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# AGRICULTURAL CREDIT INSTITUTIONS IN KARNATAKA

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***Abstract***
*Credit needs of the farmers can be examined from two different angles: 1. On the basis of time. 2. On the basis of purpose.On the basis of time - Agricultural credit needs of the farmers can be classified into three categories on the basis of time- Short term, Medium term and long term. Short term loans are required for the purpose of seeds, fertilizers, pesticides, feeds and fodder of livestock, marketing of agricultural produce, payment of wages of hired labour, litigation and a variety of consumption and unproductive purposes. The period of such loans is less than 15 months. Main' agencies for granting of short term loans are the money lenders and co-operative societies. Medium term loans are generally obtained for the purchase of cattle, small agricultural implements, repair and construction of wells etc. The period of such loans extends from 15 months to 5 years. These loans are generally provided by money lenders, relatives, co-operative societies and commercial banks. Long term loans are required for effecting permanent improvements on land, digging tube wells, purchase of larger agricultural implements and machinery like tractor, harvester etc. and repayment of old debts. The period of such loan – extends beyond 5 years. Such loans are normally taken from primary co-operative agricultural and rural development banks. On of the basis purpose- Agricultural credit needs of the farmers can be classified on the basis of purpose into the following categories- productive, consumption, and unproductive. Under productive needs we can include all credit requirements which directly affect agricultural productivity. Farmers need loans for purchase of seeds, fertilizers, manures, .agricultural implements, livestock, digging and repair of wells and tube wells, payment of wages, effecting permanent improvements on land, marketing of agricultural produce etc. Repayment of these loans is generally not difficult because very process of production generally creates the where withals for repayment. Farmers often require loans for consumption as well. Between the moment of marketing of agricultural produce and harvesting of the next crop there is long interval of time and most of the farmers do not have sufficient income to sustain them through this period. Therefore they have to take loans for meeting their consumption needs. In the time of droughts or floods the crop is considerably damaged and farmers who otherwise avoid taking loans for consumption have also to incur such loans. Institutional credit agencies do not provide loans for consumption purposes. Accordingly farmers are forced to fall back upon money lenders to meet such requirements. In addition to consumption farmers also require loans for a multiplicity of other unproductive purposes. Such as litigation, performance of marriages, social ceremonies, religious functions, festivals etc. since institutional agencies do not grant credit for such unproductive purposes, farmers have to seek assistance from money lenders. It is often very difficult to repay such loans because they do not contribute to the productivity. Sources of agricultural finance- can be divided into two categories Non institutional and institutional. In this paper we are going to discuss about institutional sources due to its very relevance.*

***Key Words: Short Term, Medium Term, Long Term Loans, Institutional And Non-Institutional Credit, Potential Linked Credit Plans.***

## INTRODUCTION

The agricultural credit dispensation in the state takes place through commercial banks, Regional Rural Banks and co-operatives. NABARD as an apex level institution prepares the potential linked credit plans (PLPs) every year. Annual action plans at district level are based on the PLPs prepared by the NABARD. Apart from this NABARD also brings out the Static Focus Paper, which covers among other things and rural economy of the state, performance of the rural credit delivery system, policy initiatives of union and state governments and NABARD's involvement in supporting credit, developmental and supervisory functions. The State 'Focus Paper is discussed at length on a meeting of secretaries of various departments of the govt, specially convened for the purpose before pronouncing the credit policy initiatives for the state. NABARD has opened district level offices for credit planning and monitoring and improving the financial help of rural credit institutions by creating an opportunity to the farmers and the rural poor to have access to institutional credit through innovations in micro finance.

## AGRICULTURE CREDIT DELIVERY MECHANISM- MULTI AGENCY APPROACH

The govt has adopted multi agency approach (MAA) to provide cheaper and adequate credit to farmers, which consisting co-operatives, commercial banks and Regional Rural Banks. The major policy in the sphere of the agricultural credit has been its progressive institutionalization for financing agriculture development programmes, with adequate and timely flow of credit to the small and marginal farmers.

**CO-OPERATIVE CREDIT SYSTEM- SHORT AND MEDIUM TERM LOAN**

Economy of the state is mainly depends on agriculture as more than 65% of the total population is engaged in this sector.Credit is an essential sinew for progress of the economy. In a developing economy like ours agricultural credit assumes greater significance on account of the fact that it is a critical input to support and sustain crop production.

