CHAPTER - II

EXISTING MULTI-AGENCY INSTITUTIONAL CREDIT SYSTEM IN KARNATAKA

Early history of banking system in Karnataka - Shift from uni-agency institutional credit system to multi-agency institutional credit system - Role of Commercial banks under multi-agency institutional credit system - Performance of multi-agency institutional credit system - Critical appraisal of multi-agency institutional credit system in Karnataka - Concluding observations.
Early history of banking system in Karnataka

Money lender has been responsible for increasing poverty of the target group in rural areas. Therefore, efforts to build up the institutional financing system started with the adoption of the Co-operative Societies Act 1905 in Karnataka. Since then the Co-operative Movement has been developed as Co-operative Credit Movement in Karnataka.

Chitradurga Bank was the oldest bank which was established in 1870. Since 1870 more than 75 banks have been established in Karnataka. But today there are only seven Karnataka-based banks and all other banks have disappeared. In 1968 the scheme of social control over banks was introduced with the main objective of achieving a wider spread of bank credit to flow to priority sectors and making it a more effective instrument of economic development. In order to control the heights of the economy and to meet progressively and serve better the needs of development of


the economy in conformity with national policy and objectives, 14 major commercial banks were nationalised in 1969, followed by the nationalisation of six more commercial banks in 1980. With the nationalisation of the banks the share-capital-based commercial banking system came to an end. With this, regulation of banking activity through legislation has transformed into a powerful framework of regulating through ownership-cum-legislation. Hence, the controlling powers of the RBI have also increased. Four Karnataka-based banks - Canara Bank, Corporation Bank, Syndicate Bank and Vijaya Bank - are nationalised banks. The State Bank of Mysore which originated in Karnataka has become the subsidiary of the State Bank of India since 1960. The Karnataka Bank, Mangalore and Vysya Bank, Bangalore are the private sector banks.

The commercial banks in Karnataka have set up the Farmers' Service Societies on the recommendation of the National Commission on Agriculture. Another attempt made in the hybridisation of the co-operatives and banks was the scheme of ceding the weaker co-operatives to the commercial banks.

4. See for details, the unpublished thesis "Banking Regulation in India" by Dr.G.T.Marulasiddapa, M.A., Ph.D., University of Mysore - 570 006.
On the recommendation of the Narasimham Working Group, Regional Rural Banks (RRBs) are established in Karnataka "with a view to developing the rural economy by providing for the purpose of development of agriculture, trade, commerce, industry and other productive activities in rural areas credit and other facilities particularly to the small and marginal farmers, agricultural labourers, artisans and small entrepreneurs". RRBs were meant to combine the "local feel and familiarity with several problems which the co-operatives possess and the degree of business organization, ability to mobilise deposits, access to central money markets and a modernised outlook which the commercial banks have". Karnataka is the only state which has covered all the 20 districts with 13 RRBs (for details see Appendix-I).

Today in Karnataka state, 28 public sector banks, more than 17 private sector banks and 13 RRBs extend credit facilities to the credit-needy people in the rural area.

**Shift from uni-agency credit system to multi-agency credit system in Karnataka**

The uni-agency credit system, i.e., co-operative credit system has been predominant in the rural areas. Government policy, expert committees and public opinion - all were in favour of cooperative movement. Commercial banks came up on

5. Govt. of India, Regional Rural Banks Act, 1976.
traditional lines and were not attuned to rural lending. Modernisation and commercialisation of agriculture and increased credit needs of the rural people need massive financial assistance and cooperative sector i.e., uni-agency credit system alone could not be able to meet this demand. There is a credit gap which has to be filled in jointly by the co-operatives and commercial banks. So multi-agency approach i.e., involving cooperatives, commercial banks and RRBs - in financing the productive economic activities in rural area for promoting rural development has become inevitable.

Under the multi-agency approach both co-operative and commercial banking institutions including regional rural banks receive active financial and non-financial support from the central and state government and other institutions like


8. For modernisation and commercialisation of agriculture and role to be played by commercial banks in the field of rural finance, see RBI, 1968, Financing of Agriculture by Commercial Banks - Report of the Seminar, Shri L.K. Jha, the Governor of RBI in his inaugural address, p.3, RBI Report of the All-India Rural Credit Review Committee, 1969, Chapter 19, p.591.
the Reserve Bank of India (Agricultural Credit Department), The Agricultural Re-finance and Development Corporation (both have been merged to form the National Bank for Agricultural and Rural Development (NABARD), with effect from July 1982 at the national level. The ground level institutions which provide credit to the farmers, consist of (a) Primary Agricultural Credit Societies/Farmers' Service Societies/Large Sized Multi-purpose Societies, (b) State Land Development bank/Primary Land Development Bank; (c) branches of Commercial Banks and (d) branches of Regional Rural Banks.

The multi-agency rural credit network can be grouped into 4 categories: (1) National level rural credit institutions, (2) The state level rural credit institutions, (3) District level rural credit institutions, (4) Field level rural credit institutions. Table-2.1 depicts the existing institutional setup for Rural Finance in India.

There are five national level credit institutions. The Reserve Bank of India and the Agricultural Refinance and Development Corporation provide refinance facility. The Agricultural Finance Corporation and the National Cooperative and Development Corporation provide refinance and consultancy facility. The NABARD provides refinance, consultancy and

