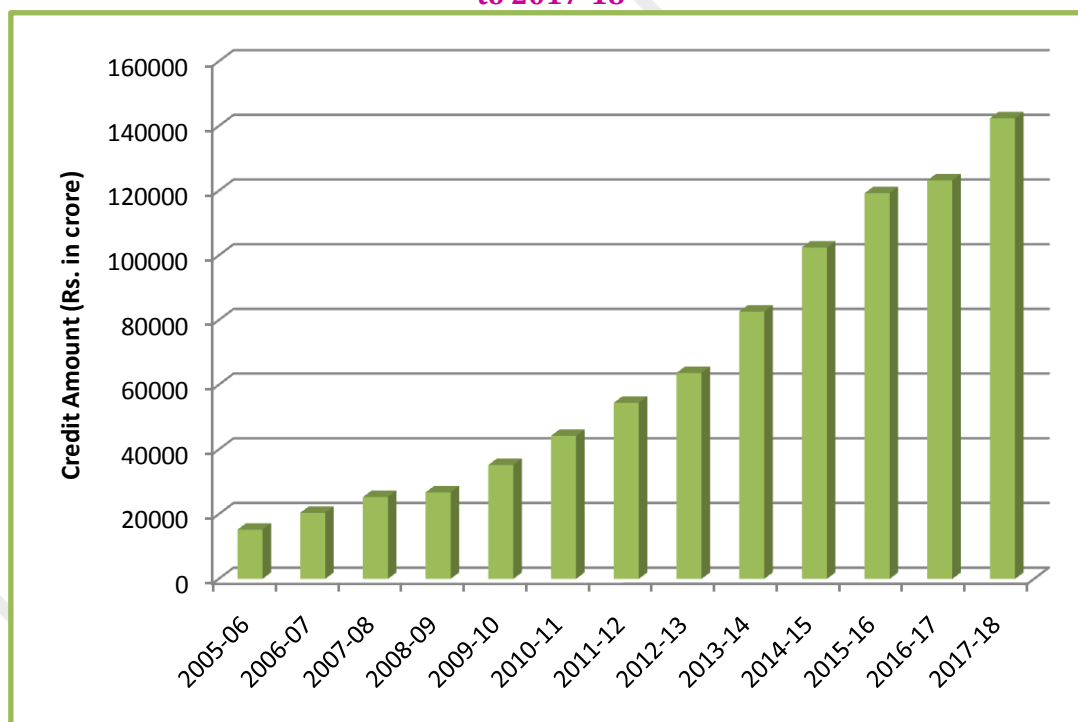
Agriculture and rural sector play an important role in India's overall development. RRBs were formed through RBI Act of 1976 to provide the credit to the rural poor. RRBs were expected to evolve as specialized rural financial institutions for developing the rural economy by providing credit to small and marginal farmers, agricultural labourers, artisans and small entrepreneurs (Sardesai Committee, 2005). The Sardesai committee held that 'to improve the operational viability of RRBs and take advantage of the economies of scale, the route of merger/amalgamation of RRBs may be considered taking into account the views of the various stakeholders'. Ahangar et al (2013) in his paper stated that RRBs have played a key role in India in enhancing financial services in rural areas. Apart from their focus on lending to the priority sector, these banks have also evolved different savings products to provide safe savings options in the rural areas. Over the years, RRBs emerged as a key rural financial institutions in terms of geographical coverage, clientele outreach and business volume.

Table 3 exhibits the credit flow to Agriculture by Regional Rural Banks in Karnataka, during 2005-06 to 2017-18. The data reveals that the proportion of credit issued to agriculture by Regional Rural Banks tended to increase with the increasing years over a thirteen years of period. The proportion of credit issued to agriculture by Regional Rural Banks was estimated at Rs. 15,223 crore, Rs.35,217 crore and Rs. 1,42,415 crore in the year 2005-06, 2009-10 and 2017-18, respectively. Whereas the percentage of credit flow to agriculture by Regional Rural Banks was tended to decrease with the increasing year from 2005-06 to 2008-09 and thereafter increased (only in the year 2009-10). While, the percentage of credit flow to agriculture by Regional Rural Banks was again tended to decrease with the increasing year from 2010-11 to 2012-13 and thereafter increased (only in the year 2013-14), further in the year 2014-15 it tends to fall. It is also observed that the highest (34.24 per cent) and lowest (3.32 per cent) growth rate was found in the year 2006-07 and 2016-17, respectively, during the period of study. The credit Flow to agriculture by Regional Rural Banks in Karnataka, during 2005-06 to 2017-18 has been shown in Figure 3.

