CHAPTER - 5

ROLE OF BANKS AND FINANCIAL INSTITUTIONS IN THE ECONOMIC GROWTH AND DEVELOPMENT OF KARNATAKA

Summary

This chapter examines the role of banks and financial institutions in the economic growth and development of Karnataka. It assesses the strengths, opportunities, and challenges of the banking sector in Karnataka. Karnataka is one of India's most developed and industrialized states with a rapidly growing information technology and service sector. It historically had a robust banking infrastructure to support its industries, with many private banks and Public Sector Banks (PSBs) originating from the state. As India's bank credit to GDP ratio increased from 25% in 1991-92 to 58% in 2020-21, Karnataka's contribution to this growth was relatively modest. Its Bank credit to GSDP ratio in FY 2019-20 stood at 40.5 %, which is lower than that of many of its neighboring states. Sectors such as manufacturing, transport and trading receive inadequate credit relative to their economic potential. Karnataka's relatively low bank loan penetration indicates that many borrowers such as small businesses, self-employed and farmers are credit-constrained and depend on informal financial institutions like co-operative credit societies or local money lenders. Excessive dependence on informal sources of finance impedes development. Therefore, it is crucial to expand the coverage of formal banking finance within the state. Based on the criteria of villages having any bank branch/BCs or IPPB Centre, there is no unbanked village in Karnataka as on 31.10.2021 based on the data updated by banks on the Jan Dhan Darshak App as informed by Dept. of Financial Services, Ministry of Finance, GoI. A back-of-the-envelope estimation suggests, if Karnataka raises its bank credit to GSDP ratio to 50% from the current 40.5%, it can potentially add 1.42% more to its GSDP every year.

Key Highlights

- Small and medium businesses in the trade, transport and industrial sector are credit constrained.
- There is a need to strengthen primary agricultural credit societies and cooperative banks.
- Expanding BC outlets is recommended to increase access to credit.
- Enhancing cyber security capabilities is likely to sustain Karnataka's leadership position in digital payments and fintech
- The target should be to reach Bank Credit to GSDP ratio of 50% by 2025-26

5.1 Karnataka's Economic Landscape

Karnataka is the 5th largest state in India by GDP and ranks 3rd in per capita GDP among large states. Karnataka experienced very high economic growth in recent years, with an annualized 8% plus growth in GSDP over the last seven years, which is higher than the national average growth rate during this period. Karnataka has emerged as a leading state with knowledge-based industries such as IT, biotechnology and engineering. The state also leads in IT and ITES exports with $42.16 billion in FY 2019-20. It also has an educated and skilled labor force to boost knowledge-based industries. It is also one of the preferred investment destinations and accounted for 9% of the total FDI inflows to India. In 2019-20, the tertiary sector contributed 66.19% to the state's GSVA (Gross State Value Added) at current prices, followed by secondary (22.29%) and primary (11.52%) sectors. It is interesting to note that the service sector has grown at the expense of the manufacturing sector and not the agricultural sector. While the share of the service sector increased from 64% in 2015-16 to 66.19% in 2019-20, the share of the manufacturing sector decreased from 23.39% to 22.29%.

5.1.1 Economic Performance – Comparative Study

This chapter evaluates Karnataka's economic performance and outcomes against comparable states to derive key trends and insights. Karnataka is a relatively developed and industrialized state and comparable states should also be similar. The states which have similar levels of per capita income, poverty rate, literacy rate, GDP and population levels can be compared to extract meaningful insights. All the neighboring states of Karnataka except Goa fulfill these criteria. The comparable states chosen for the analysis are Andhra Pradesh, Kerala, Maharashtra, Tamil Nadu, and Telangana. All these states are large states, with a population of more than 3 Crores and GSDP higher than $130 Billion. All comparable states have a per capita income higher than the national average and a poverty rate below 15%.

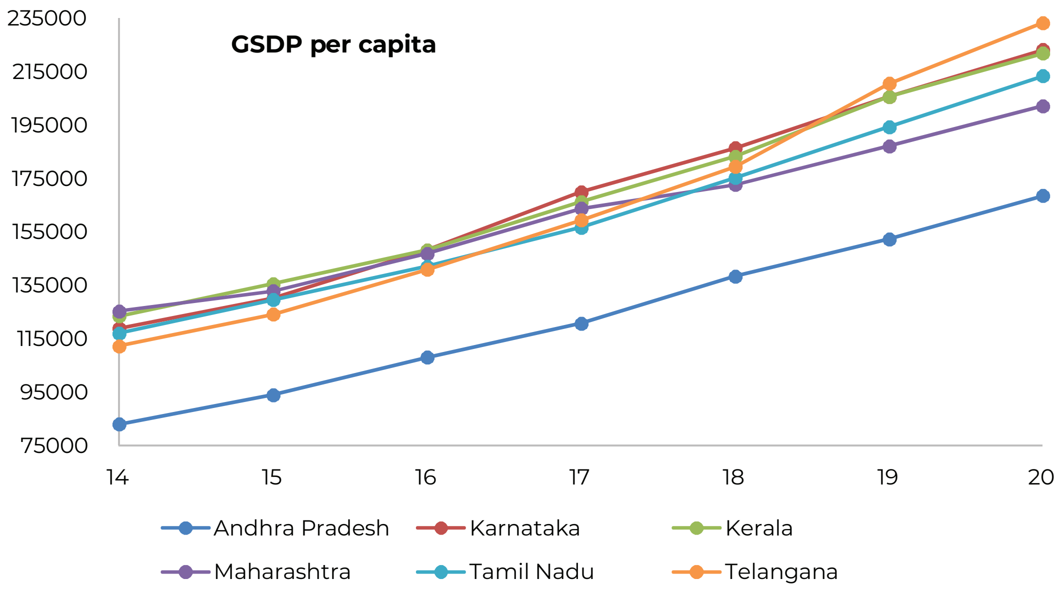


Figure 5.1: State-wise GSDP from 2013-14 to 2019-20, Source: MoSPI GSDP data

Karnataka's economy has grown very rapidly in the last six years. The per capita GSDP of Karnataka has doubled from INR 1,18,829 in 2013-14 to INR 2,23,175 in 2019-20. In FY 2019-20, all the six states except Andhra Pradesh have a per capita GSDP of more than INR 2 lakh. The evolution of the per capita GSDP of Karnataka and its neighbors is plotted in Figure 5.1. Karnataka's growth fell in FY 2017-18 and FY 2018-19, which was also compounded by the slide in its ease of doing business rankings in 2019 when it ranked 13.