<table>
<thead>
<tr>
<th>National level</th>
<th>Financial Category</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. The Reserve Bank of India</td>
<td>Refinance</td>
</tr>
<tr>
<td>2. The Agricultural Refinance and Development corporation (since taken over by NABARD)</td>
<td>Refinance</td>
</tr>
<tr>
<td>3. The Agricultural Finance Corporation</td>
<td>Refinance and consultancy</td>
</tr>
<tr>
<td>4. The National Co-operative Development Corporation</td>
<td>Refinance and consultancy</td>
</tr>
<tr>
<td>5. The National Bank of Agriculture and Rural Development (NABARD)</td>
<td>Refinance, consultancy and monitoring</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>State level</th>
<th>Financial Category</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. State Land Development Banks</td>
<td>Refinance</td>
</tr>
<tr>
<td>2. State Cooperative Banks</td>
<td>Refinance and Finance</td>
</tr>
<tr>
<td>3. State/central industrial Cooperative Banks</td>
<td>Refinance and Finance</td>
</tr>
<tr>
<td>4. Commercial banks</td>
<td>Refinance and Finance</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>District level</th>
<th>Financial Category</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Regional Rural Banks</td>
<td>Refinance and Finance</td>
</tr>
<tr>
<td>2. Central Co-operative Banks</td>
<td>Refinance and Finance</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Filed level</th>
<th>Financial Category</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Primary Land Development Banks</td>
<td>Finance</td>
</tr>
<tr>
<td>2. Commercial Banks</td>
<td>Finance</td>
</tr>
<tr>
<td>3. Regional Rural Banks</td>
<td>Finance</td>
</tr>
<tr>
<td>4. Primary Agricultural Credit Societies</td>
<td>Finance</td>
</tr>
<tr>
<td>5. Farmers Service Societies</td>
<td>Finance</td>
</tr>
<tr>
<td>6. Large-sized Multi-purpose Societies</td>
<td>Finance</td>
</tr>
</tbody>
</table>
CHART - 1
EXISTING INSTITUTIONAL SET-UP FOR RURAL FINANCE

GOVERNMENT OF INDIA

RESERVE BANK OF INDIA

NATIONAL LEVEL

AFCD

NCDC

ARDC

IDBI

STATE GOVERNMENTS

STATE LEVEL

SLDBS

COMMERCIAL BANKS

SCBs

STATE CENTRAL INDUSTRIAL CO-OP. BANKS BRANCHES

DISTRIBUTION LEVEL

SLDBS AND
SLDB BRANCHES

COMMERCIAL
BANK BRANCHES

RRBs

RRB BRANCHES

PACS/ESS LAMPS

INDUSTRIAL
CO-OPERATIVES

Borrowers

Small Farmers

Other Farmers

Rural Artisans

Agricultural Labourers

Other Rural Enterprises

Other Rural Households

NOTE: 1. Agricultural Finance Corporation (AFC) provides consultancy assistance to other rural financial agencies and the Government.
2. In the Union Territories the SCBs directly finance PACS.

SOURCE: CRAFTCARD, 1996
monitoring facilities. There are four state level financial institutions. The State Land Development Bank provides refinance facility. The State Cooperative Banks, State/ Central Industrial Co-operative Banks and Commercial Banks all provide refinance and finance facilities. The Regional Rural Banks and the Central Cooperative Banks at the district level provide refinance and finance facilities. At the field level there are six institutions. All of them provide financing facilities.

The existing institutional setup for rural finance can be presented in the form of CHART. Chart-1 explains the existing institutional setup for rural finance. Under the multiagency approach to rural credit, both the cooperative and commercial banking sectors receive active financial and non-financial support from the Central and State Governments and national level institutions such as the Reserve Bank of India, the Agricultural Refinance and Development Corporation, the Industrial Development Bank of India (IDBI), The National Co-operative Development Corporation (NCDC) etc. Chart-1 also presents the existing channels for rural credit. The field level institutions which provide credit to individual borrowers consist of (i) Primary agricultural credit societies providing both short term and medium term credit, (ii) Primary cooperative land development banks or branches of state co-operative, land development banks (SLDBs) dispensing long-term credit, (iii) Branches of
commercial banks, and (iv) Branches of regional rural banks. Branches of commercial banks provide multi-purpose and multi-term credit to all categories of persons engaged in agriculture and other rural economic activities. Branches of regional rural banks serve at present restricted clientele, as a deliberate policy.

From the Reserve Bank, money flows to State Banks and Commercial Banks; from these institutions, money may flow to indigenous bankers or these bankers may get money directly from the Reserve Bank of India if they are on the approved list of the Bank. From the cooperative societies, money may flow to indigenous bankers and from them to money lenders. It is also possible that the money lender may obtain money directly from commercial banks or cooperative societies. Indigenous bankers and money-lenders provide credit to primary sector, secondary sector and tertiary sector in the rural area. Chart-1 does not take into account the non-institutional setup for rural finance. In other words, Chart-1 fails to give the clear picture about the entire setup for rural finance. In view of this, it becomes inevitable to prepare Chart-2. This chart gives a very clear picture about the entire setup for rural finance.

Role of Commercial Banks under Multi-agency Institutional Credit System in Rural Development

It was only after the Government's policy of social control over commercial banks in 1968 and the bank nationalization in 1969, commercial banks as a class began to enter the rural sector in a big way. The commercial banks endeavoured to increase their direct involvement in rural credit, firstly, by rapid expansion of branches in the rural and semi-urban areas and secondly through a number of operational innovations such as, establishing specialized branches exclusively or mainly oriented to farm lending, intensifying their efforts in specific areas under the village adoption scheme, linking up their lending to schematic programmes under the five-year plans with assistance of the NABARD, taking over PACs and organizing FSS. The Indian Banks Association promoted speeding up project lending by commercial banks in the agricultural sector. The banks have made serious efforts to move nearer to their clientele in the rural sector and to serve them better. In this, they have been additionally assisted by the Lead Bank Scheme and the setting up of RRBs in selected areas. These efforts of commercial banks are briefly reviewed here.

Rural-Orientation of Commercial Banking

One of the major objectives of bank nationalization was to expand the horizon of commercial banking in rural areas in
order to identify themselves with the problems of cultivators and making banking as an instrument for bringing about social and economic transformation of rural economy.

The Reserve Bank of India, in pursuance of this objective has laid down a licensing policy so that rural branches might be opened. Since bank nationalization in 1969, performance of banks in penetrating deep into the rural areas for expanding their branch network, has been quite impressive. As a result of rural-oriented branch expansion policy pursued by banks the average population served by a branch has come down drastically. The massive increase in the number of rural branches has helped in popularizing banking habit among the rural folk.

Specialized Agricultural Branches

The specialized branches setup by banks include the Agricultural Development Branches (ADBs) of the SBI group, the Agricultural Banking Division (ABD) also of the SBI group, the Gramvikas Kendras (GVK) of the Bank of Baroda and the Rural Service Centre (RSC) of the Dena Bank. The Farm Clinics of the Syndicate Bank first formed in 1973, help farmers not only in regard to financing, but also in regard to supplies. Besides, the Indian Overseas Bank has setup Rural Credit and Development Divisions to concentrate and follow-up effectively priority sector advances.
Agricultural Development Branches have been opened at
selected intensive centers for catering exclusively to the
credit needs of agricultural and allied activities. Each ADB
covers an area of one or two blocks or a cluster of about 100
villages within a radius of about 40 kms and serves a
population of nearly one lakh.