Table 3
Credit Flow to Agriculture by Regional Rural Banks in Karnataka,
during 2005-06 to 2017-18

Year	Credit Amount (Rs.in crore)	Percentage Increase/Decrease over the previous year
2005-06	15,223	--
2006-07	20,435	34.24
2007-08	25,312	23.87
2008-09	26,765	5.74
2009-10	35,217	31.58
2010-11	44,243	25.63
2011-12	54,450	23.07
2012-13	63,681	16.95
2013-14	82,652	29.79
2014-15	1,02,483	23.99
2015-16	1,19,261	16.37
2016-17	1,23,216	3.32
2017-18	1,42,415	15.58

Figure 3
Agricultural Loan Disbursement by Regional Rural Banks in Karnataka, during 2005-06
to 2017-18



Source: Table 3.

5.4. Credit Flow to Agriculture by Scheduled Commercial Banks in Karnataka

The scheduled commercial banks are also one of the important financial institutions in disbursing the agricultural credit in Karnataka state. The foundation for building a broad base for agricultural credit was laid by the Report of the AIRCS of 1954 headed by the GOI. The provision of

cultivator credit in 1951-52 was less than one per cent from scheduled commercial banks. In the survey report it was highlighted that agricultural credit fell short of the right quantity, was not of the right type, did not fit the right purpose and often failed to go to the right people. With a view to give an impetus to CBs, particularly in the sphere of investment credit, the nationalization of the Imperial Bank of India and its redesignation as the SBI was recommended.

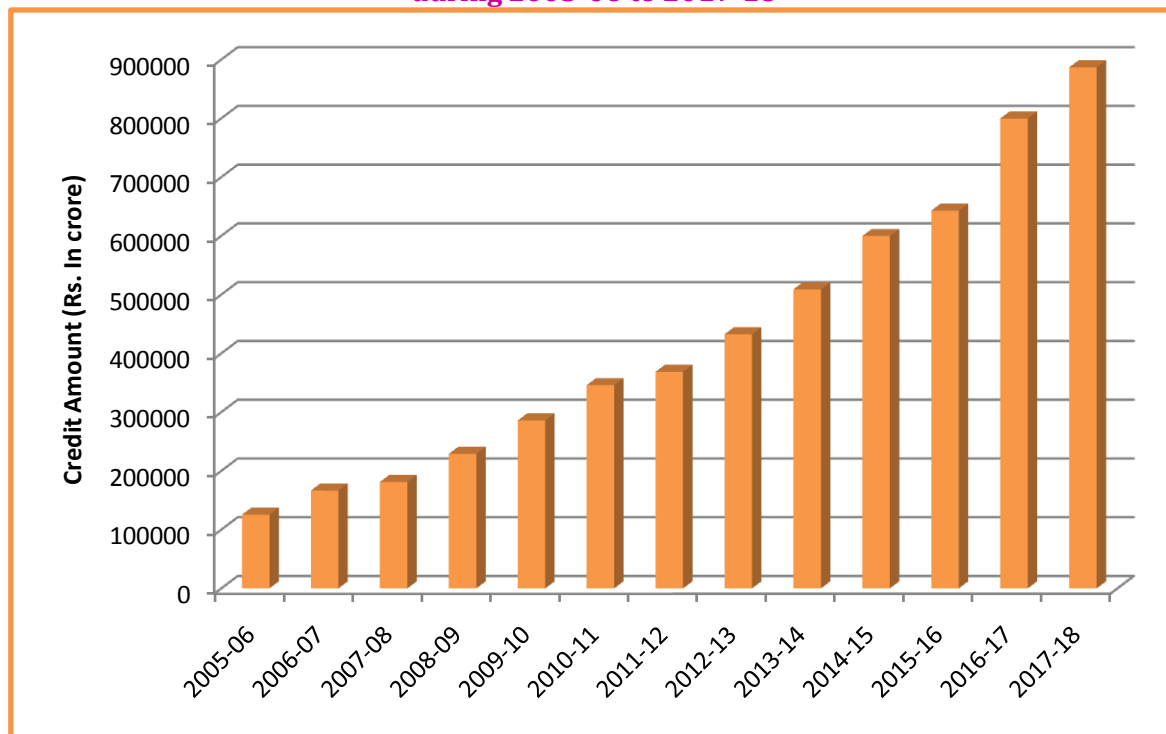
Table 4 manifests the credit flow to agriculture by scheduled commercial banks in Karnataka, during 2005-06 to 2017-18. The data indicates that the proportion of credit disbursed to agriculture by scheduled commercial banks tended to increase with the increasing years over the ten years period. The proportion of credit sanctioned to agriculture by scheduled commercial banks was estimated at Rs. 1,25,477 crore, Rs. 3,45,877 crore and Rs. 8,86,771 crore in the year 2005-06, 2010-11 and 2017-18, respectively. Whereas the percentage of credit provided to agriculture by scheduled commercial banks was tended to decrease with the increasing year from 2005-06 to 2007-08 (from 32.68 % to 8.77%) and thereafter increased with 26.43 per cent (only in the year 2008-09). While, the percentage of credit flow to agriculture by scheduled commercial banks was again tended to decrease with the increasing year from 2009-10 to 2011-12 (from 24.83% to 6.57%) and thereafter (from 2012-13 to 2014-15) increased. It has been found that the highest (32.68 per cent) and lowest (6.57 per cent) growth rate was registered in the year 2006-07 and 2011-12, respectively, over a decade (Figure 4). Going by institutional agencies, it has been observed that, the proportion of credit disbursed to agriculture was found to be quite significant in scheduled commercial banks as compared to the Co-operative banks and Regional Rural banks during the reference period.