Table 5.1: State-wise Comparison of Economic Variables				
State	Per capita GSDP	5-year GSDP growth (2015-20)		Ease of Doing Business rank
		Real	Nominal	
Andhra Pradesh	168480	8.7%	13.1%	1
Karnataka	223175	8.5%	12.3%	17
Kerala	221904	5.9%	10.8%	28
Maharashtra	202130	6.6%	9.6%	14
Tamil Nadu	213396	7.0%	10.9%	13
Telangana	233325	8.9%	13.6%	3

Source: MoSPI; DIPP

5.2 Financial Development and Growth

Financial development and banking play a vital role in the economic growth of a region (Levine (2005)). Empirical studies by King & Levine (1993) demonstrate that the level of a country's financial development helps predict its economic growth rate for the following 10-30 years. Guiso et al. (2005) confirm the higher impact of financial development on the growth of financially dependent sectors. Svaleryd & Vlachos (2005) find that countries with well-functioning financial systems tend to specialize in industries highly dependent on external financing. Recent studies show that banking competition is associated with a decline in both income and gender inequality, as the increase in economic activity associated with the deregulation creates employment opportunities (Popov & Zaharia (2016), Beck, Levine, & Levkov (2010)). Ilyina & Samaniego (2011) find that industries that grow faster in more financially developed countries display greater R&D intensity, indicating that efficient financial systems direct resources toward sectors where growth is driven by R&D. Ang & Madsen (2012) show that risk capital and private credit play an important role in stimulating knowledge production, and countries with more developed financial system tend to be more innovative. Research studies also show that financial development is good only up to a point. It becomes a drag on growth and is detrimental to aggregate productivity growth (Cecchetti & Kharroubi, (2012)) after that. High credit growth achieved through relaxations in prudential regulations can create a moral hazard that can lead to inefficient capital allocation and zombie lending. (Mannil, Nishesh, & Tantri, 2021). In sum, the literature seems to suggest that a well-regulated, market-based, and competitive financial system is essential for economic growth.

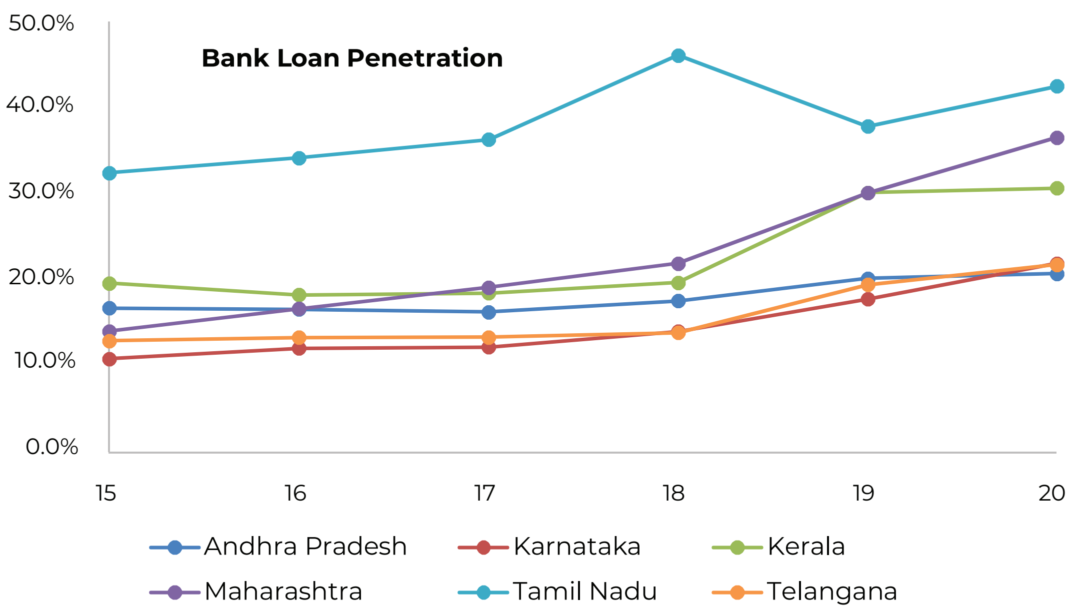
5.3 Karnataka's Financial Sector

Karnataka's performance in the banking sector could be understood by analyzing it along with the five neighboring states on comparable variables such as Bank credit to GDP ratio, credit growth, per capita credit and bank loan penetration. Bank Credit to GSDP ratio reflects the formal financialization of the economy. It is a metric used by international financial organizations like World Bank and IMF to measure financial development in a country. In FY 2019-20, Karnataka had a bank credit to GDP ratio of 40.5%, which is less than the All-India average of 56.7%. Karnataka has lower bank credit to GDP ratio than Telangana and Tamil Nadu. The bank credit to GSDP ratio in Maharashtra is 2.5 times that of Karnataka.

Table 5.2: State-wise Comparison of Banking Variables, Source: MoSPI; RBI Quarterly State-wise Credit data; Population Census 2001				
State	**Per capita bank credit**	**Bank Credit to GSDP**	**Bank loan penetration**	**Credit Growth (5yr avg)**
Andhra Pradesh	65093	38.6%	20.8%	15.5%
Karnataka	90301	40.5%	22.0%	10.1%
Kerala	87359	39.4%	30.7%	10.8%
Maharashtra	204767	101.3%	36.6%	7.8%
Tamil Nadu	113307	53.1%	42.5%	8.3%
Telangana	120244	51.5%	21.8%	8.9%
Source: MoSPI; RBI Quarterly State-wise Credit data; Population Census 2001				

Bank credit per capita of Karnataka is also lower than Tamil Nadu by 21.4 % and Telangana by 25%, despite its GSDP per capita being higher than Tamil Nadu and very close to that of Telangana. Bank loan penetration is the number of bank loan accounts as a proportion of the population. Bank loan penetration for Karnataka more than doubled from 10.9% in 2014-15 to 22% in 2019-20. This is slower than the rate of growth observed for Maharashtra and at a smaller level than Tamil Nadu. The low banking penetration of Karnataka suggests that many households in Karnataka lack access to bank credit and depend on informal financial institutions or money lenders for their credit needs. In terms of credit growth in recent years, Karnataka stands better than the rest with a CAGR of 10.1%, and only behind Andhra Pradesh. Overall, various performance metrics on Karnataka's banking indicate that Karnataka has relatively ample scope for further increase in access to credit.