The ADB provides a package of assistance. It includes
credit-support, technical assistance and other facilities.
For this purpose each ADB is staffed by a set of technical
officers, extension officers, veterinary surgeons and
agricultural assistants according to the requirements of the
area. In order to guide the technical wing of the ADBs, each
local Head office of the bank has a separate technical cell,
consisting of a chief technical officer and technical
officers specializing in animal husbandry, agronomy,
horticulture, etc. The ADBs commence with business plans for
their area of operations covering a period of 2 to 3 years to
start with. These plans are based on the development plan
prepared with reference to the potential and local resources.
The progress of the plan is reviewed at regular intervals.

On the positive side, the ADBs have registered intensive
lending to small farmers, combined credit with technical
services and achieved better recovery performance. The
negative aspect includes incomplete coverage of villages and
also of the activities in the villages in the jurisdiction of
ADBs, higher establishment costs and the practice of branches in the jurisdiction of an ADB, discontinuing farm lending. These considerations lead us to believe that an ADB suitably strengthened on the technical side and empowered to cater to all activities but with a limited jurisdiction may prove more useful. Alternatively the ADB can emerge as a programming and technical superstructure at a central location with a mandate to support a group of rural branches undertaking multi-term and multi-purpose credit operations for rural development.  

Village Adoption Scheme

The origin of village adoption scheme by banks is traced to a joint attempt made in 1969 by a commercial bank and a fertilizer manufacturing company for an all-round development of the village economy.  

The objective of the village adoption scheme as generally stated by the commercial banks, is to develop the village economy in all its aspects in a phased manner. The steps commonly suggested in village adoption are: (i) selection of villages, (ii) survey of selected villages to assess the potential for development, (iii) preparation of a phased action programme, (iv) identification of eligible

borrowers, and (v) formulation of proposals for development of individual farms.  

The activities which could be financed by bank in the selected villages include: (a) Production of food grains, (b) Production of cash crops, (c) Developing minor irrigation facilities, (d) Purchase of machinery and implements for farm mechanization, (e) Poultry, (f) Dairy, (g) Fisheries, (h) Grapes and banana cultivation, (i) Fertilizers marketing, (j) agro-custom service units, and (k) Storage and process etc. In this way the new strategy of lending under the village adoption scheme offered many opportunities for credit needs of adopted villages.

Successful village adoption requires a multistage process of planning and follow-up and involves a multi-agency attack on the problem of rural development with the bank playing the unconventional role of the prime agency.

Lead Bank Scheme

"The concept of lead bank scheme was first moved by the Study Group (Gadgil Study Group) on the 'Organizational Framework for the Implementation of Social Objectives' which submitted its report in October 1969. The study group drew attention to the fact that commercial banks did not have

adequate presence in rural areas and also lacked the required rural orientation. As a result, the banking needs of the rural areas in general and the backward regions in particular could not be adequately taken care of by commercial banks and the credit needs of the rural sectors of the economy such as agriculture, small-scale industry and allied services remained virtually neglected. The Study Group, therefore, recommended the adoption of area approach to evolve plans and programmes for the development of an adequate banking and credit structure in the rural areas. This idea was endorsed by the committee of Bankers on Branch Expansion programme of Public Sector Banks (Nariman Committee). It recommended that in order to enable public sector banks to discharge their special responsibilities, each bank should concentrate on certain districts where it should act as a lead bank. On the basis of the recommendations of both the Gadgil Study Group and Bankers' Committee, Reserve Bank of India introduced the "Lead Bank Scheme" towards the end of December 1969.  

The Lead Bank Scheme did not envisage a monopoly of banking business to the lead bank in the district. The Lead Bank was to act as a consortium leader for coordinating the efforts of all credit institutions in each of the allotted districts for expansion of branch banking facilities and for

meeting the credit needs of the rural economy. To enable banks to assume their lead role in an effective and systematic manner all districts in the country (excepting the metropolitan cities of Bombay, Calcutta, Madras and certain union territories) were allotted among public sector banks and a few private sector banks.17

In the initial stage, the task before lead banks was to make impressionistic surveys in the districts, identify the potential for branch expansion and invoke the cooperation of other bankers operating in the district for opening branches and financing the various activities. This primary task of ensuring a swift branch expansion of commercial banks in rural areas which were unexposed or under exposed to commercial banking has been fulfilled substantially over the years.

The Lead Bank Scheme was evolved to provide an appropriate organizational framework for ensuring participation in a coordinated manner by the various financial institutions along with governmental agencies concerned in assisting developmental efforts undertaken on an area basis with the district as the unit needing credit support. A coordinating machinery comprising lead bank and lead bank officer, other (non-lead) banks and their district

coordinators, lead district officer (RBI), District Consultative Committee and its standing committee, State level Banker's Committee and the State Level Coordination Committee, emerged for effective implementation of the schemes.  

Since its introduction in 1969, the Lead Bank Scheme has come a long way and acquired new dimensions. From its initial concern with the extension of banking network into rural areas devoid of banking facilities, the scheme has moved on to the realm of district credit planning which has now become its main focus. With the large sole expansion of bank branches and the multi-agency approach to rural lending, the role of the lead bank has assumed great significance as a coordinator in the process of deployment of resources by institutional agencies in a planned manner in financing viable schemes of rural development in the district, in collaboration with Government development agencies. The Lead Bank Scheme has recorded fairly good success in some districts but not fared so well in others. The positive features and deficiencies have to be identified and remedial measures, as necessary taken so that the performance is upgraded to an adequate level in all districts.  

