

**“Functioning of Kscard Bank in the Economic Development of Farming Community”**

(A Study with reference to Karnataka)

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**Abstract**

Primary Co-operative Agricultural and Rural Development Banks were established dating back to independence. But the real growth of these Banks took place only after passing the Land Development Act in the year 1930. These banks were initially called as Land Mortgage Banks as they were financing on the mortgage of Land for which they are used to finance. The Agriculture Credit review Committee in its Report submitted in the year 1989 recommended to incorporate Agriculture and allied activities in its credit policy. But now these banks have included rural credit in its financing policy. Since these banks are playing a greater role in the development of rural area operating at the Taluka level, are now renamed as 'Primary Co-operative Agricultural and Rural Development Banks'.

To supervise the functioning of Primary Co-operative Agricultural and Rural Development banks and to provide financial assistance, State co-operative Agricultural and Rural Development Banks were established in every state. State co-operative Agricultural and Rural Development Bank acts as the central bank for the PCARD banks. As such in Karnataka, Karnataka State co-operative Agriculture and rural development Bank was established.

In this paper an attempt is made to explain the Role of Karnataka State co-operative Agriculture and rural development Bank and how this Bank is helping in the economic development of farming community.

**Key words:** Allied activities, Land Mortgage, Rural Development, State co-operative banks.

**Introduction**

Rural development is the process of improving the quality of life and economic well-being of people living in the remote and thinly populated areas. Rural development as a concept suggests the overall development of the areas and sustaining improvement in the quality of life of rural people. It results in an environment which is conducive for improving people's capacity and utilising it to the fullest extent with sustainable basis. It is both the means and end of economic development of a country. Today, apart from governments, rural development has become a matter of interest to industrialists, financiers, bankers and philanthropists as well.

Rural development is needed because of varied reasons such as; to raise the quality of life and environment in rural areas, to minimise urbanization, to manage the natural resources properly, to increase the profits for the farmers. The objectives of the Rural Development strategies are to increase farm productivity, for achieving rapid economic transformation, to increase household outputs of the selected agricultural products, and to promote value addition and ensure a stable market for these agricultural products.

As per the world bank report (2011), because of four decades of regulations and two decades of liberalization India has become the ninth largest economy in the world, which could grow , second after China, at an average rate of 8.46 per cent, for the last five years. In India there are about 6.4 lakhs of villages with a population of 83.3 crores, which is 68.84% of the whole India. Providing timely and adequate cheap credit to farmers, rural artisans, petty

shop keepers, and micro and small entrepreneurs is of very important. It is found that rural India suffers from lack of finance comparing to urban India. Therefore rural development strategies are the need of hour for an inclusive growth.

### **Objectives of the Study**

1. To study the role of Karnataka state Co-Operative Agricultural and Rural Development Bank in the economic development.
2. To analyse the trends in fiscal growth and performance of Karnataka State Co-operative Agricultural and Rural Development Bank over the years.
3. To make concluding remarks and to offer suggestions to solve the problems of the bank.

### **Methodology**

The study is based on both the secondary and primary data. The secondary data was collected from the annual reports of PCARD Bank, statistical department of Karnataka, State Co-operative Agricultural and Rural Development Bank. Bangalore. Land Bank Journal, Books.

### **Limitations of the Study**

The present study is an empirical work presented in descriptive manner. Since the objectives of the study may well be met with by this kind of analysis, no attempt is made to provide a conceptual analysis and theoretical framework about KSCARD Bank.

### **Agricultural Development**

The importance of agricultural development is stressed on the ground that 'a sustained growth rate in agricultural output is not only a strong anti-inflationary force, but also makes a favourable impact on income growth. According to the world bank report, 1980, a one per cent increase in agricultural growth in India is correlated with an increase in internal growth of 0.5 per cent and national income of around 0.7 per cent'. So even in spite of rapid industrialization, agriculture and allied activities constitute the single largest contributor to Gross Domestic Product accounting for almost 33 per cent of the total. However, there has been a relative neglect of agriculture and consequent decline in its share in Net Domestic Product. The major cause for this decline appears to be the declining productivity of inputs in agriculture.

Thus, we can observe that, agriculture in spite of its importance suffers from many deficiencies such as lack of value addition process, its dwindling share in Net Domestic Product and the declining productivity of agriculture in general and lack of development of viable organizational mechanism at the grass root level which can undertake planning and co-ordination. This calls for the need to develop the villages at the grass root level which holds the key for economic development.