Figure 5.2: State-wise Number of outstanding loans divided by population from 2013-14 to 2019-20, Source: RBI Quarterly BSR-1 Outstanding Credit of Scheduled Commercial Banks; Population Census 2011



5.3.1 Credit Distribution by Sector

Sectoral distribution of credit helps us identify the sectors that are most affected by lack of credit. A comparison of the ratio between Bank credit to a particular sector and sectoral component of GSDP is shown in **Table 5.3.** Like every other state, Karnataka has high credit to GSDP ratio in the agriculture (56.7%) and industrial sector (57.7%). Yet, it holds 3rd position both in agricultural credit and industrial credit. Karnataka holds the 2nd position in services credit, while it lags in transport (11.2%) and trade sector (29.2%) with 5th and 4th positions respectively. This suggests that Karnataka has to improve its credit outflow to the transport and trade sectors. Even in industrial credit, Karnataka's credit to GSDP ratio is almost half of Telangana, and bridging this gap is essential for the revival of the manufacturing sector in Karnataka.

Table 5.3: State-wise Comparison of Bank Credit to GSDP by Sector

State	Agriculture	Industry	Transport	Services	Trade	Finance
Andhra Pradesh	40.1%	33.5%	10.7%	7.0%	50.2%	24.0%
Karnataka	56.7%	57.7%	11.2%	11.9%	29.2%	45.5%
Kerala	100.0%	21.3%	13.2%	7.5%	22.0%	122.6%
Maharashtra	47.1%	124.1%	50.9%	21.6%	74.2%	204.7%
Tamil Nadu	82.7%	45.2%	19.2%	10.9%	42.5%	97.6%
Telangana	45.4%	107.2%	21.6%	10.5%	24.9%	32.7%

Source: MoSPI; RBI Quarterly State-wise Credit data by Sector 2019-20

5.3.2 Credit Distribution by Bank Group

The distribution between private banks and Public Sector Banks (PSBs) credit in Karnataka is similar to other states. Small Finance Banks (SFBs) contribute to a meager 0.3% share of credit in Karnataka. There is scope to increase the share of lending by SFBs. SFBs are niche banks that can cater to the priority sector, as they are specialized in lending to small businesses, small and marginal farmers, and the unorganized sector.

Table 5.4: State-wise Distribution of Credit by Bank Type

State	Private	Public	RRB	Small finance
Andhra Pradesh	18.7%	73.5%	7.8%	0.1%
Karnataka	39.9%	55.1%	4.7%	0.3%
Kerala	39.9%	53.3%	5.3%	1.4%
Maharashtra	40.7%	58.7%	0.4%	0.3%
Tamil Nadu	40.6%	57.1%	1.3%	1.0%
Telangana	32.4%	63.9%	3.7%	0.0%

Source: RBI Quarterly State-wise Credit data 2019-20

5.3.3 Credit Distribution of Financial Institutions other than SCBs

Table 5.5: State-wise Ratio of credit of a financial institution type to SCB credit.

State	Co-operative Banks	NBFC MFI	HFC
Andhra Pradesh	8.9%	0.2%	6.2%
Karnataka	9.8%	2.8%	12.2%
Kerala	16.5%	2.8%	5.6%
Maharashtra	9.5%	0.6%	7.0%
Tamil Nadu	4.3%	3.6%	8.0%
Telangana	3.6%	0.1%	11.9%

Source: RBI Quarterly State-wise Credit data 2019-20; MFIN report 2020; RBI State-wise annual account of State & District Co-operative Banks and Urban co-operative bank 2019-20

Financial institutions other than Scheduled Commercial Banks (SCB) provide credit to households and businesses such as NBFCs, MFIs, HFCs, and co-operative banks. Their contribution to lending activity is measured by estimating its outstanding credit as a proportion of the total outstanding credit to Scheduled Commerical Banks (SCB), making it easier to compare across states. As evident from **Table 5.5** the proportion of Co-operative Bank credit to total SCB credit at 9.8% for Karnataka is the second highest, only behind Kerala. The contribution of NBFC MFIs is small but is comparable to other states. NBFC MFIs provide microfinance loans to marginal borrowers. Although its contribution might be lower in terms of overall credit, it gives access to credit for millions of households. Karnataka retains the top position in terms of contribution by Housing Finance Companies (HFCs). This is an encouraging development, which bodes well for the housing and real estate sector in Karnataka.

5.3.4 Dependence on Co-operative Banks

In India, cooperative banks play an important role in rural financing, with a specific focus on agriculture, small-scale and cottage industries and self-employment. Co-operative banks have often been riddled with lax governance standards and weak credit culture. Legislative changes were introduced to grant RBI powers to regulate cooperative banks in this context. Co-operative Banks contribute to 9.8% of the total bank credit in Karnataka, more than twice that of Tamil Nadu and Telangana. The broad category of cooperative banks includes state and district cooperative banks, primary agricultural societies and Urban Cooperative Banks. The share of cooperative bank credit is highly skewed in certain districts and sectors. Within Karnataka, the districts with the highest share of credit from cooperative banks have performed relatively poorer than the rest in terms of per capita income and poverty rate growth. Districts such as Bagalkote, Bidar and Vijayapura have a higher share of co-operative bank credit also are some of the poorest districts in Karnataka, as measured in terms of poverty rate (**Annexure 5.1**).

It is possible to reduce the dependence of borrowers on cooperative banks by encouraging commercial banks, including public sector banks, to open branches in areas dominated by cooperative banks. This will ensure that borrowers have more choices while applying for a loan. The competition from commercial banks will pressure cooperative banks to improve governance and risk management.

