
Role of Special Banks in Agricultural and Rural Development - A Study with Reference to Karnataka

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Abstract: *The special banks providing long term Agricultural credit are known as Primary Co-operative Agricultural and Rural Development Banks (initially Land development Banks). The first of this kind of bank was established at Jhang in Panjab in the year 1920. Though, primary Co-operative Agricultural and Rural Development Banks were established dating back to independence, 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 also these banks are now renamed as 'Primary Co-operative Agricultural and Rural Development Banks.*

In this paper an attempt is made to explain the Role of Primary Co-operative Agricultural and Rural Development Banks in India and how these Banks are helping in the economic growth of India.

Key Words: *Special Banks, Rural Development, Land Mortgage, Allied Activities.*

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%, 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 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 the hour for an inclusive growth.

Objectives of the Study

1. To study the role of Primary Co-Operative Agricultural and Rural Development Bank.
2. To offer suggestions helpful in solving 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 Special Banks.

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 percent and national income of around 0.7 percent'. So even in spite of rapid industrialization, agriculture and allied activities constitute the single largest contributor to Gross Domestic Product accounting for almost 33 percent 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.

Sources of Agricultural Credit

Broadly, there are two sources of credit available to the farmers in India, namely Institutional and Non-institutional sources. Non-institutional sources include the private money-lenders, commission agents etc. who all are detrimental to the interest of rural people. In view of the evil effects of these non-institutional agencies, attempts were made from the very beginning for the provision of cheap credit to the farmers. Institutional credit refers to loans provided to farmers by co-operative societies and co-operative banks including regional rural banks. Among the various institutional agencies, co-operatives were the first to enter the field of agricultural credit. Again, it was identified that, co-operative credit has a great role to play in promoting rural economic development because of its close proximity to local people and knowledge of their living conditions. The commercial banks started to finance to agriculture in 1961 and in 1975 Regional Rural Banks also started to finance agricultural sector to cater the increased needs of the farmers.

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. Debenture is a 'Bond' conveying and acknowledging the debt and also containing the provision of promise for payment of interest at stipulated rate and return of the principal amount. The period of debentures varies from 7 to 15 years. 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 application 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 depending upon the delegation of powers by the Banks.

Role of PCARD Bank in Economic Development

The rural population in India was suffering from agricultural indebtedness and was subject to exploitation in the credit market with high rates of

interest and lack of convenient access to credit. Rural household was in need of credit for investing in agriculture and smoothening out seasonal fluctuations in earning. Thus there was the need of a financial institution which could provide credit at lower rates and at reasonable terms than the traditional money-lender. To solve this problem PCARD Bank, which are also known as special banks were established.

The Primary Cooperative Agricultural and Rural Development Banks provide long-term loans to the agriculturists for permanent improvements on land. They usually charge 9 percent interest. They grant loans against the security of land or other agricultural property. Loans are usually given on the first mortgage and sometimes even on the second mortgage of land or agricultural property. Generally, they give loans up to 50 percent of the market value of the mortgaged property.

The Primary Cooperative Agricultural and Rural Development Banks meet the requirements of the farmers for developmental purposes viz., provision of equipment like pump-sets, tractors and machinery and land improvement in the form of levelling, bundling, reclamation of land, fencing, digging of new wells and repairs to old wells, Loans are granted on the security of mortgage of immovable property of the farmers.

The Central Cooperative Agricultural and Rural Development Banks raise their resources by floating debentures in the market. These debentures carry the guarantee of the State Government and are subscribed by the Central and State Governments, Commercial Banks, Life Insurance Corporation and other Land Development Banks as a measure of mutual support. The Primary Cooperative Agricultural and Rural Development Banks have availed of the refinancing facilities provided by the National Bank for Agricultural and Rural Development in respect of the term loans granted by them for the schemes of agricultural development. They also secure short term accommodation from the State Governments, Commercial Banks and the State Co-operative Banks.

Credit Delivery

The Role of Primary Cooperative Agricultural and Rural Development Banks in the economic development of the country can be understood with the study of various types of loans and credit facilities offered by these Banks.