### **Agricultural Credit**

Since the majority of Indian farmers are poor credit plays a prominent role. Modernization and rural development requires the provision of cheap finance especially for long periods. The investment credit is of great importance in a capital-scarce country like India. The emergence of Green Revolution and the new farm technology comprising of high yielding varieties of seeds, fertilizers and the recent policy decision to undertake wasteland development and a forestation have opened new vistas in Agricultural banking. All India Rural Credit Survey Committee (1954) observed that "The credit fell short of the right quantity, was not of the right type and did not serve the right people". The flow of credit to the agriculture sector failed to exhibit any appreciable improvement due mainly to the fact that commercial banks were not tuned to the needs and requirements of the small and marginal farmers, while the co-operatives, on the other hand, lacked resources to meet the expected demand.

## **Classification of Agricultural Credit**

On the basis of time, agricultural credit is classified into short term, medium term and long term. Short term loans are given for a term of one year and are given to meet the day –to-day agricultural requirements of the farmers. Medium term loans are given for periods ranging from one to five years. Long term loans are usually required to meet the capital expenses which are expected to generate returns gradually over a long period. The repayment of long term loan is expected only out of annual net savings of the borrowers. In the case of short term loans, repayment is linked with the harvesting of crops.

### **Long Term Credit**

After the advent of co-operative movement in India there raised the need for a specialized institution satisfying the long term financial requirements of the farmers. In long term credit a number of difficulties are associated like locking up of funds for long periods, risks involved in lending money for long period etc. All these forced the planners of Indian economy to establish a separate financial Institution. Again the repayment period of long term loans is spread over a number of years, therefore, mortgage requirements has been considered as an essential requisite for such long term loans. Keeping these points in view creation of a new specialized institution was thought of. Thus Land Mortgage Bank was formed; catering to the complicated term loans of the farmers in India. Later these banks were very popular as Land Development Banks. Since these banks are playing a greater role in the development of rural area also these banks are now renamed as 'Primary Co-operative Agricultural and Rural Development Banks.

### **Structure of the Bank**

These banks have two tier structures. At the central level that means at the state level there is central Rural Development Banks which are now called as State Cooperative Agricultural and Rural Development Banks (SCARDB). And at the Tuluka level Primary Cooperative Agricultural and Rural Development Banks (PCARDBS). In some states, there are no primary land development banks but in their place, there are branches of central land development banks.

### **Raising Funds**

The main function of raising funds is carried out by the Central or State Cooperative Agricultural and Rural Development Banks which can really deal with the money market of the country effectively and advance loans to primary Cooperative Agricultural and Rural Development Banks. The sources of funds of State Cooperative Agricultural and Rural Development Banks are:-

1. Share capital.
2. Issue of debentures
3. Loans from NABARD
4. Reimbursements of subsidies from the Govt.
5. Other funds

Issue of debentures is the main source of funds for the Cooperative Agricultural and Rural Development Banks. As Cooperative Agricultural and Rural Development Banks require funds of longer duration to advance long term loans to borrowers, the debenture is a convenient instrument of raising funds. Because, it guarantees that funds will remain with the Banks for a specified period.

These debentures are mostly purchased by financial institutions like LIC, Commercial Banks, Co-op. Banks, NABARD, and State Governments. As there is limited response from the public. The State Government gives incentive subsidies for many development activities by

individual farmer including purchase of tractor. The amounts of subsidies are reimbursed to the Primary cooperative Agricultural and Rural Development Banks.

### **Deposit Mobilisation**

To strengthen the resource base of SCARDBs, RBI has granted permission for accepting rural deposits from the borrowers/non-borrowers of SCARDBs in rural areas. SCARDBs have formulated their various deposit mobilisation schemes and are accepting deposits ranging from one year onwards.

### **Interest Rate**

The rates of interest for long term Loans are generally low and within the paying capacity of farmers. They are around 9 to 12%.

### **Loan Procedure**

The Branch offices receive applications from the prospective borrower. Then Agricultural Finance Officer or Inspector scrutinises these applications, they visit places of the applicants and ascertain the purpose of borrowing, verify the genuineness of the proposal and its economic viability, repaying ability of the farmers, adequacy of security, etc. After completing those formalities, the loan is granted by the appropriate authority at appropriate level on receipt of funds from the state co-operative Agriculture and rural development bank.