Box 1 – Impact of co-operative bank lending on district outcomes

Ratio of co-operative bank credit to commercial bank credit is estimated for each district from the balance sheet of district co-operative banks and RBI district wise SCB credit data for the financial year 2019-20. Parameters used for evaluating economic growth of a district are per capita NDDP , growth in per capita NDDP in last 10 years and multi-dimensional poverty rate. The correlation coefficient between share of cooperative bank credit and economic parameters for 30 districts is estimated. Correlation coefficient of Co-op Bank credit & Per capita income is -0.154 , suggesting that districts with higher share of co-operative bank had lower per capita income.

5.3.5 Distribution of Unbanked Rural Villages

Research studies show the expansion of bank branches in rural areas reduces poverty (Burgess & Pande, 2005), (Cramer, 2021). It improves the access of rural poor to formal credit and savings opportunities. As part of its financial inclusion strategy, RBI introduced a policy in 2011 requiring all Scheduled Commercial Banks (SCBs) to open 25% of their new branches to be opened in unbanked rural centers (URC). Unbanked rural centers are villages or census towns that do not have any brick-and-mortar branches of a bank. This RBI policy led to the steady expansion of bank branches in unbanked rural areas. Despite the massive growth, around 90% of the rural villages still lack a brick-and-mortar branch. In 2017, RBI modified the policy and provided banks with the option of opening low-cost banking correspondent outlets (BC outlets) in place of branches. BC outlets should be capable of carrying out simple transactions like cash deposits, cash withdrawals, cheque encashment and account opening.

By FY 2020-21, only 10.2% of Karnataka's rural villages had bank branches, which is lower than all southern states of India. Only Maharashtra is behind Karnataka on the share of rural villages with bank branches. Around 95% of villages/towns have bank branches in Karnataka in semi-urban areas. The data on BC outlets are not available and communities supported by BC outlets are also considered a banked center by RBI. Therefore, the proportion of the banked villages should be slightly higher than the one estimated in **Table 5.6.**

District-wise distribution of rural villages and bank branch presence is provided in **Annexure 5.2**. It reveals a considerable dispersion in the share of villages with bank branches among districts in Karnataka, with Udupi at the top with 52.94% and Kolar at the bottom with 4.86%. Fourteen districts have bank branches in less than 10% of their villages. Only three districts have bank branches in more than 20% of their villages – Udupi, Dakshina Kannada and Kodagu. Interestingly, none of the bottom five districts are the erstwhile underbanked districts. The RBI policy of encouraging branches in underbanked districts (Section 4.1) ensured that these districts caught up with the rest of the districts of Karnataka. Among the erstwhile underbanked districts, 3 out of 6 districts have bank branches in more than 10% of its villages - Bangalore Rural, Bidar and Chamarajanagar.

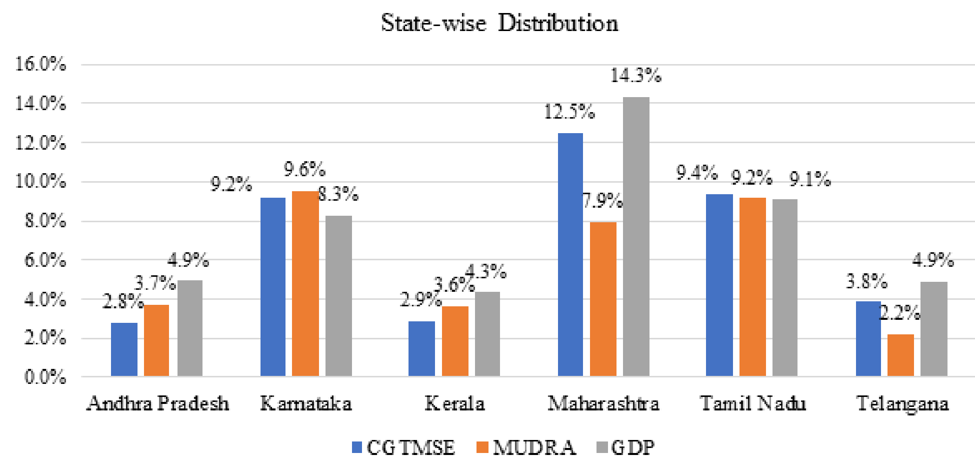
Table 5.6: State-wise comparison on % share of villages with bank branches						
States	Semi-Urban			Rural		
	Villages	Village with Bank Branches	% of Villages With Bank Branches	Villages	Village with Bank Branches	% of Villages With Bank Branches
Andhra Pradesh	457	449	98.2%	16847	1872	11.1%
Karnataka	372	352	94.6%	28734	2927	10.2%
Kerala	1169	1097	93.8%	292	230	78.8%
Maharashtra	651	589	90.5%	43497	2707	6.2%
Tamil Nadu	945	782	82.8%	18055	2351	13.0%
Telangana	233	230	98.7%	8529	1241	14.6%

Source: RBI MOF Branch locator; population census 2011
Note: Note: No. of village branches in Karnataka as on 30.09.2021 is 4218 & Percentage works out to 15.39%. as per SLBC.

5.3.6 Credit Constrained Firms

Businesses in Karnataka receive a lesser share of bank credit relative to their economic size. Research studies have shown that many firms in the manufacturing, trading, and service sector are credit constrained and receive either no credit or lesser credit than required from formal financial institutions like banks (Banerjee and Duflo, 2014). Karnataka's relatively low credit to GSDP ratio across all sectors indicates that many firms in Karnataka are credit constrained. Thus, many small and medium businesses in Karnataka depend on central government schemes that offer credit guarantees. The purpose of credit guarantee schemes is to encourage banks to provide collateral-free loans to constrained borrowers, as part of the bank's losses on loans in case of default is absorbed by the government.