18. Ibid., pp.6 and 7.  
District Credit Plans

The concept of planning at the district level for credit and banking development can be traced to the Gadgil Study Group’s Report which advocated an area approach to the development of banking and credit structure. It also recommended the adoption of district which constituted the main administrative unit as the base unit for the purpose. A district credit plan can be defined as a development plan consisting of technically feasible and economically viable schemes which can be taken up for financing by financial institutions within the existing or marginally strengthened framework of infrastructure, and other facilities. It is a comprehensive integrated plan including schemes covering all the major sectors of the economy. A District Credit Plan (DCP) is, therefore, an action plan consisting of bankable schemes in agriculture, industries and service sectors of the economy of the district. A DCP is designed to bring about an overall development of the district economy for which credit planning is utilized as a tool to effect a continuous growth and to ensure the accountability of institutions implementing the planned schemes. It takes into account the sound principles of resource planning, credit and business management. The DCP seeks to identify various schemes, projects which might be implemented in the district under different programmes such as Small Farmers Development Agency (SFDA), Drought Prone Area Programme (DPAP), the Command Area
Development Projects (CADP), the Tribal Sub-plans, the special Animal Husbandry Programmes, the Integrated Rural Development Programme (IRDP) etc. These schemes/projects mostly relate to the upliftment of the weaker sections of the community, increasing farm output and generating self-employment opportunities through allied activities, small business enterprises, rural/cottage industries and small scale industrial units.

The Reserve Bank of India issued the guidelines to the lead banks for the preparation of the DCP. It was emphasized in the guidelines that the main objectives of bank leading under DCP should be (a) to finance labour-intensive schemes which generate employment, (b) to assist weaker sections of the population for productive purpose to the maximum extent possible, and (c) to help increase productivity of land and other allied sectors so as to reduce unemployment and increase income levels.

The real significance of the lead bank scheme lies in its interfusion with the development schemes. The first step in this direction is the formulation of a target-oriented realistic time-bound credit plan. The district credit plan is a set of bankable schemes for financing viable development schemes at the grass root level. A prepared district credit plan is filled with the development schemes of the lead district. Sufficient information, technical and economic
data are essential for preparation of district credit plan. The close cooperation and support between the banking personnel and planning officials and the development agencies becomes imperative.

Service Area Approach

An extensive bank network in rural areas has been provided and the volume of credit has increased in quantitative terms over the years. But this quantitative increase in credit has failed to increase production, productivity, and incomes in the rural sector in all parts of the country. The link between credit and production has not got strengthened in the process. As a result bank overdues have risen and living conditions of rural people have not improved to the extent desired. Therefore, it was deemed necessary to assign responsibility for each bank branch for productive lending in specific villages allotted to it. This approach called the 'Service Area Approach' has been introduced after an indepth study of the results of rural lending by bank branches so far. Under this approach all the six lakh villages in the country have been allocated amongst about 42000 rural and semi-urban branches of commercial banks, each branch getting on an average about 15 to 25 villages within manageable distance. All the 25119 villages in the Karnataka State have been allotted to 2958 branches of
banks under the Service Area Approach. There are exceptions, however, to this average in certain backward and hilly regions where still the branch network is inadequate.

The striking features of the Service Area Approach are: compactness of area of lending for each bank branch rendering supervision over end-use of credit easier; concentrated attention for development lending within such area; grass-root level credit planning by the branch manager himself after a first hand assessment of the potential for lending in the area allotted to his branch through village surveys; avoidance of duplication of efforts in view of absence of overlapping, jurisdiction and coordination with development departments of the state Governments to make the bank credit achieve productive results.

This new scheme seeks to correct some of the weaknesses observed in the already existing Lead Bank Scheme and channelize bank credit towards optimal results. In short, the new scheme is expected to forge a better link between bank credit and production, productivity and increase in the levels of incomes in the rural areas. This will in turn, improve deposit mobilization, recovery, housekeeping, quality of lending and customer services. Intensive credit delivery and close supervision of the end-use of funds will hopefully bring about a distinct qualitative change in the role of banks in economic development.
The above discussion relating to the role of commercial banks clearly highlights the widening as well as deepening of the financial services rendered by them, as a prime component of the multi-agency credit system for rural development. In a way, multi-agency agricultural credit system has transformed itself into multi-agency rural credit system over the years.

Three inferences can safely be drawn from the account of evolution of multi-agency institutional credit system: (i) A number of financial institutions have been introduced to assume complementary role and to be effective competitors to break the monopoly power of money lenders who hither to practised usury, (ii) the various schemes that have been introduced and implemented by the multiple credit agencies highlight the realisation of the inter-linkages among different transactions connected with agriculture and also of the realisation of the inter-linkages among different economic activities that promote rural development. Thus multi-agency institutional credit system appears to have emerged as an empirical solution, in some measure, appreciating the multiple and inter-linked relations among the rural activities, (iii) multi-agency approach has tended to make a dent on rural poverty in general and target groups in particular.

Performance of multi-agency credit system

The three-tier cooperative credit system in Karnataka is the first component in the multi-agency credit system.
Effectiveness of rural cooperative credit system depends upon the performance of grass-root level organisation. In fact the cooperative credit system, in effect, means primary agricultural cooperative credit societies (PACS), because all other organisations are a part of support meant to strengthen the PACS. The Cooperative Societies Act, the Department of the Cooperation of the Government, federal business organisations, training units etc., are the components of the support system whose main objective is to help and strengthen PACS to perform better and give required services to members. PACS extend short-term and medium-term credit facilities to their members in the rural areas. Primary Land Development Banks provide long-term rural credit. As our main concern is to study the performance of commercial banks and RRBs in Karnataka, we need not study the performance of co-operatives in Karnataka.

Performance of Commercial Banks

Commercial banks are the second component in the multi-agency credit system. Table-2.2 presents the performance of commercial banks in the rural area of Karnataka vis-a-vis India in 1969, 1979, 1989 and 1992.