The state is predominantly dependent on agriculture and has 59 lakh families, 52.50 lakh members have been brought under the co-operative structure, Which is of three tier consisting of

1. Apex Bank at the state level.
2. District Central Co-operative Banks at the district level.
3. Primary Credit Co-operative Societies at village level.

The Karnataka state co-operative Apex bank was established in 1915 and is earning profits since inception. As on 31" march 2009 its own funds was Rs. 327.09 crores, working capital Rs. 6437.26 crores, deposits Rs. 3892.41 crores. The Apex Bank is financing short term agricultural loans for crop production and marketing of crops and advancing medium term loans for development of agricultural infrastructure, such as lift irrigation, dairy, poultry, plantation, gober gas etc.

The Apex Bank provides agricultural loans to the farmers at 4% rate of interest throughout the state of Karnataka through its network of 21 District Central Co-operative banks and its branches at the district level and 4630 primary Agricultural Credit cooperatives at the village level. There 21 District central co-operative banks working in the state. Mainly they are functioning as the mediator between state Apex bank and Primary Agricultural Credit Co-operative societies.

**Crop Loans at DCC Bank Level During April- May 2011**

| Sl.No | Name of the DCC Bank | No. of Farmers borrowed | Amount of Crop loan (Rs in crore) |
|---|---|---|---|
| 1 | Bagalkot | 14923 | 62.70 |
| 2 | Bangalore | 4218 | 15.02 |
| 3 | Belgaum | 100287 | 214.65 |
| 4 | Bellary | 7152 | 25.65 |
| 5 | Bidar | 1652 | 6.95 |
| 6 | **Bijapur** | 4729 | 19.74 |
| 7 | Chikkamagalur | 13021 | 109.95 |
| 8 | Chitradurga | 1494 | 4.33 |
| 9 | Davanagere | 1787 | 4.40 |
| 10 | Dharwad | 16204 | 61.76 |
| 11 | Gulbarga | 29451 | 47.84 |
| 12 | Hassan | 18 | 0.61 |
| 13 | North Canera | 24932 | 84.45 |
| 14 | Coorg | 20253 | 152..05 |
| 15 | Kolar | 1051 | 3.99 |
| 16 | Mandya | 1917 | 6.39 |
| 17 | Mysore | 5896 | 29.80 |
| 18 | Raichur | 12651 | 23.70 |
| 19 | South Canera | 39712 | 265.76 |
| 20 | Shimoga | 39834 | 118.33 |
| 21 | Tunkur | 412 | 1.80 |

*Source: Nagesh Prabhu, the Hindu 8th July 2011 P.4*

The primary Agricultural Credit Co-operative Societies are functioning at the grass root level deals directly with the individuals farmer and provide short and medium term credit. The average lending per farmer is RS.26273 and the average advance per Primary Credit Co-operative society is RS.72.49 lakhs till the year 2009. Now there are 4630 Primary Agricultural Co-operative societies functioning in the state.

**LONG TERM CO-OPERATIVE CREDIT FOR AGRICULTURE**

The Karnataka State Co-operative Agricultural and Rural Development Bank. advanced long term loans to the farmers through 177 primary co-operative Agricultural and Rural Development Banks (Previously called primary land Development Banks) in the state for long term loaning the main sources for the Karnataka state Co-Operative Agriculture and Rural

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Development Bank is floating of debentures. For –these debentures Registrar of co-operative societies is the trustee. For the year 2008-09 bank's share capital was Rs.4893.68 lakhs, Govt share capital Rs.445.41 lakhs and working. capital is Rs.154189.87 lakhs.

**Details of Short and Medium Term Loans During 2004-05 to 2008-09**

| Year | Type of Loan | Target (Rs in Lakh) | Achievement (Rs in Lakh) | Percentage of achievement to target |
|---|---|---|---|---|
| 2004-05 | STL | 1500.00 | 1219.55 | 81.00 |
| | MTL | 70.00 | 70.91 | 101.31 |
| 2005-06 | STL | 2149.19 | 2512.48 | 116.44 |
| | MTL | 135.20 | 179.57 | 132.82 |
| 2006-07 | STL | 2652.03 | 2082.40 | 78.52 |
| | MTL | 113.95 | 137.98 | 121.08 |
| 2007-08 | STL | 3031.23 | 2849.50 | 94.00 |
| | MTL | 137.52 | 98.54 | 71.65 |
| 2008-09 | STL | 3422.22 | 3290.68 | 96.15 |
| | MTL | 146.00 | 114.41 | 78.36 |