Figure 5.3: State-wise distribution as a share of All-India total for GDP (FY 2019-20), CGTMSE outstanding credit, 2020-21 and PMMY outstanding credit



Source: MoSPI GSDP data; MUDRA website; CGTMSE website

Credit Guarantee Trust for Medium and Small Enterprises (CGTMSE) is one of the significant schemes intended for this purpose. Karnataka's share of loans sanctioned under CGTMSE during FY 2020-21 is 9.2%, which is higher than its share of GDP, as shown in **figure 5.3**. This indicates that banks are ready to provide credit to constrained firms if the government shares part of the credit risk. Similarly, the government of India launched PM Mudra Yojana to enable small borrowers to access micro-loans up to 10 lakh for non-farm income-generating activity. Credit Guarantee Fund guarantees the microloans under the MUDRA scheme for Mirco Units (CGFMU), which will cover 75% of the losses on loans due to default. All eligible borrowers will receive credit on the application for a loan. Out of 1.7 lakh, Cr disbursed under Mudra Yojana, Karnataka's share was 9.6%, which is much higher than its share of GDP. Thus, Karnataka realized more than its potential share of credit from both the MUDRA scheme and CGTMSE.

5.3.7 Digital Payments

India is witnessing a revolution in digital payments with the rise in UPI payments. India became a pioneer in payment systems with the launch of UPI in 2016. It represented a significant advance in payments innovation, enabling real-time digital payments on a mobile platform. UPI allowed real-time payment transfers from one bank account to another on a mobile platform using one's UPI ID or phone number. UPI has roughly 150 million active users and 10 million transactions in a day, as of November 2021. Phonepe is the leading UPI payment aggregator and has a market share of 46.7 %. Phonepe has released state-wise UPI transaction data of its users. As Phonepe covers around 60% of all unique UPI users, analysis of its state-wise transaction data would help in understanding the latest trends

Table 5.7: State-wise UPI transactions and user (Q3 2021),

State	Transaction volume (In Cr) Q3 FY21	Transaction volume share	User penetration
Andhra Pradesh	43.20	8.21%	37.2%
Karnataka	75.33	14.31%	39.4%
Kerala	6.30	1.20%	20.8%
Maharashtra	79.29	15.06%	33.0%
Tamil Nadu	20.44	3.88%	23.1%
Telangana	62.29	11.83%	49.0%
Source: Phonepe Pulse			

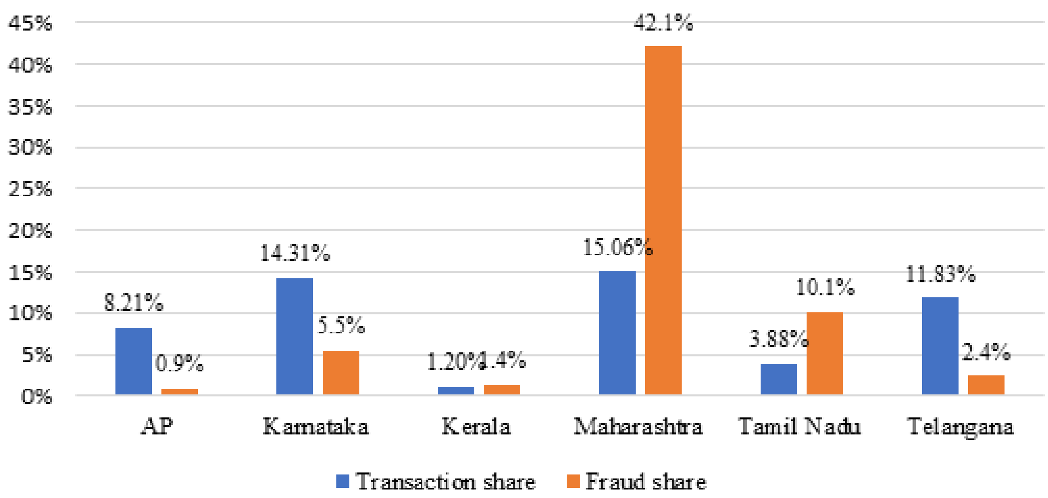
Table 5.7 provides the transaction volume (number), transaction volume as a share of total transactions in India, and user penetration. Karnataka has a transaction value share of 14.31%, which is about 1.8 times its GSDP share. It ranks second in transaction value across all states in India. Karnataka also has a user penetration of 39.4%, making it the state with the 2nd highest user penetration in India after Telangana. All the trends in digital payments suggest that Karnataka has emerged as a leader in digital payments.

Table 5.8: State-wise ATM-Debit card, credit card and internet fraud (FY 2019-20)						
State	Number of Frauds			Fraud Amount (in Cr)		
	2017-18	2019-20	% increase	2017-18	2019-20	% increase
Andhra Pradesh	72	465	154%	0.26	1.84	166%
Karnataka	1573	2845	34%	10.58	17.57	29%
Kerala	120	745	149%	0.64	3.74	142%
Maharashtra	15629	21897	18%	43.44	44.99	2%
Tamil Nadu	3855	5258	17%	50.35	17.03	-42%
Telangana	571	1252	48%	2.29	1.51	-19%

Source: Lok Sabha Question on digital banking fraud

There are many challenges associated with digital payments. One of the biggest challenges is the surge in fraud related to digital payments. First-time users are particularly vulnerable to fraud by scamsters. In a survey conducted by YouGov and ACI, 71% of the users have expressed concerns about the scams and frauds owing to the shift to digital payment. The government, NPCI, RBI and payment companies have made many efforts in creating awareness about phishing and security while establishing a robust grievance redressal mechanism. Yet, we see a rise in the amount of fraud associated with digital payments every year. Banks have reported frauds worth Rs 288 Cr in ATM-debit card, credit card and internet transactions in FY 2019-20.

Figure 5.4: State-wise distribution as a share of All-India total for UPI transactions (Q3 2021) and ATM-Debit card, credit card and internet fraud (FY 2019-20)



Source: Phonepe Pulse; Lok Sabha Question on digital banking fraud

As shown in **Table 5.8,** the number of fraud transactions in Karnataka has increased from 1573 in FY 2017-18 to 2845 in FY 2019-20 and fraud amount increased from Rs 10.58 Cr in FY 2017-18 to Rs 17.57 Cr in FY 2019-20. The number of frauds in Karnataka as a share of total frauds in India is 5.5%, which is below the digital transaction volume share (14.31%) of Karnataka, as shown in **figure 5.4**. It indicates Karnataka has a lower fraud rate relative to its very high percentage of digital transactions. This should encourage the state government to take the necessary steps to address this challenge. It should equip cyber cells with the latest tools and capabilities to combat and tackle digital frauds.