Table-2.2 unfolds a story of rapid expansion of commercial banks in Karnataka vis-a-vis India during 1969-1992 period. During the period 1969 to 1992 the number of rural branches in Karnataka had increased from 189 to 2385.
Table - 2.2
Performance of Commercial banks in Rural Karnataka vis-a-vis India

<table>
<thead>
<tr>
<th>PARTICULARS</th>
<th>KARNATAKA</th>
<th>ALL INDIA</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. BRANCHES (Number)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.1 Total branches</td>
<td>755 2669 4130 4300 8262 32219 56960 60690</td>
<td></td>
</tr>
<tr>
<td>1.2 Rural branches</td>
<td>189 1249 2251 2385 1832 14171 32179 35218</td>
<td></td>
</tr>
<tr>
<td>1.3 Share of Rural Branches %</td>
<td>25 46.7 54.5 55.46 22.2 43.9 56.4 58.0</td>
<td></td>
</tr>
<tr>
<td>2. DEPOSITS (Rs. Crores)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.1 Total deposits</td>
<td>237 1598 7066 11217 4655.1 31275 146891 233086</td>
<td></td>
</tr>
<tr>
<td>2.2 Rural deposits</td>
<td>21 263 1206 1938 145 3559 21669 35058</td>
<td></td>
</tr>
<tr>
<td>2.3 Share of Rural Branches %</td>
<td>8.9 16.45 17.06 17.27 3.1 11.38 14.75 15.04</td>
<td></td>
</tr>
<tr>
<td>3. CREDIT (Rs. Crores)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3.1 Total credit</td>
<td>175 1268 6858 8793 3609 21559 96009 142211</td>
<td></td>
</tr>
<tr>
<td>3.2 Rural credit</td>
<td>9 199 1269 1595 54 2003 13973 20587</td>
<td></td>
</tr>
<tr>
<td>3.3 Share of Rural Branches %</td>
<td>5.1 15.66 18.5 18.13 1.5 9.2 14.55 14.47</td>
<td></td>
</tr>
<tr>
<td>4. C-D RATIO %</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4.1 All Branches</td>
<td>73.8 79.35 97.0 78.38 77.5 68.9 65.30 61.00</td>
<td></td>
</tr>
<tr>
<td>4.2 Rural Branches</td>
<td>42.8 75.50 105.0 82.30 37.2 56.2 64.4 58.72</td>
<td></td>
</tr>
<tr>
<td>5. DEPOSITS PER BRANCH</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5.1 All branches</td>
<td>0.31 0.59 1.71 2.60 0.56 0.97 2.57 3.84</td>
<td></td>
</tr>
<tr>
<td>5.2 Rural branches</td>
<td>0.11 0.21 0.53 0.81 0.07 0.25 0.67 0.99</td>
<td></td>
</tr>
<tr>
<td>6. CREDIT PER BRANCH</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6.1 All branches</td>
<td>0.23 0.47 1.66 2.04 0.43 0.66 1.68 2.34</td>
<td></td>
</tr>
<tr>
<td>6.2 Rural branches</td>
<td>0.04 0.15 0.56 0.66 0.02 0.14 0.43 0.58</td>
<td></td>
</tr>
<tr>
<td>7. POPULATION PER BRANCH</td>
<td>34 12 10 9 60 19 14 11</td>
<td></td>
</tr>
</tbody>
</table>

The share of rural branches had increased from 25% to 55.46%. This has been quite an impressive increase indeed. At All-India level, during the period 1969-1992, the rural branches had increased from 1832 to 35218. The share of rural branches in the total branch network of the banking industry had increased from 22% to 58%. It may be observed that both in Karnataka and India as well the growth of rural branches and the share of rural branches in the total branch network of the banking industry were quite impressive during the decade 1969-1979.

The commercial banks have, since nationalisation, made substantial progress in branch expansion in all the states and regions of the country. This followed the recommendations of the Committee on Branch Expansion Programme appointed under the chairmanship of Shri F.K.F. Nariman in August 1969 by the RBI. The main task for the Committee was to evolve a rational policy in regard to development of branch network of commercial banks, so that they could finance agriculture more effectively. The Committee recommended among other things, the location of new branches of commercial banks in unbanked and under-banked centres. In the absence of reliable and updated information about economic potential of the centres such branches, the Committee felt, that RBI may be guided by population criterion (1 unit per 10,000 population) while granting
licences. The Committee also recommended that each commercial bank should concentrate on certain districts where it should act as a Lead Bank. These recommendations facilitated the implementation of the Lead Bank Scheme and formulation and execution of area specific schemes under a concept of district credit planning. The branch expansion policy of commercial banks, thus got a fillip after their nationalisation in July 1969.  

The branch expansion policy of RBI during 1985-90 envisaged the opening of additional bank branches so as to achieve average population of 17,000 per bank office (as per 1981 census) in rural and semi-urban areas with the development block as the basis. Besides, a rural branch was expected to be available within a distance of 10 kms and cover an area of about 200 sqkms. Hilly tracts and regions which were sparsely populated and tribal areas were to be given special consideration by relaxing the population norms.

During the period 1969 to 1992 the volume of deposits mobilised by the rural branches in Karnataka increased from Rs.21 crores to Rs.1938 crores, constituting 8.9% and 17.27%


21. Ibid., p. 93.
in 1969 and 1992 respectively. The figures in Table-2.2 show that the percentage of rural deposits to the total deposits mobilised by banking industry at All-India level was lower than the percentage of rural deposits mobilised by banking industry in Karnataka during 1969-1992 period.

In the field of rural credit deployment, the amount of credit lent by the banks had increased from a paltry sum of Rs.9 crores in 1969 to Rs.1595 crores in 1992. In relative terms, the share of rural credit had increased from 5.1% in 1969 to 18.13% in 1992 in Karnataka. At the all-India level, in the field of rural credit deployment the amount of credit lent by the banks had increased from Rs.54 crores in 1969 to Rs.20587 crores in 1992. The share of rural credit had increased from 1.5% in 1969 to 14.47% in 1992. Thus the share of rural credit in Karnataka had been higher than the share of rural credit at All-India level throughout 1969-1992 period.

The credit-deposit ratio for all branches has increased from 73.8% in 1969 to 78.38% in 1992 in Karnataka. The credit deposit ratio of rural branches in Karnataka has increased from 42.8% in 1969 to 82.30% in 1992. The credit-deposit ratio of Karnataka both for all branches and rural branches has always been higher than the credit-deposit ratio at the all-India level during 1969-1992 period, with the exception of 1969 for Karnataka.
The volume of deposits per branch for all branches in Karnataka increased from Rs.0.31 crore in 1969 to Rs.2.60 crores in 1992. The volume of deposits per branch for rural branches in Karnataka increased from Rs.0.11 crore to Rs.0.81 crore in 1992. The volume of deposits per branch for all branches at all-India level has been higher than the Karnataka's volume of deposits per branch for all branches. But with the exception of 1969, the volume of deposits per branch for rural branches has been higher at the all-India level than the volume of deposits per branch for rural branches in Karnataka in 1992.