### **Role of Kscard Bank in Economic Development**

Karnataka State Cooperative Agriculture and Rural, Development Bank were established during 1929. Exploitation of farmers by Private Money Lenders was a challenge at the beginning of 20<sup>th</sup> century. The birth of Mysore State Co-operative Land Mortgage Bank in 1929 was one of the important steps in eradication of this social evil. Till 1965, this bank continued to advance long term loans to Agriculturists for debt (redemption and land improvement), with the establishment of Agriculture Refinance and Development Corporation (ARDC) in 1963, the Bank started changing its policies and since 1965 the Bank has been advancing various types of developmental loans to agriculturists of the state. In conformity with the changed policies the name was also changed as Land Development Bank. With the constitution of National Bank for Agriculture and Rural Development (NABARD) during 1982, by merging Agriculture Credit Department of RBI and entire undertaking of ARDC and extension of credit for Rural Development activities and also the Bank has changed its name as **Karnataka State Cooperative Agriculture & Rural, Development Bank**.

There are 177 Taluk Level Co-Operative Agricultural and Rural Development Banks (PCARD Banks) spread over all the 175 taluks in the state, of which two PCARDBs are under liquidation. The 25 Branch Offices of the KSCA&RD Banks at District Level are supervising the activities of the PCARD Banks in their jurisdiction. Thus, there is federal set-up where loaning is made in two tiers. The PCARD Banks are individual autonomous bodies and are members of the KSCARD Bank. The Bank has 6 Associated Members which are institutions like Karnataka Agro Industries Corporation, Ware Housing corporation, Karnataka Electricity Boards and Command Area Development Authorities of Major Irrigation Projects, State Marketing Board, Karnataka State Cooperative Marketing Federation Ltd., etc.,

### **Activities:**

The main activity of the Bank is dispensation of Long Term Credit, for Agricultural and Rural Development. The Bank is advancing loans under “Normal Programme” and “Special Development Programme”. The Normal Programme covers items like levelling, bounding, fencing, and construction of cattle shed, farmer house, and redemption of old debts, acquiring ownership of land by tenants under Land Reforms Act etc. The Special Development, Piggery, Gobar/Bio-Gas plants, Sheep rearing, Fish culture, Prawn culture, poultry, Sericulture, Bullock and bullock carts, Farm Mechanisation, Integrated loans for Agriculture and Non – agriculture and for the Development of lands under major and Medium Irrigation projects. Non Farm Sector, Rural Housing, Small Rural Transport Operator (SRTTO) Scheme and Deposit

Mobilization and advancing jewel pledge loan and salary loans to the staff are the new areas covered by the Banks.

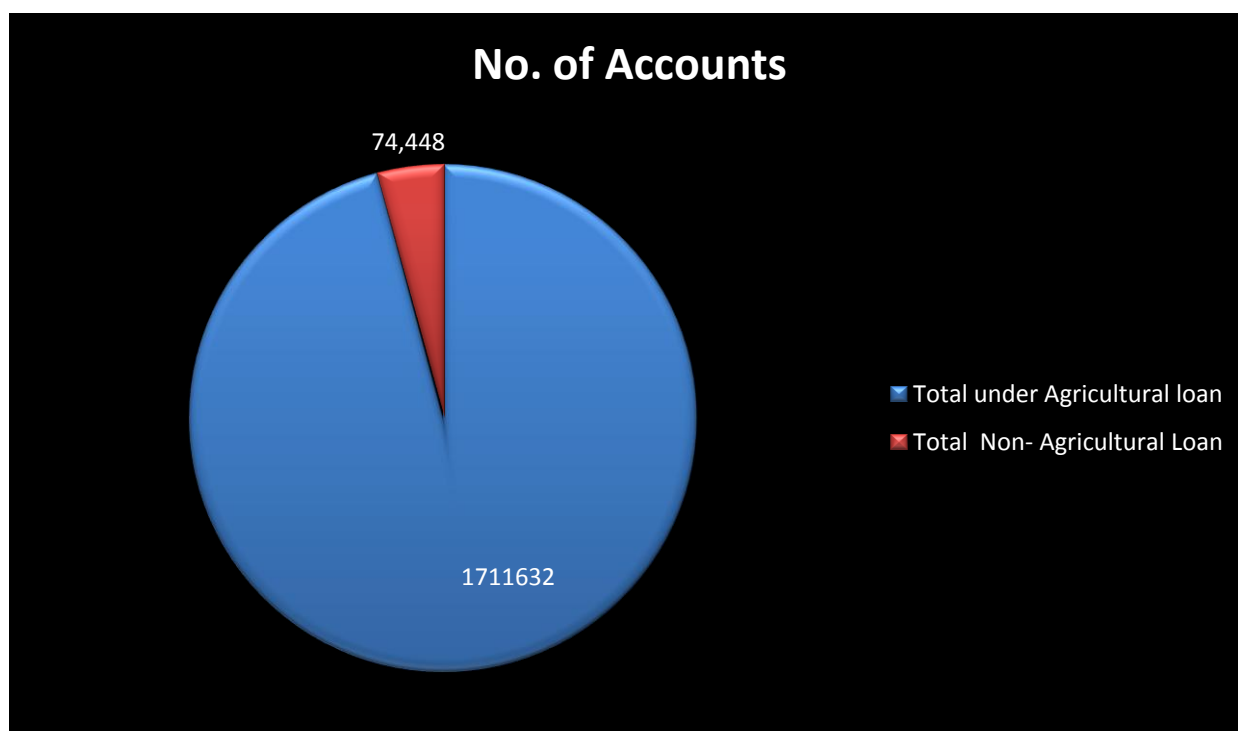
### Fiscal Growth and Performance of Kscard Bank