5.4 Strengthen Formal Financial Institutions

It has been established in Section 3 that Karnataka lags behind comparable states across many parameters related to the development of formal financial institutions. Karnataka can address the shortfall in credit requirements by increasing the bank credit to GSDP ratio to a level witnessed in Tamil Nadu and Telangana. It also needs to provide banking services to households by opening branches in unbanked villages. The following sub-section evaluates how opening bank branches in certain districts improved the economic performance of those districts

5.4.1 Policy of Branch Expansion in Underbanked Districts

It is observed that districts with higher bank branch penetration experience higher economic growth. This could be a case of correlation without causation. It is very likely that banks open branches in districts that generate higher business, making banks' decision to open a branch endogenous. The endogeneity issue can be overcome by exploiting an exogenous event that leads banks to open branches in certain districts over others. The RBI policy incentivizes banks to open branches in underbanked districts is one such exogenous event.

RBI has historically pursued financial inclusion policy by either incentivizing or mandating the banks to open branches in rural areas. In 2005, RBI introduced a new branch

Box 2 – Impact of commercial bank branch expansion on district outcomes

This section will provide the analysis of how underbanked districts performed better than rest of the districts in Karnataka. Two district level parameters used for evaluating economic performace wise growth in per capita NDDP and growth in number of establishments (firms). The period for our analysis is from 2004-05 to 2012-13, during which the policy of incetivizing bank branches in underbanked districts of Karnataka was applicable. Although, the policy was discontinued in 2010-11, its effects persisted for two more years. As expected, number of branches opened in underbanked disticts increased by 6.2%, while it grew by 3.9% for rest of the districts. This translated to higher credit growth in underbanked district (17.9%) compared to rest of the districts (13.9%). Higher credit growth seems to have resulted in higher growth in per capia income in underbanked districts (17.2%), which is 2.3 percentage points higher than rest of the districts (14.9%) during this period. It also witnessed an upsurge in entrepreneurial activity, as reflected from the growth in both manufacturing and service based establishments in underbanked districts (25.4%), which was higher than rest of the districts (5.8%). The district-wise parameters used in this analysis are presented in **Annexure 5.3**

authorization policy for Scheduled Commercial Banks (SCBs) to incentivize banks to open branches in underbanked or rural areas. RBI granted branch licenses in metro and urban areas if a bank opens branches in underbanked districts or rural areas. This policy provided a major impetus for improving banking access in underbanked districts. RBI declared all those districts as underbanked whose number of branches per capita was less than the national median. Karnataka had six underbanked districts in 2005 – Bangalore Rural, Bidar, Chamarajanagar, Koppal, Kalaburagi and Raichur. SCBs, PSBs, and private banks began opening branches in these districts to gain licenses in metro and urban areas. This push towards underbanked districts continued till the policy was in place. This policy was modified in 2010, where RBI required a bank to open at least 1/3rd of the semi-urban or rural branches opened in a year to be in underbanked districts in underbanked states (UDUS). To increase the access to credit, a policy to incentivize opening branches and BC outlets in Karnataka is crucial.

Branch expansion in underbanked districts led to the expansion of credit and opening of savings accounts. A savings account promotes savings habits and investment in household assets. Access to credit allows individuals to start new ventures, which is evident from the rising number of new firm creation in underbanked districts. Small and medium businesses can invest in new technology and equipment to raise productivity and output, thereby generating additional income. The evidence shown in **Box 2** indicates that higher credit growth in underbanked districts led to a higher increase in per capita NDDP and a higher number of new firms. Therefore, it is established that opening more branches of SCBs through an exogenous policy action resulted in better economic performance.

A simple economic simulation with basic assumptions shows that increasing the bank credit to GSDP ratio to 50% generates additional GSDP growth of 1.42%. Let us assume that the rate of growth projected for next 5 years in Karnataka is 8.5% and credit to GDP ratio is raised by 2 percentage points each year to reach 50% by 2025-26. The GSDP of Karnataka is equivalent to 1000 units and the entire portion of the additional credit is used for gross fixed capital formation (GCFC). Let us assume a depreciation rate of 10% and additional GCFC generates an annual return of 20%. This translates into additional income every year, as shown in the **table 5.9** . The additional growth projected for FY 2025-26 is 1.42%.

Table 5.9 : Projected Growth Rate till 2025-26

FY	GSDP	Projected growth	Credit to GSDP	Additional Credit	Additional GFCF	Additional Income	Additional growth rate
2020-21	1000	8.5%	40				
2021-22	1085	8.5%	42	21.7	21.7	4.3	0.40%
2022-23	1177	8.5%	44	23.5	43.1	8.6	0.73%
2023-24	1277	8.5%	46	25.5	64.3	12.9	1.01%
2024-25	1386	8.5%	48	27.7	85.6	17.1	1.24%
2025-26	1504	8.5%	50	30.1	107.1	21.4	1.42%

5.5. Role of NABARD, Cooperative Banks, KSFC and KSIIDC in Karnataka

5.5.1 Banking Scenario in Karnataka

Karnataka State has a fairly well developed financial infrastructure. The State has pioneered in establishment of many leading commercial banks and is home to a wide network of commercial bank branches in the country. Currently, Twelve Public Sector Banks, Twenty-one Private Commercial Banks, Two Regional Rural Banks, Three Cooperative Banks, Five Small Finance Banks and Two Payment's Banks are operating in the State.

Disbursement of credit in rural areas takes place through co-operative banks, commercial banks and regional rural banks.

National Bank for Agriculture and Rural Development (NABARD), as an apex level financial institution, plays a lead role in the promotion of agriculture and rural development, by preparing Potential Linked Credit Plans (PLPs) and annual action plans at the grass root level. A major portion of NABARD's refinance and developmental initiatives are channellised through the banking sector.

An overview of the position of the banking network and ATM network in Karnataka during the previous years is shown below:

5.5.1.1 Branch Network

Branch Network	March 2019	March 2020	March 2021	Increase in 2020-21
Rural	4053	4214	4218	4
Semi urban	2554	2560	2629	69
Urban	2268	2364	2375	11
Metro/PT	2265	2331	2433	102
Total	11140	11469	11655	186

Source: State Level Bankers Committee (Agenda Notes of 154th Meeting: page no. 19), Karnataka.