*Source : GOK, Department of co-operation Annual Report 2009.*

**Details of Long Term Loan Advances (Rs in crores)**

| Year | Target | Achievement | Percentage to target |
|---|---|---|---|
| 2004-05 | 125.00 | 119.14 | 95.31 |
| 2005-06 | 200.71 | 177.31 | 88.34 |
| 2006-07 | 300.00 | 250.86 | 83.62 |
| 2007-08 | 220.00 | 210.43 | 95.65 |
| 2008-09 | 250.00 | 177.15 | 70.86 |

*Source : GOK, Dept of Co-operation Annual Report 2009.*

As on 31" March 2009 the short term, medium term and long term loans issued by the co-operative credit system in the state was Rs. 3290.68, Rs.114.41 and Rs.17 1.89 crore respectively as against Rs.2849.50, Rs.98.50 and RS.210.43 crore issued during the year 2008-09.while disbursement in long term loan indicated a declaining trend, there was a marked improvement in 'the issue of St and Mt loans. During. the fiscal year 200S-10, The co-operative credit system issued ST,MT and L T loans to the extent of Rs.2229. 19, Rs.75.62 and Rs.48.52 crore receptively.

As on 30th November 2009 the recovery percentage under ST loans recorded 76.50 as against 68. 15 recorded during the year 2007-08. The recovery made under MT and LT loans stood at 65.95 and 43.50 percent as against 42.28 and 38.65 percent respectively in 2007-08.

**Performance of ST, MT and LT credit structure in Karnataka during 2007 to 2009-10 (Rs in crores)**

| OP | Type of Loan | Target | Achievement |
|---|---|---|---|
| 2007-08 | STL | 3031.23 | 2849.49 |
| | MTL | 137.71 | 98.54 |
| | LTL | 106.10 | 210.43 |
| 2008-09 | STL | 3422.22 | 2010.62 |
| | MTL | 146.00 | 114.40 |
| | LTL | 218.17 | 171.89 |
| 2009-10 (as on 31-11-2009) | STL | 3617.56 | 2229.19 |
| | MTL | 158.93 | 75.62 |
| | LTL | 279.00 | 48.52 |

*Source : GOK, Economic Survey of Karnataka 2010, Department of Planning, Bangalore.*

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**The comparative position of recovery of ST, MT and LT loans under co-operative credit system in the estate is as shown in the following table (Rs. In percentage)**

| Type of Loan | 2007-08 | 2008-09 | 2009 – 10 (up to November 2010) |
|---|---|---|---|
| STL | 68.15 | 76.50 | 52.77 |
| MTL | 42.28 | 65.95 | 40.53 |
| LTL | 38.65 | 43.50 | 12.44 |

*Source : GOK, Economic Survey of Karnataka 2010, Department of Planning, Bangalore.*

**CO-OPERATIVE BANKING NETWORKS IN KARNATAKA**

Taking in to account all aspects of co-operative development. across the districts in Karnataka, 7 districts namely Udupi, Bagalkot, South Canara, North Canara, Coorg, Bijapur and Belgaum have high level of cooperative development, while another 7 districts such as Shivamoga, Mysore, Bidar, Bangalore Urban, Hassan and Mandya are all the category of above normal cooperative development. Majority of the districts i.e., 11 of them come under the category of normal cooperative development only 3 districts i.e., Chamarajanagar, Chitradurga and Kolar the level of cooperative development is below normal.

**DEVELOPMENT ACTION PLANS 01 AGRICULTURAL CREDIT CO-PERATIVES**

177 primary cooperative Agriculture and rural development Banks working in the state had a paid up share capital of Rs.107.01 crore at the end of 2009. Target fixed for the year 2009 for advancing agricultural loan was Rs.250.00 crore, against which they have advanced Rs.177.65 crore by the end of March 2009, of which RS.B7.90 crore was lent to small and marginal farmers and Rs. 6.21 crore to SC's and ST's.

28 banks were considered eligible to get unrestricted finance and 147 are eligible to get restricted finance during 2008-09. Eligibility criteria depends on the NPA level of banks. The government has given full stamp duty exemption for, all the loans availed by farmer members under agriculture and allied activities upto 2009.

Cooperative sector in Karnataka has just completed hundred years in 2004. The erst while Mysore state was a pioneer in establishing the first co-operative credit society in the country at Kanaginahal in the erst while Dharwad district in 1905. Sri Siddanagowda Sannaramangowda patil was its founder. The state has witnessed a tremendous growth in the cooperative sector. Karnataka has defined its own cooperative policy 1997. Karnataka is one of the few states in the country where the cooperative sector has gained considerable momentum and made its impact on its economy.