The Primary Co-operative Agriculture and Rural Development Banks grants long term loans to the farmers against the conveyance of land as security. The progress made by these banks is seen in the growth of number of banks

and increase in the number of membership. *The economic and social well-being of the borrowers is also identified as one of the objectives of the lending by PCARDBs. Supply of adequate credit can stimulate agriculture operations and rural development to a great extent.* Till recently, the short term financial requirements of the farmers such as crop finance, demand loans, Agricultural advances were not in practice. The Primary Co-operative Agriculture and Rural Development Bank have started these schemes thus helping the farmers to meet their short term financial requirements also.

Generally PCARDBs provide both Farm and Non-farm loans i.e., loan for minor irrigation, farm mechanization, sericulture development, horticulture and plantation, Diversified scheme, Non-farm Sector and Rural Housing. The following types of loan facilities are available to members of the Bank.

1. Agricultural Loans

- 1.1 Minor irrigation Projects like Construction of new Wells, Repairing of existing wells, Construction of Water Tanks and Sprinkler irrigation purpose etc.
- 1.2 Special Projects like Development of Areca Plantations, Development of Coconut and Rubber Plantations, Rubber Processing Unit, Areca nut Dryer Construction, Fencing around the Plantations, for the construction of new Rubber, Coconut and Cashew nut Plantations.
- 1.3 Variety Projects like Financing Small and very small Farmers for the purchase of Agricultural, Poultry farming, Dairy farming, Gobar Gas unit, for the Purchase of power Tiller and Tractors and Purchase of two wheeler (only to farmers)

2. Non-Agricultural Loans

- 2.1 Small Scale and Service Industries
- 2.2 Purchase of Light Transport Service Vehicles
- 2.3 Repairing, Extension and Construction of new houses in the villages.

Table 1: Trends in financial performance of the KSCARDB

Particulars	2011-12	2012-13	2013-14	2014-15	2015-16	CGR%
Membership	184	184	184	184	182	-0.21
Owned Funds	9717.89	6746.25	6125.89	7005.91	7851.72	-3.81
Deposits	4137.19	4515.26	4068.65	4109.49	4285.02	-0.23
Borrowings	126043.58	118806.23	124785.04	132150.89	146639.89	4.17
Working Capital	134513.96	160288.81	166867.89	154358.88	183393.80	5.99
Advances	11913.90	17731.48	25086.86	21043.21	17764.39	10.18
Recoveries	57789.36	66717.00	32299.48	12164.56	20343.66	-31.54
Loans outstanding	133998.36	120302.12	126761.98	126914.65	133291.67	0.43
Over Dues	40012.04	38444.36	27302.16	41423.54	46193.72	3.68

Source: Statistical Report of KSCARD Bank Ltd., Bangalore

Table 1 Indicates the trend in performance of Karnataka State Co-operative Agriculture and Rural Development Bank (KSCARDDDB). For the period from 2011 – 12 to 2015 -16 the owned funds, deposits, recovery showed the negative compound growth rates of 3.81 percent, 0.23 and 31.54 percent respectively. The amount of borrowing, working capital, advances, loan outstanding and over dues showed compound growth rates of 4.17 percent, 5.99 percent 10.81 percent, 0.43 percent and 3.68 percent respectively.

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

Table 2: Trends in Scheme – wise Advances of the KSCARDB

Schemes/Purposes	2011-12	2012-13	2013-14	2014-15	2015-16	CGR%
Minor Irrigation	3473.32	5161.50	7505.10	4918.75	2400.59	-7.56
Horticulture	1692.40	2326.74	2773.78	2099.86	1211.31	-7.42
Sericulture Development	240.24	483.48	1431.59	1220.48	555.14	29.70
Diversified Activities	1012.64	1879.16	2659.81	2619.02	1336.92	9.28
Farm Mechanization	2139.33	3736.72	8054.80	8718.77	1131.46	-4.17
Non Farm Sector	462.20	434.61	424.52	311.14	42.42	-40.01
Rural Housing	2883.59	3708.16	2192.97	1152.52	269.11	-44.63
General Schemes	153.00	007	020	030	057	-5.06

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 2011-12 to 2015-16 the loan issued under sericulture development had a compound growth rate of 29.70 percent followed diversified activities with compound growth rate of 9.28 percent. Further, the schemes like minor irrigation non-farm sectors, rural housing and other schemes showed a negative compound growth rate.