Out of the total number of 11655 branches of all the agencies as on 31 March 2021 , as many as 4218 branches (36.19%), 2629 branches (22.56%), 2375 branches (20.38%) and 2433 branches (20.88%) are operating in Rural, Semi-Urban, Urban and Metro areas respectively.

In the last year there has been special impetus to increase branch networking in Semi urban and Metro areas compared to Rural and urban areas. Increased network is providing better access of financial services to people in urban and rural areas.

5.5.1.2 ATM Network across Karnataka

ATM Network	March 2019	March 2020	March 2021	Increase in 2020-21
Rural	2231	2358	2441	83
Semi urban	3569	3489	3677	188
Urban	4177	4295	4322	27
Metro/PT	6755	7246	7250	4
Total	16732	17388	17690	302

Source: State Level Bankers Committee (Agenda Notes of 154th Meeting: page no. 22), Karnataka.

There are 17690 ATMs comprising of Rural-2441, Urban-4322, Semi urban-3677 & Metro/ PT-7250 an increase of 302 over previous year.

5.5.1.3 Category wise Bank Branch network-Year ending

Branch	March 2019	March 2020	March 2021
Commercial Banks	8155	8373	8414
Regional Rural Banks	1816	1775	1763
KASCARD	202	203	203
DCC Bank(K.S.co-op Apex Bk)	792	858	866
Karnataka Industrial Co-operative Bank	38	38	38
KSFC	32	32	32
Small Finance Banks	105	159	308
Payment Banks	0	31	31
Total	11140	11469	11655

Source: State Level Bankers Committee (Agenda Notes of 154th Meeting: page no. 154), Karnataka.

The ever growing demand for institutional finance in the state has resulted in expansion of banking network and credit flow. There were 755 bank branches during the time of nationalisation of banks in the year 1969. Since then 10900 Bank branches have been added by March 2021 thus taking the total Bank branches to 11655 as shown in the **above table**.

5.5.1.4 Aggregrate Bank Deposits and Gross Credit in all States and UTs

States & UTs	September 2021 (Rs.in crore)				
	Number of Reporting offices	Aggregrate Deposit	Rank	Gross Credit	Rank
MAHARASHTRA	13255	3153466	1	2882819	1
NCT OF DELHI	3555	1439759	2	1294120	2
UTTAR PRADESH	17696	1320765	3	537836	7
KARNATAKA	10508	1266323	4	763797	4
TAMIL NADU	11708	1049804	5	1042159	3
WEST BENGAL	9390	937584	6	412414	9
GUJARAT	8408	878630	7	599340	5
KERALA	6640	639845	8	382827	10
TELANGANA	5490	623697	9	578984	6
HARYANA	5034	592764	10	298086	13
RAJASTHAN	7791	496510	11	375030	11

States & UTs	September 2021 (Rs.in crore)				
	Number of Reporting offices	Aggregrate Deposit	Rank	Gross Credit	Rank
PUNJAB	6427	482836	12	254318	14
MADHYA PRADESH	7196	480350	13	315545	12
BIHAR	7510	405915	14	167517	15
ODISHA	5244	387049	15	146677	16
ANDHRA PRADESH	7302	376058	16	495042	8
JHARKHAND	3147	266187	17	77778	20
CHHATTISGARH	2842	181686	18	108848	17
ASSAM	2989	174628	19	83386	18
UTTARAKHAND	2146	172192	20	58259	22
JAMMU & KASHMIR	1774	144752	21	73770	21
HIMACHAL PRADESH	1632	119293	22	35821	23
GOA	660	88848	23	20999	24
CHANDIGARH	388	87391	24	81334	19
TRIPURA	574	30349	25	12110	26
MEGHALAYA	365	26508	26	8898	27
PUDUCHERRY	265	23189	27	14461	25
ARUNACHAL PRADESH	169	18006	28	5102	31
DADRA AND NAGAR HAVELI	103	12848	29	4249	32
NAGALAND	182	12774	30	5500	29
MIZORAM	218	12622	31	7379	28
MANIPUR	215	12248	32	5271	30
SIKKIM	160	10863	33	4204	33
ANDAMAN & NICOBAR ISLANDS	71	6473	34	2884	34
LADAKH	76	6386	35	2570	35
LAKSHADWEEP	13	1291	36	100	36
All India	151143	15939889		11159434	

Source: Quarterly statistics issued by R.B.I.-Sept. 2021.

As per RBI quarterly statistics statement & bankers committee, Karnataka stands 4th in position below the states of Maharastra, NCT of Delhi & Uttar Pradesh in terms of aggregrate deposits and gross credit in India as shown in the above table.

5.5.1.5 Performance of Scheduled Commercial & Other banks.

The aggregrate deposits of all the banks (commercial, RRBs and cooperative) stood at Rs.1151506.96 Crore as at the end of March 2021 , an increase of Rs. 148932.12 Crore compared to last year (March 2020), registering an growth of 14.85 %. Similarly, the total outstanding advances of all the banks in the state stood at Rs. 802100.14 Crore as against the level of advances of Rs 749651.43 Crore recorded a year ago indicating a growth of 6.99%. The Credit Deposit Ratio (C-D Ratio) of the state as on March 2021 is 70 percent, which has decreased compared to previous year as shown in the **below table**.