The volume of credit deployment per branch for all branches increased from Rs.0.23 crore in 1969 to Rs.2.04 crores in 1992 in Karnataka. The volume of credit deployment per branch for rural branches increased from Rs.0.04 crore in 1969 to Rs.0.66 crore in 1992 in Karnataka. The figures in the table show that the volume of credit deployment per branch for all branches at the all-India level has been higher than the amount of credit deployment per branch for all branches in Karnataka during the said period. But the volume of credit deployment per branch for rural branches at the all-India level has been lower than the volume of credit deployment per branch for rural branches in Karnataka during 1969-1992 period.

The population per branch declined from 34 thousand in 1969 to 9 thousand in 1992 in Karnataka. The population per
branch declined from 60 thousand in 1969 to 11 thousand in 1992 at the all-India level. This indicates the better banking spread in Karnataka than at the all-India level.

The figures in table-2.2 clearly show that the banking industry has now built up a rural base which did not exist in 1969. It has expanded its rural resource base. Thus it appears to be well equipped with the wherewithals to take up the task of rural development.

**District-wise performance of Rural Banking in Karnataka**

The most significant feature of banking development in the post nationalisation period has been the acceleration in the pace of branch expansion and the deep inroads made by the banks into the rural and semi-urban areas of the districts in Karnataka. Prior to bank nationalisation there was some lopsidedness in the spread of banking offices. In the absence of a sense of social purpose and with concern for increasing their profitability, bank offices tended to cluster in and around towns and cities of industrial and commercial significance. The district-wise rural banking spread in Karnataka has provided the strong rural banking base to extend facilities, particularly to the target group in Karnataka for its welfare.

In Karnataka rural branches increased from 620 in 1972 to 2383 in 1991. This increase was more than 3 times in 1991.
over 1972. In Dakshina Kannada district rural branches increased from 142 to 263 in 1991. Dharwad district which had 28 rural branches in 1972 had 164 rural branches in 1991. In Bijapur district rural branches increased from 14 in 1972 to 153 rural branches in 1991. Belgaum district which had 30 rural branches in 1972 had 139 rural branches in 1991. In Bangalore district (both urban and rural) the number of rural branches increased from 46 in 1972 to 139 rural branches in 1991. The increase in the number of rural branches in the rural districts of Bidar, Chickmagalur, Hassan, Kodagu, Kolar and Uttara Kannada has not been much impressive (for details please see Appendix-II).

The volume of rural deposits mobilised in Karnataka increased from Rs.5525 lakhs in 1972 to Rs.168102 lakhs in 1991. The volume of rural deposits mobilised in the Bangalore district increased from Rs.426 lakhs in 1972 to Rs.19465 lakhs in 1991. Mobilisation of deposits in Belgaum district increased from Rs.260 to Rs.11031 lakhs in 1991. The volume deposits mobilised by Chickmagalur district increased from Rs.323 lakhs in 1972 to Rs.9232 lakhs in 1991. Deposit mobilisation of Dakshina Kannada district increased from Rs.1884 lakhs in 1972 to Rs.36698 lakhs in 1991. In Uttara Kannada district the volume of deposits mobilised increased from Rs.358 lakhs in 1972 to Rs.6517 lakhs in 1991. Deposit mobilisation in other districts of Karnataka has not been impressive (for details please see Appendix-II).
The volume of rural credit deployment in Karnataka increased from Rs.5424 lakhs in 1972 to Rs.197839 lakhs in 1991. The volume of rural advances of Bangalore district increased from Rs.1747 lakhs in 1972 to Rs.18666 lakhs. In Belgaum district rural advances increased from Rs.92 lakhs in 1972 to Rs.9699 lakhs in 1991. In Chickmagalur district the amount of rural advances increased from Rs.258 lakhs in 1972 to Rs.8668 lakhs in 1991. In Dakshina Kannada district the volume of rural advances increased from Rs.884 lakhs in 1972 to Rs.19380 lakhs in 1991. In other districts of Karnataka the volume of rural credit deployment has not been impressive (for details see Appendix-II).

Performance of Regional Rural Banks in Karnataka

A second tier of rural commercial banking base has been created by the regional rural banks sponsored by the commercial banks. Performance of RRBs is presented in Table-2.3.

Table-2.3 gives a clear picture of the performance of RRBs—Tungabhadra Grameena Bank, Malaprabha Grameena Bank and Cauvery Grameena Bank were established to cover Bellary, Raichur, Dharwad, Belgaum, Mysore and Hassan districts. The Krishna Grameena Bank was set up on 1 December 1978, to cover Gulburga and Bidar districts. Chitradurga Grameena Bank which was established on 6 August 1981 covers Chitradurga
### Table - 2.3

Performance of Regional Rural Banks in Karnataka
(Deposits and Advances)