Though lending by cooperative credit institutions in Karnataka is impressive a comparison with other states suggests scope for improvement.

**COMMERCIAL BANKS AND AGRICULTURAL CREDIT**

A unique feature of the financial sector in Karnataka is that it is the home for maximum number of commercial banks in the country. Nationalized banks such as Canara banks, Syndicate banks, Vijaya bank, Corporation bank, State Bank of Mysore in the SBI group Ing Vyshya Bank Limited, Karnataka Bank limited in the private sector have found their origin in Karnataka. At the end of the June 2004 there were 48512 branches of scheduled commercial banks, in Karnataka, which accounted for 7.2% of total such offices in India. Karnataka occupies fifth position. The average population per bank, office (APPBO) is 11000 for the state.

As at the end of March 2009 the total number of bank branches was 5504. There were 755 bank branches at the time of nationalization in 1969 in Karnataka. Since then 4816 bank branches have been added till the end of June 2009, taking total number of bank branches to 5571 out of which 3390 branches were located in rural and semi urban areas. At present the share of rural bank branches in Karnataka stands at 39.74% as against 25% at the time of nationalization. The per branch population in the state stood at 9593 as at March 2009.

Distribution of commercial banks among districts reveals that Bangalore Urban accounts for 17.48% of the total branches, following by Belgaum (6.73%) South Canara (6.48%) and Davangere (2.66%).These 7 districts together account for over 46% of the state's total branches. While Bangalore urban is strong with all the metropolitan branches of the state Udupi, Kolar, Belgaum, Hassan, North Canara, Tumkur, Chikkamagalur and Gulbarga have more rural branches South Canara and Mysore have more Urban branches, districts such as Chamarajanagar, Gadag, Koppal, Bidar, Haveri and Raichur have relatively less number of commercial banks.

**DEPOSITS AND ADVANCES**

The aggregate outstanding deposits of commercial banks in Karnataka stood at Rs. 256709 crore as at the end of March 2009 as against Rs. 210349 crore recorded a year ago, growth in deposits during the year was 22.04% upto the end of March 2009. As at the March 2009 the total outstanding advances of commercial banks in the state stood at Rs. 196719 crore as against the level of advances of Rs. 164110 crore recorded a year ago indicating a growth rate of 19.87%. The credit deposit ratio of the state as of June 2009 was 75.22 vis-s-vis 79.45 as June 2008 showing a declining of 4.23%.

**ADVANCES TO AGRICULTURE BY COMMERCIAL BANKS IN KARNATAKA**

Domestic banks are required to provide 40% of their net bank's credit to the agriculture and allied sector. Advances of this sector by all banks groups in the state amounted to RS.71810 crore in March 2009, contributing to 45.80% in total advances made by them, thus exceeding the norms fixed by the RBI, direct advances to agricultural sector by scheduled commercial banks in March 2009 stood at Rs.29196 crore as against Rs.25817 crore recorded in March 2008. Contributing to 18.79% of total advances made by scheduled commercial banks.

**REGIONAL RURAL BANKS AND AGRICULTURAL CREDIT IN KARNATAKA**

The RRBs rave evolved in to major institutions towards credit dispensation in rural areas over the years, since their inception in 1975. RRBs being an integral segment of the banking system with focus on rural poor has also been subjected various reform measures. As a result they have achieved considerable operational and financial stability in rural areas.

The main objective of the RRBs is to provide credit and other facilities particularly to the 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. From the beginning the sponsor banks have continued to provide managerial and financial assistance to RRBs and also, other concessions, such as lower rate of interest (8.,5%) on the later borrowing from sponsor banks. Further, the cost of staff deputed to RRBs and training expenses of RRBs staff are borne by the sponsor banks.

At the end of March 2009 there were 1177 bank branches of 6 RRBs (after their amalgamation) spread all *over* the state. These banks have mobilized Rs.9428.86 crore of deposits at the end of March 2009 and advanced Rs.8178.07 crore resulting in a credit deposit ratio of 86.73%, priority sector advances made by these banks stood Rs. 5941 .03 crore as on June 2009 as against Rs.6225.99 crore as on June 2008, showing a growth of 11,48%, Direct agricultural advances of RRBs amounted to Rs 5051.61 crore constituting 61.89% of total advances made by RRBs.