Table 4
Credit Flow to Agriculture by Scheduled Commercial Banks in Karnataka, during 2005-06 to 2017-18

Year	Credit Amount (Rs.in crore)	Percentage Increase/Decrease over the previous year
2005-06	1,25,477	--
2006-07	1,66,485	32.68
2007-08	1,81,088	8.77
2008-09	2,28,951	26.43
2009-10	2,85,800	24.83
2010-11	3,45,877	21.02
2011-12	3,68,616	6.57
2012-13	4,32,491	17.33
2013-14	5,09,005	17.69
2014-15	5,99,691	17.82
2015-16	6,42,954	7.21
2016-17	7,99,781	24.39
2017-18	8,86,771	10.88

Source: NABARD Annual Reports (Various issues).

Figure 4
Agricultural Loan Disbursement by Scheduled Commercial Banks in Karnataka,
during 2005-06 to 2017-18



Source: Table 4.

6. POLICY IMPLICATIONS

Based on the above findings the following policy prescriptions can be drawn;

- NABARD should be extended refinance support exclusively to co-operative banks and RRBs for investment credit in agricultural and allied activities.
- Co-operative and RRBs should be facilitated adequate and timely credit to agriculture. Co-operative banks should become more relevant in changing economic environment of LPG era.
- The doors of scheduled commercial banks should be more opened for agriculture sector.
- Formal institutional agencies should be strengthened to accelerate the flow of credit to meet the demand of the agriculture sector and bring overall development in the rural economy.
- Procedure for loan disbursement of formal institutional agencies should be made simple. So that it may not be difficult for the less-educated and illiterate farmer households to access institutional financing agencies for credit.
- It is necessary that all formal financial institutions should work together and complement each other. Linkage among the formal financial institutions at all level is needed for improving credit flow to agriculture.
- Institutional framework should be more participative through proper implementation of the existing policy.

7. CONCLUSIONS

The forgoing analysis reveals that the formal institutional agencies like Co-operative banks, Regional rural banks and Scheduled commercial banks are play an important role in providing credit to agriculture in Karnataka. The proportion of all the formal institutional agencies tended to increase with the increasing years from 2005-06 to 2017-18. Among the institutional agencies the proportion of

scheduled commercial banks was found to be higher as compared to the Co-operative banks and RRBs during the reference period.

It has been found that co-operative banks have been play an important role in providing timely credit to the agriculture and allied activities in Karnataka. The proportion of credit amount provided to agriculture by co-operative banks tended to increase with the increasing years i.e. from 2005-06 to 2017-18 (except the years 2008-09 & 2016-17). Whereas, the percentage of credit amount provided to agriculture by co-operative banks indicates that, there is an up and down trends was found over a period of time.

It has been observed that RRBs were expected to evolve as specialized rural financial institutions for developing the rural economy by providing credit to small and marginal farmers, agricultural labourers, artisans and small entrepreneurs. The proportion of credit issued to agriculture by Regional Rural Banks tended to increase with the increasing years over a decade. However, the percentage of credit flow to agriculture by Regional Rural Banks was tended to decrease with the increasing years from 2005-06 to 2008-09, and thereafter increased.

The scheduled commercial banks are also one of the important financial institutions in disbursing the agricultural credit in Karnataka state. The proportion of credit disbursed to agriculture by scheduled commercial banks tended to increase with the increasing years over the ten years period. While, the percentage of credit flow to agriculture by scheduled commercial banks was again tended to decrease with the increasing year from 2009-10 to 2011-12 and thereafter increased.

Further it is found that, the proportion of credit disbursed to agriculture was found to be quite significant in scheduled commercial banks as compared to the Co-operative banks and Regional Rural banks during the reference period.

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