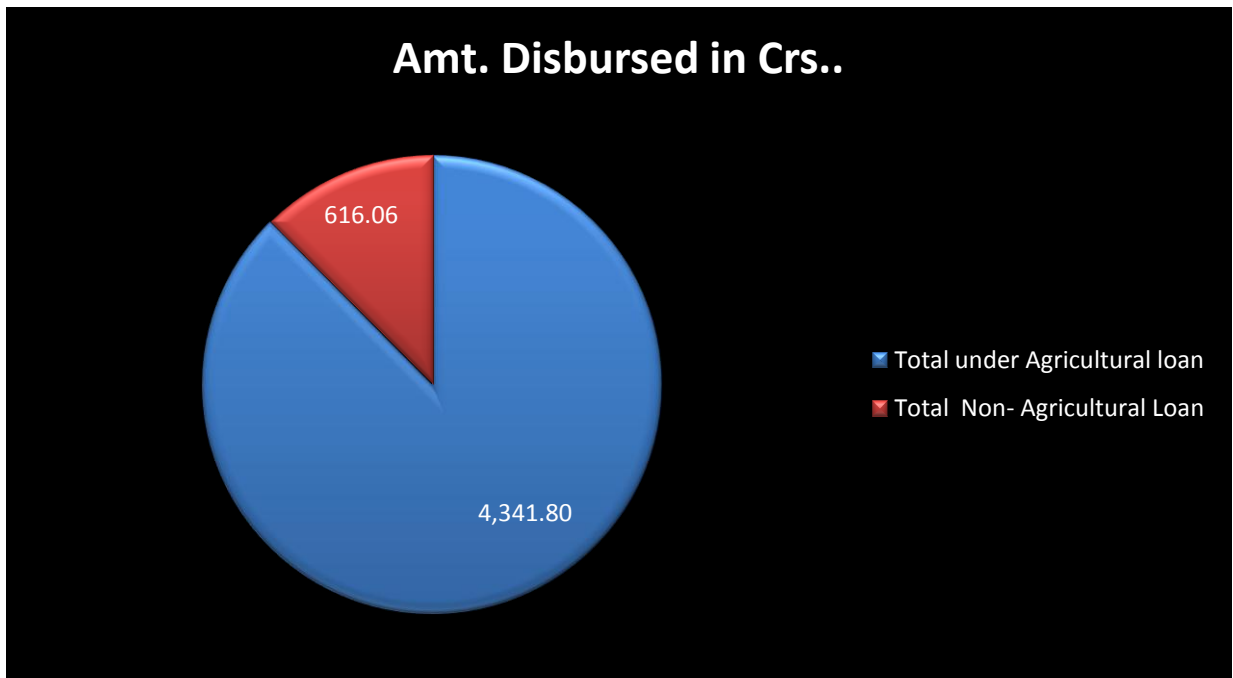
Table-1

The Scheme wise details of advances from inception up to 31-03-2017

SI.NO	Sector	No. of Accounts	Amt. Disbursed in Crs..
1	Minor Irrigation	6,72,433	833.21
2	Farm Mechanism	57,940	1,420.09
3	Land Development	1,40,471	531.71
4	Horticulture/Plantation	1,82,189	598.29
5	Sericulture	66,154	182.95
6	Diversified	2,23,857	700.94
7	General Scheme	3,68,588	74.62
	<b>Total under Agricultural loan</b>	<b>1711632</b>	<b>4,341.80</b>
8	Non-farm/SRTO	46,980	224.57
9	Rural Housing	27,468	391.48
	<b>Total Non- Agricultural Loan</b>	<b>74,448</b>	<b>616.06</b>
10	Crop Loan	5,730	63.29
	<b>GRAND TOTAL</b>	<b>17,91,810</b>	<b>5,021.14</b>