**Performance of RRBs in Karnataka during 2006-07 to 2008-09 (end of March)**

| Sl.No | Indicators | Unit | 2006-07 | 2007-08 | 2008-09 |
|---|---|---|---|---|---|
| 1 | Branch Network | Nos | 1128 | 1153 | 1180 |
| 2 | Deposits | Rs in Crore | 6024.88 | 7617.52 | 9428.86 |
| 3 | Advances | Rs. In Crore | 5893.06 | 7081.58 | 8178.07 |
| 4 | C-D Ratio | % age | 97.81 | 92.96 | 86.73 |

Source – State Level Banker's Committee, Karnataka, Annual Report – 2009.

The credit policy announced by the RBI in 2004 indicated that sponsor banks in consultation with state governments would initiate steps for amalgamation if RRBs sponsored by them. Accordingly 13 RRBs in the state were amalgamated in to 6 RRBs in accordance with the policy decision taken by the government of India to make these bank more viable 4 RRBs sponsored by Canara Bank were amalgamated in to one ; and renamed as Pragathi Grameena Bank, similarly another 4 RRBs sponsored by Syndicate Bank were amalgamated and renamed as Karnataka Vikasa Grameena Bank. The status position of other RRBs sponsored by the state Bank of Mysore, Corporation Bank, State Bank of India and Vijaya Bank remained unaltered. Now all the 6 RRBs in the state have attained viability.

1. **Investment in securities-** In a regulated lending system, given the interest rate and default risk, the bankers may be more interested in investing their funds in government and other approved securities. The increasing proportion of investment in securities out of total deposits may leave the banks with less loanable funds. It may adversely affect the channelization of credit to different sectors of the economy in general and agriculture in particular. This may also negatively affect the credit deposit ratio. Thus investment in such securities is expected to have negative association with credit flow of agriculture.

2. **Rural coverage of banks-** During the post-nationalization period banks were directed by the RBI to give priority to rural and non-banked areas in the banks branch expansion to enhance the credit availability to the needy. However, the problems of mounting overdues, poor quality of lending and recalcit attitude among borrowers in formal lending

agencies contributed to cumulative losses, adversely affecting the viability and efficiency of the banking system. During there form years, the banks were directed to close down their loss making branches or merge them with other banks. Thus c10sme of loss making banks together with the increasing population pressure · may have reduced the credit flow to agriculture and hence the rural coverage of banks is expected to have a negative association with credit flow to agriculture.

3. **Lending rate on agriculture credit-** From the supply side interest rate plays an important role in the flow of credit. If the interest income is greater or at least equal to the cost of lending, it may positively influence the financial institutions to increase the supply of agricultural credit. Thus a higher lending rate is expected to increase the supply of credit to agricultural sector.

4. **Credit subsidy-** credit subsidy is the difference between the cost if providing credit to agriculture an the interest rate earned on outstanding agricultural advances adjusted for defaults increase in the rate of credit subsidy may reduce the supply of agriculture credit.

5. Agricultural credit supplied by the cooperatives- An increase in the total agricultural credit supplied by the cooperative institutions may reduce the extent of credit supply by the commercial banks and RRBs. The commercial banks including the RRBs are expected to follow a policy of mutual substitutability with cooperative institutions in the provisionaing of agricultural credit.

## SUGGESTIONS

1. Deregulation of interest rate may have helped the formal agencies to enhance the proportion of disbursement to agricultural sector in the overall net bank credit.
2. Widening scope of priority sector may have resulted in greater availability of credit to the priority sector, in general and the agricultural sector, in particular.
3. Increasing the availability of funds to the banks as a result of reduced CRR and SLR may have a positive impact on the credit flow to agriculture.
4. Since most of the loss making bank branches during the pre-reform period were located in rural areas the closure of bank branches may lead to reduced supply of credit to agriculture.
5. The recommendation of the Gupta committee (1998) that the quality of lending is to be improved may provide ample access to institutional credit by marginal and small farmers. .

## CONCLUSION

Farming community, already is in the clutch of debt due to price crash and crop loss, several factors are responsible for farm distress, among these debt related crisis is severe. Therefore it is the necessity of the lime to improve the sources of institutional credit to agriculture, and regulate effectively the functions institutional sources especially money lenders. Therefore the government must establish more number of agricultural credit institutions all over the state. They must lend at cheapest rate of interest and with easy terms and conditions to the farmers especially small and marginal farmers.

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