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of RRBs</th>
<th>Districts covered</th>
<th>No. of Branches</th>
<th>Deposits (Rs. Lakhs)</th>
<th>Advances (Rs. Lakhs)</th>
<th>C-D Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>1976</td>
<td>3</td>
<td>6</td>
<td>29</td>
<td>47.60</td>
<td>59.72</td>
<td>125</td>
</tr>
<tr>
<td>1977</td>
<td>3</td>
<td>6</td>
<td>73</td>
<td>2094.00</td>
<td>455.52</td>
<td>217</td>
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<tr>
<td>1978</td>
<td>4</td>
<td>8</td>
<td>120</td>
<td>398.50</td>
<td>745.54</td>
<td>151</td>
</tr>
<tr>
<td>1979</td>
<td>4</td>
<td>8</td>
<td>190</td>
<td>810.50</td>
<td>1343.11</td>
<td>155</td>
</tr>
<tr>
<td>1980</td>
<td>4</td>
<td>8</td>
<td>250</td>
<td>1280.00</td>
<td>2335.63</td>
<td>191</td>
</tr>
<tr>
<td>1981</td>
<td>5</td>
<td>9</td>
<td>342</td>
<td>2048.80</td>
<td>3843.86</td>
<td>184</td>
</tr>
<tr>
<td>1982</td>
<td>6</td>
<td>12</td>
<td>423</td>
<td>2950.57</td>
<td>5567.38</td>
<td>181</td>
</tr>
<tr>
<td>1983</td>
<td>8</td>
<td>14</td>
<td>604</td>
<td>4179.00</td>
<td>7551.00</td>
<td>180</td>
</tr>
<tr>
<td>1984</td>
<td>12</td>
<td>19</td>
<td>818</td>
<td>6302.53</td>
<td>11675.00</td>
<td>186</td>
</tr>
<tr>
<td>1985</td>
<td>13</td>
<td>20</td>
<td>966</td>
<td>8784.00</td>
<td>15168.00</td>
<td>173</td>
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<tr>
<td>1986</td>
<td>13</td>
<td>20</td>
<td>970</td>
<td>11998.00</td>
<td>20325.00</td>
<td>169</td>
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<tr>
<td>1987</td>
<td>13</td>
<td>20</td>
<td>1035</td>
<td>15579.00</td>
<td>24955.00</td>
<td>160</td>
</tr>
<tr>
<td>1988</td>
<td>13</td>
<td>20</td>
<td>1053</td>
<td>19633.00</td>
<td>30092.00</td>
<td>153</td>
</tr>
<tr>
<td>1989</td>
<td>13</td>
<td>20</td>
<td>1063</td>
<td>22588.00</td>
<td>34650.00</td>
<td>153</td>
</tr>
<tr>
<td>1990</td>
<td>13</td>
<td>20</td>
<td>1072</td>
<td>24460.00</td>
<td>43149.00</td>
<td>159</td>
</tr>
<tr>
<td>1991</td>
<td>13</td>
<td>20</td>
<td>1075</td>
<td>35146.00</td>
<td>36909.00</td>
<td>105</td>
</tr>
</tbody>
</table>

SOURCE: Statistics on Regional Rural Banks, NABARD, BOMBAY - various issues
district. Kalpataru Grameena Bank which was established on 31 March 1982 covers Tumkur, Bangalore (rural) and Bangalore (urban) districts. In 1983 Kolar Grameena Bank and Bijapur Grameena Bank were established to cover Kolar and Bijapur districts respectively. In 1984 four Grameena Banks - Chikmagalur-Kodagu Grameena Bank, Sahyadri Gramena Bank, Netravathi Grameena Bank and Varada Grameena Bank - were established to cover Chikmagalur, Kodagu, Shimoga, Dakshina Kannada and Uttara Kannada districts. The last RRB to be established in Karnataka was Vishveshwarayya Grameena Bank on 27 March 1986 to cover Mandya district. Thus by 1985, 13 RRBs in Karnataka covered all the 20 districts of the State.

The number of branches of RRBs in Karnataka increased from 29 in 1976 to 1075 in 1991. The volume of deposits of RRBs increased from Rs.47.60 lakhs in 1976 to Rs.35146 lakhs in 1991. The amount of outstanding advances increased from Rs.59.72 lakhs in 1976 to Rs.36909 lakhs in 1991. C-D Ratio of RRBs has ranged between 125% and 105% in 1976 and 1991 respectively.

Three RRBs - Cauvery, Malaprabha and Tungabhadra Grameena Banks - which had the early start in 1976 could show better progress in respect of branches, deposits and advances. Malaprabha Grameena Bank ranks first, Tungabhadra ranks second and Cauvery ranks third in respect of branches, deposits and advances in the rural area of Karnataka. In
respect of performance, Krishna, Chitradurga, Bijapur, Kalpataru and Kolar Grameena Banks come next. The performance of Netravathi, Sahyadri, Varada And Vishweshwarayya Grameena Banks has not been impressive.

**Critical approach of multi-agency institutional credit system**

Multi-agency approach to rural financing is now an accepted fact in view of the historical factors and also in view of the evolution of institutional rural credit system as well as the vast and growing gaps in rural credit. However, with the different credit institutions, namely, the cooperative, commercial banks and the RRBs functioning simultaneously in the field of rural credit certain problems have surfaced hindering the efficient disbursal of rural credit. Five such basic problems may be identified.\(^\text{22}\)

(a) Existence of a number of agencies in a common area of operation-leading to uncoordinated credit disbursal resulting in multiple financing, over financing/under financing, financial indiscipline and diversion of scarce resources to unproductive purposes and their improper utilisation.

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(b) Inability of credit agencies to formulate and develop meaningful agricultural credit programmes on the basis of area approach.

(c) Overlapping and duplication of banking facilities and consequent wasteful expenditure, besides unhealthy competition.

(d) Problems of recovery of loans arising from more than one credit agency having claims on the same security, and

(e) The problems arising out of different systems, procedures, policies, security norms, service and supervision charges, varying interest rates, etc.

In view of the above five basic problems, there was an urgent need to bring about a coordination among the various institutions in their activities of providing finance to rural development. The Working Group studied the matter and made recommendations under the following heads: (a) area/functional demarcation, (b) consortium approach, (c) branch expansion, (d) interest rates, (e) security for loans, (f) procedures and systems, (g) inspection/supervision charges, and (h) credit guarantee premium.23

Efforts are made to reach co-operative credit to the rural poor in Karnataka. A significant shift has been effected in the loan policies of co-operatives for meeting

the credit needs of the small/marginal farmers and other weaker sections of the rural community. The weaker sections are also given the benefit of loans at a lower rate of interest. "The co-operative credit, it is envisaged would increase from Rs.523 crores in sixth plan to Rs.1380 crores during eighth plan. Even after pruning the estimate, the target appears to be high when compared to the performance of this sector during the earlier plans".24

The co-operative movement in Karnataka has remained only as a credit movement. It has by and large benefitted larger and richer farmers rather than poor farmers, because of politicization, officialization and vested interest in co-operative movement.25 Even in those areas where poor farmers are financed funds are not disbursed at right time, nor are they of right amount for viability of activity, nor are they of right type.