Source: Statistical report of KSCARD Bank Ltd., Bangalore





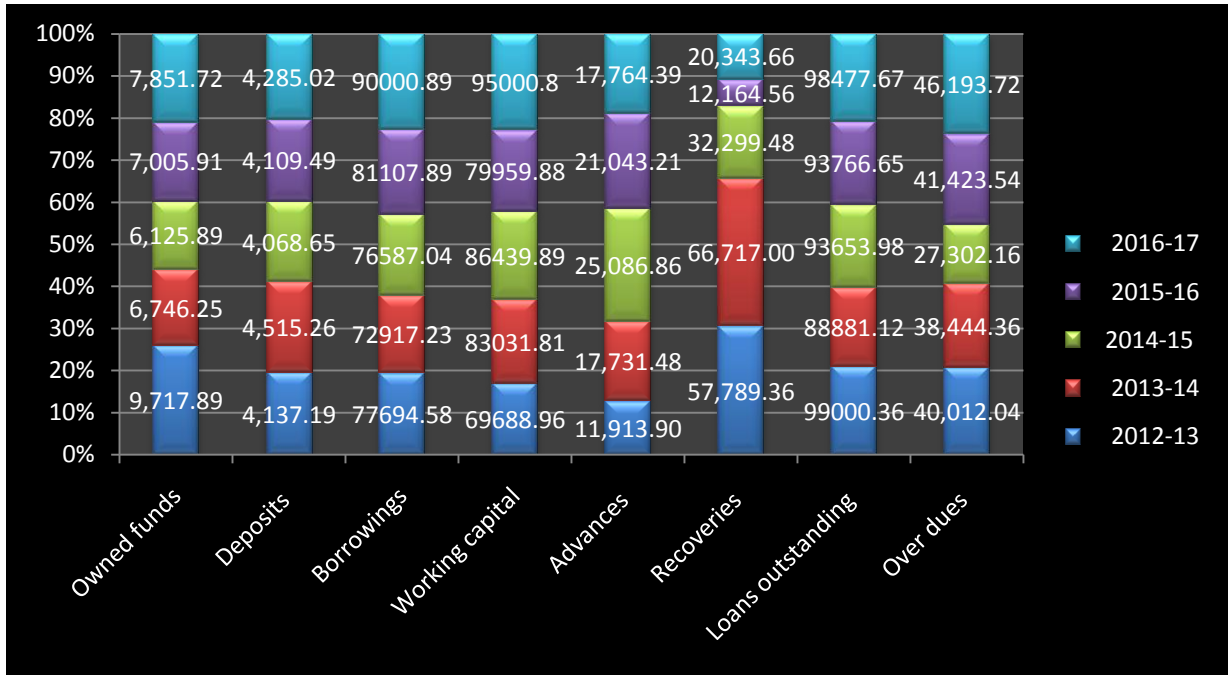
The bank has disbursed loans under various schemes at 6%, 4%, &3% interest rate for Agricultural purpose.

The above table shows the total amount of loan sanctioned by the Bank from the very inception till 2017 and the total number of accounts through which these loans were disbursed. While examining the above table we find that, under 74,448 accounts the bank has disbursed a total of Rs. 616.06 crores of loan for agricultural purpose till 2017 from the inception. And a total of Rs. 4,341.80 crores of Non-Agricultural loan was sanctioned under 17,11,632 accounts.

Table-2

Trends in financial performance of the KSCARDB ( in Crs.)