Table 3: Operational Efficiency of PCARDBs in Karnataka

Particulars	2011-12	2012-13	2013-14	2014-15	2015-16	CGR%
Membership	1034513	1037635	1050757	10828832	1100374	1.67
Owned funds	30631.75	24940.64	25902.73	26747.85	28055.54	-1.05
Deposits	7890.90	7312.98	6891.33	6959.20	7593.55	-1.27
Borrowings	139655.55	121134.61	129034.15	130339.48	133585.97	-0.15
Working capital	133346.43	120741.97	138509.98	143687.24	151560.92	4.39
Advances	16002.75	22653.17	29366.48	25767.12	22711.07	8.64
Recoveries	117500.91	66717.00	3025.42	24029.30	29934.19	8.86
Loans outstanding	119902.97	103552.68	114156.26	122448.26	123561.03	2.30
Over dues	69497.13	38444.36	33970.13	38429.87	38885.63	-10.96

Source: Statistical report of KSCARD Bank Ltd., Bangalore

Progress Report of KSCARD bank Ltd., Bangalore.

Table 3 indicates that the operational efficiency of primary co operative agriculture and rural development banks in Karnataka. For the period from 2011-12 to 2015-16 the membership working capital advances, recoveries and loan outstanding showed the compound growth rate of 1.67 percent 4.39 percent, 8.64 percent, 8.86 percent and 2.30 percent respectively. Growth of owned funds, deposits and borrowing showed negative compound growth rate respectively. However, the indicator of recovery is satisfactory.

Table 4: Trends in Scheme Wise Advances of PCRDBs

(Figures in Rs. Lakh)

Schemes/Purposes	2011-12	2012-13	2013-14	2014-15	2015-16	CGR%
Minor Irrigation	26312.69	13238.52	10895.06	11766.55	10779.14	-17.32
Horticulture	8975.19	5358.38	4675.37	6607.86	6750.94	-3.53
Sericulture development	3306.12	1340.89	1328.13	1472.80	1575.79	-12.96
Diversified activities	6249.24	3642.10	2988.12	3372.29	3209.34	-13.14
Farm Mechanization	9536.11	4738.44	4667.75	4897.15	4875.67	-12.27
Non Farm Sector	6590.86	4737.92	3962.05	3861.76	3383.53	-14.25
Rural Housing	2446.26	2436.32	2872.55	2879.16	4038.68	12.42
General Schemes	4656.79	2055.07	1421.00	1549.49	1904.31	-18.70

Source : Statistical Report of KSCARD Bank Ltd., Bangalore

Progress Report of KSCARD Bank Ltd., Bangalore.

Note CGR = Compound Growth Rate

The table 4 depicts the loan issued under different schemes by Primary Co-operative Agriculture and Rural Development Banks in Karnataka for the period form 2011-12 to 2015-16, the loan issued under rural housing had a compound growth rate of 12.42 percent. Then loan issued under minor irrigation showed negative compound growth rate of 17.32 percent followed by horticulture, sericulture, diversified activities, farm mechanization, non

farm sector and general scheme with negative compound growth rates of - 3.53 percent, - 12.96 percent, 13.14 percent, -12.27 percent, -14.25 percent and 18.70 percent respectively. However, the loan issued under minor irrigation, sericulture, diversified, farm – mechanization, non farm sector and general schemes are not satisfactory.

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 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 PCARD Banks.

1. Loans given by them are predominantly for discharging of prior debts and not for purpose connected with land improvements.
2. These banks do 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.
3. These banks do not prescribe different periods for different types of loans.
4. They are not able to raise sufficient funds although their debentures are guaranteed by the State Governments.
5. There is no co-ordination between the activities of State Co-operative Bank and the Primary Co-operative Agriculture and Rural Development Banks.
6. Delay in Granting loans.

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 funds.

Conclusion

It may be noted that the Primary Co-operative Agriculture and Rural Development Banks have made commendable progress in quantitative terms but they are 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 banks and to render good services to the people on a developing country like India.

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