Observations of the official committees on rural finance hold good about Karnataka. Commercial banks possess necessary resources and skills for extending multi-term and multi-purpose credit to the different sectors of the economy. The rural branches of the commercial banks doubtlessly have all the advantages of a resilient banking system including trained staff, fair salaries, cross-subsidization possibilities, i.e., of making good the loss by charging higher rates of interest to others and a great banking tradition. Yet certain aspects of their performance leave a great deal to be desired. Nor does the profitability of the rural branches of the commercial banks turn out to be positive as the operational costs of the commercial banks are quite high. All these factors require some structural solutions, some managerial ones and some prescriptions for attitudinal changes, but above all a basic shift from merely commercial to development banking.

An issue often raised in connection with the operations of RRBs is their viability. The RRBs have become non-viable, because they have to operate with some serious constraints. RRBs have no scope for cross-subsidization. They have locational disadvantages, i.e., most of the branches of the RRBs are single offices. But viability can not be the sole criterion for assessing the performance of RRBs, because the

objective of this financial institution has been socio-economic. So any financial loss may be a price worth paying for the achievement of the larger social objective of widening the area of credit coverage.

The co-operatives, the commercial banks and the RRBs have failed to recycle credit effectively in order to perpetuate and enlarge this credit cycle. The credit cycle has three major segments: the first is to mop up resources from the society through deposit mobilisation and other means; the second is to lend funds so mobilised to worthwhile borrowers who have viable agricultural/rural projects to run and the third is to recover fully and promptly whatever has been lent so that the recovered amounts can be put back into the credit cycle together with any further resources mobilised meanwhile alongside some refinancing from higher institutions to the extent possible. Co-operatives, commercial banks and RRBs in Karnataka have some major weaknesses in generating, sustaining and augmenting the credit cycle, because of poor deposit mobilisation, inefficient lending and poor loan recovery, but to some extent the commercial banks in Karnataka are exceptions because they have developed a culture of deposit mobilisation and resource generation.
CONCLUDING OBSERVATIONS

On the basis of discussion in the preceding pages the following conclusions may be drawn:

1. Though PACS have made substantial progress in the rural areas of Karnataka, they suffer from many defects. They have weak financial position. They have been facing the overdue syndrome. There has been much officialisation and politicisation in the functioning of the co-operatives. The co-operatives have been subject to undue governmental interferences and the elected boards have been superseded frequently. They have thus been prevented from developing steadily as a self-reliant and resilient credit system.

2. During the sixties, conceptual changes were introduced in socializing the banking sector. The net result of these changes was the extension of the state control to the large segment of the banking sector. Very significant changes have taken place following the nationalization of 14 major commercial banks in July 1969 and also the nationalization of 6 commercial banks in April 1980. The scale and scope of banking operations have registered a very substantial increase. What is more, the changes have been multi-dimensional as well as multi-directional. The enormous increase in banking activities in the country has brought about structural, physical, organizational, conceptual and qualitative changes of far-reaching consequences.
3. Before the nationalization of 14 major commercial banks in July 1969 we find, the urban-orientation of commercial banks. After nationalization, banks have leaned towards rural areas and have adopted a policy of opening more branches in villages and granting more advances to small farmers at cheaper rates and on easier conditions than before.

4. Nationalization of banks in 1969 had a positive impact on the spread of bank branches in Karnataka. The number of branches grew at a higher rate after nationalization (i.e., during 1969-1992 period) than during the pre-nationalization period; the growth rate being the highest immediately after nationalization.

5. All the 20 districts of Karnataka State have fairly good presence of bank offices. But there are wide intra-state disparities. Although disparities continue to exist, yet there is a trend towards reduction in intra-state disparities.

The Karnataka-based commercial banks have played a leading role in spreading banking facilities in Karnataka state after nationalization.

The population group-wise banking presence has shown a significant progress in Karnataka. In June 1969 the relative share of rural sector in banks/offices in Karnataka was
better than all-India average. But it is not so in March 1992. There has been a phenomenal increase in the share of rural branches.

It is observed that in spite of the best efforts made, disparities among the districts continue. Banking in Karnataka has expanded its network considerably during the post-nationalisation period. As far as the growth rate is concerned it may be considered reasonably satisfactory. But the lacuna inherent in the massive expansion, speaks of the spirit with which it has been pursued. This has been a cause of major concern to the policy-makers at the national level and that is the reason why in the latest branch licensing policy for the period 1985-90, stress has been laid on consolidation of the present position and improvement in the quality of service.

6. All the 13 Regional Rural Banks in Karnataka which cover all the districts of Karnataka have made an attempt to expand branches since their inception. But the branch expansion by Malaprabha, Tungabhadra, Cauvery and Krishna Grameena Banks has been quite appreciable. Many RRBs in Karnataka have opened the highest number of branches in 1984.

7. Deposits in Karnataka State have grown significantly since the nationalization. The Karnataka-based commercial banks and 13 RRBs have played significant role in mobilizing
deposits particularly in rural areas. But the deposits mobilized by scheduled commercial banks in semi-urban and urban areas have grown more appreciably.

8. The credit deployment has registered a significant growth both in Karnataka and India during the period, 1969-1992. The rise both in volume of credit and per-capita credit has been quite significant since nationalization. The average growth rate is higher in Karnataka than it is in India as a whole. Advances per-capita were higher in Karnataka than in India in March 1992.

There has been substantial improvement in credit deployment in all categories of banks, i.e., Nationalized Bank Group, State Bank Group, other scheduled commercial bank group and Regional Rural Banks in Karnataka.

9. Credit-deposit ratio in Karnataka as well as in India has considerably improved. But the credit-deposit ratio in Karnataka has been higher both in 1969 and 1992 than the credit-deposit ratio in India.

Credit-deposit ratio of all the 13 Regional Rural Banks in Karnataka and of Karnataka as a whole during 1983-1991 period has been higher than 60%, and in case of many RRBs in Karnataka it is more than 100%.

10. Service Area Approach will have to be developed as Development Area Approach under multi-agency credit system.
Intensive credit delivery and the close supervision of the end-use of funds will hopefully bring about a distinct qualitative change in the role of banks in rural development.

11. In consequence of all this, institutional credit has been extended quantitatively to a very large number of borrowers. Millions of depositors and borrowers have been introduced to the banking system and have shifted their preferences from the non-institutional money-lenders and pawn-brokers to banking institutions and co-operatives. These latter have competed away the exorbitant interest rates and usurious terms and conditions imposed by the money-lenders and have considerably lowered the whole structure of rural interest rates.