Particulars/Years	2012-13	2013-14	2014-15	2015-16	2016-17	CGR%
Owned funds	9,717.89	6,746.25	6,125.89	7,005.91	7,851.72	-3.81
Deposits	4,137.19	4,515.26	4,068.65	4,109.49	4,285.02	-0.23
Borrowings	77694.58	72917.23	76587.04	81107.89	90000.89	4.17
Working capital	69688.96	83031.81	86439.89	79959.88	95000.80	5.99
Advances	11,913.90	17,731.48	25,086.86	21,043.21	17,764.39	10.18
Recoveries	57,789.36	66,717.00	32,299.48	12,164.56	20,343.66	-31.54
Loans outstanding	99000.36	88881.12	93653.98	93766.65	98477.67	0.43
Over dues	40,012.04	38,444.36	27,302.16	41,423.54	46,193.72	3.68



Source: Statistical report of KSCARD Bank Ltd., Bangalore

Table-2 indicates the trends in fiscal performance of Karnataka state co operative agriculture and rural development bank (KSCARDDDB). For the period from 2012 – 13 to 2016 -17, the owned funds, deposits, recovery showed the negative compound growth rates of 3.81 per cent, 0.23 and 31.54 per cent respectively. The amount of borrowing, working capital, advances, loan outstanding and over dues showed compound growth rates of 4.17 per cent, 5.99 percent 10.81 per cent, 0.43 per cent and 3.68 per cent respectively.

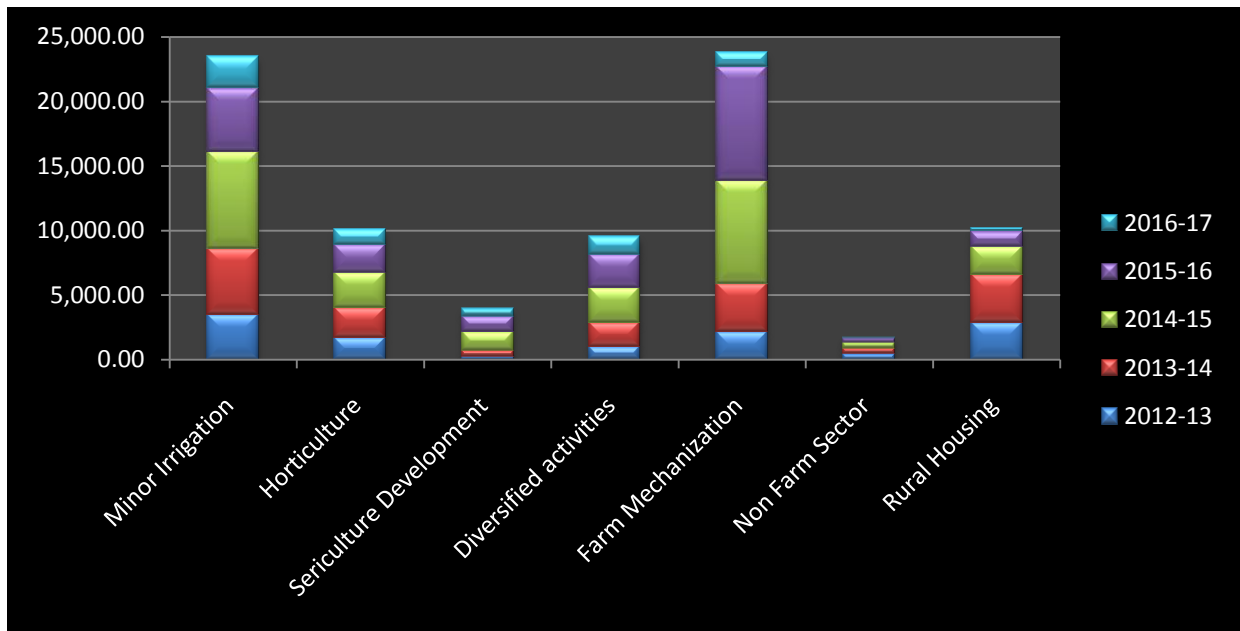
There has been a striking progress in advances and working capital. However, the indicators such as owned funds and recoveries are unsatisfactory.

Table -3

Trends in scheme wise advances of the KSCARDB (in Crs).

Schemes/ Purposes/Years	2012-13	2013-14	2014-15	2015-16	2016-17	CGR %
Minor Irrigation	3,473.32	5,161.50	7,505.10	4,918.75	2,400.59	-7.56
Horticulture	1,692.40	2,326.74	2,773.78	2,099.86	1,211.31	-7.42
Sericulture Development	240.24	483.48	1,431.59	1,220.48	555.14	29.70
Diversified activities	1,012.64	1,879.16	2,659.81	2,619.02	1,336.92	9.28
Farm Mechanization	2,139.33	3,736.72	8,054.80	8,718.77	1,131.46	-4.17
Non Farm Sector	462.20	434.61	424.52	311.14	42.42	-40.01
Rural Housing	2,883.59	3,708.16	2,192.97	1,152.52	269.11	-44.63

Source: Statistical Report of KSCARD Bank Ltd., Bangalore



According to the above table scheme wise advances of Karnataka state co – operative agriculture and rural development bank (KSCARDB) for the period from 2012-13 to 2016-16, the loan issued under sericulture development had a compound growth rate of 29.70 per cent followed diversified activities with compound growth rate of 9.28 per cent. Further, the schemes like minor irrigation non- farm sectors, rural housing and other schemes showed a negative compound growth rate

**Women Development Cell**

Bank has established Women Development cell to promote entrepreneurship among women. The Bank is identifying women borrowers in the rural areas by assigning suitable projects to motivate their self-confidence to lead independent life.

Table-4

Progress in financing women entrepreneurship during the last six years.

SI. No	Year	No. of accounts	Amt Disbursed	% to Total Disbursement
1	2011-12	2994	28.19	14.93%
2	2012-13	2845	29.11	13.94%
3	2013-14	2927	29.81	13.69%
4	2014-15	3765	34.47	15.27%
5	2015-16	4558	52.16	15.67%
6	2016-17	2968	45.33	16.45%

Source: Statistical Report of KSCARD Bank Ltd., Bangalore

The above table shows the progress in financing women entrepreneurship for the last six years. Through analyses we find that over the last six years the total number of accounts and the total amount disbursed by the bank has increased steadily.

**Findings and Suggestions**

Land Development Banks in India are of quasi-commercial type. Although they are all registered under the Co-operative Societies Act, they are associations of borrowers as well as non-borrowers organised on the principle of limited liability. The borrowing capacity of a member is generally determined according to the number of shares he holds in the bank,



though each member has only one vote according to co-operative principle, irrespective of the number of shares he holds.

The State PCARD Banks made tremendous progress in India. Many states are having Primary Co-operative Agriculture and Rural Development Banks. These banks through their special schemes help the farmers and thus assist in the process of economic development of the country. Though these banks are striving hard in the socio-economic up-lift of farmers, the following defects have been noticed in the working of KSCARD Bank.

- (i) Loans given by the bank is predominantly for discharging of prior debts and not for the purpose connected with land improvements.
- (ii) The bank does not have the necessary specialized staff for assessing the technical soundness of scheme. Although State Government possesses such staff, there is no co-ordination between them and the PCARD Banks.
- (iii) The bank does not prescribe different periods for different types of loans.
- (iv) The bank is not able to raise sufficient funds although its debentures are guaranteed by the State Governments.
- (v) There is no co-ordination between the activities of State Co-operative Bank and the Primary Co-operative Agriculture and Rural Development Banks which affects on the functioning of KSCARDB.
- (vi) Delay in Granting funds to Primary Co-operative Agriculture and Rural Development Banks.

It is suggested that, before sanctioning loans, the purpose for which loan is borrowed is to be studied by the bank. Fresh loans are to be sanctioned only after clearing the old loans. An investigation has to be conducted by the responsible officer connected with the Bank to assess the soundness of the scheme. Guidance of the technical expert has to be obtained in this connection. One of the serious drawbacks of this bank is scarcity of fund. Therefore steps must be taken to raise funds for the disbursement of loans. It is found that, the success of the Bank as well as the farmers largely depends on educating the farmers about the various schemes available from the government for the benefit of farmers.

### **Conclusion**

It may be noted that the State Co-operative Agriculture and Rural Development Bank has made commendable progress in quantitative terms but it is suffering from high overdue due to poor recovery and heavy accumulated losses. The need of the hour is to increase the recovery to improve the financial strength of the bank and to render good services to the people of a developing country like India.

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