Sl. No.	Indicator	Unit	2018-2019	2019-20	2020-21
1	**Branch network**				
	A) Commercial Banks (including 5 SFB & 2 Payment bank)	No.	8260	8563	8753
	B) Regional Rural Banks	No.	1816	1775	1763
	C) Co-operative Banks etc.	No.	1064	1131	1139
	Total	No.	11140	11469	11655
2	**Deposits**				
	A) Commercial Banks (including 5 SFB & 2 Payment bank)	Rs.in Crore	820427.32	919313.13	1059484.9
	B) Regional Rural Banks	Rs.in Crore	39329.72	43609.26	47167.67
	C) Co-operative Banks etc.	Rs.in Crore	35067.52	39652.45	44854.36
	Total	Rs.in Crore	894824.56	1002574.84	1151506.96
3	**Advances**				
	A)Commercial Banks (including 5 SFB & 2 Payment bank)	Rs.in Crore	647079.68	669214.57	722190.07
	B)Regional Rural Banks	Rs.in Crore	32627.23	32931.62	36530.43
	C)Co-operative Banks etc.	Rs.in Crore	35216.75	47505.24	43379.64
	Total	Rs.in Crore	714923.66	749651.43	802100.14
4	**Credit-Deposit Ratio**				
	A)Commercial Banks (including 5 SFB & 2 Payment bank)	%	78.87	72.80	65.66
	B)Regional Rural Banks	%	82.95	75.51	77.00
	C)Co-operative Banks etc.	%	100.42	119.80	91.00
	Total	%	79.89	74.77	70.00
	Source: State Level Bankers Committee (Agenda Notes of 154th Meeting: page nos. 294-296), Karnataka				

5.5.1.6. Distribution of Priority Sector Advances

The Priority Sector Advances of all the Banks in the State amounted to Rs. 311799 Crore in March 2021 as against Rs. 285959 Crore as on March 2020 showing an increase of Rs.25840 Crore. It contributed to 38.87% in total advances, which is marginally lower than the stipulated 40% by RBI. The Agricultural advances stood at Rs. 149082 Crore constituting 18.59% of total advances in March 2021 which is above the stipulated 18% by RBI. Credit disbursed by the banks towards the MSME sectors stood at Rs. 103830 Crore as against Rs. 102811 Crore as on March 2020. Similarly, Advances to the weaker section stood at Rs. 87867 Crore as on March as against Rs. 77378 Crore as on March 2020. Details of the Priority Sector Advances is as shown in the **below table.**

(Rs. in Crore)

Indicator	March 2019		March 2020		March 2021	
	Advances	% to Total Advances	Advances	% to Total Advances	Advances	% to Total Advances
Total Advances	714923	-	749651	-	802100	
Total Priority Sector Advances(PSA)	293743	41.08	285959	38.15	311799	38.87
Agriculture	129913	18.17	130905	17.46	149082	18.59
MSMEs	119027	16.64	102811	13.70	103830	12.94
Weaker Sections	95694	13.38	77378	10.32	87867	10.95

Source: State Level Bankers Committee (Agenda Notes of 154th Meeting: page no. 18, 220), Karnataka

5.5.1.7. Progress under Kisan Credit Card Scheme in Karnataka

Name of the Agency	No. of live KCCs as on 30.09.2021	Percentage
Scheduled Commercial Banks	1417227	33.28%
RRBs	631450	14.82%
Cooperative Banks	2210027	51.90%
Grand Total	**4258704**	

Source: State Level Bankers Committee (Agenda Notes of 155th Meeting: page no. 114), Karnataka

Karnataka has made considerable progress under Kisan Credit Card Scheme, totally 4258704 No. of KCC Cards have been issued as on 30.09.2021 as can be seen in the **table above**. Out of these total no. of KCCs, SCBs (Scheduled Commercial Banks), RRBs & Co-op Banks have issued 1417227(33.28%), 631450(14.82%), 2210027(51.90%) no. of KCC cards consecutively.

5.5.1.8 Performance under Annual Credit Plan (ACP) during last 5 years from 2016-2017 to 2020-21

(Rs. in Crore)

Indicator	2016-17		2017-18		2018-19		2019-20		2020-21	
	Target	Ach.	Target	Ach.	Target	Ach.	Target	Ach.	Target	Ach.
Crop Loan	48,908	39,056	58,563	33,539	64,972	37,824	72816	57804	66018	69910
Term Loan	23,983	40,181	28,127	55,566	33,682	31,879	42122	33733	46181	56547
Total Agri.	72,891	79,237	86,690	89,105	98,654	69,703	114938	91537	112199	126457
Percentage : Achievement to target										
Crop Loan	79.85		57.27		58.22		79.38		105.90	
Term Loan	167.53		197.55		94.65		80.08		122.45	
Overall	108.70		102.78		70.65		79.64		112.71	

Source: NABARD, Regional Office, Bangalore.

The achievement under Agriculture Term Loan which ranged from 78% to 91% during 2010-11 to 2013-14, has increased to 167% in 2016-17 and 197.55% during 2017-18. Though the Agriculture Term loan lending dipped during 2018-19 and 2019-20, it exhibited an upward growth of 122% during 2020-21. The overall achievement in Agriculture lending as on 31.03.2021 is pegged at 112.71% of the target.

5.5.1.9. Non Performing Assets (NPA) in Banks

There were 1873285 Non Performing Assets (NPA) a/cs involving an amount of Rs.56337.41 Cr as of September 2021 accounting for 7.63% of total advances. NPA across the type of Banks is shown in the **below table**

(Rs. in Crore)

Indicator	As on 30/9/2020		As on 30/9/2021	
	A/Cs	Amount	A/Cs	Amount
Commercial	2219685	50289.97	1468284	49083.60
RRBs	308116	4006.94	358317	5534.99
Cooperatives/KSFC	272746	2773.11	46684	1718.82
Total	2800547	57070.02	1873285	56337.41

Source: State Level Bankers Committee (Agenda Notes of 154th Meeting: page no. 307), Karnataka

5.5.2 NABARD

5.5.2.1 High Level Committee (HLC) to review the health of Cooperative institutions

A High Level Committee (HLC) under the Chairmanship of Additional Chief Secretary and Development Commissioner , GoK with Principal Secretary, Cooperation, RCS, Regional Director, RBI and Official from Apex Bank as well as KSCARDB constituted by NABARD to review the financial health of Cooperative institutions in the State vide GO.No.CO375 CLS2017 dated 13 September 2017. NABARD convenes the Committee meeting at half yearly intervals to discuss various financial parameters as well as frauds, governance issues of Cooperative institutions in the State. During 2020-21, two such HLC meetings were convened. While the first meeting discussed in detail, the health of long term cooperatives (KSCARDB) especially improvement to be brought about in the recovery mechanism, the HLC meeting held during March 2021 discussed issues relating to health of Kalaburgi & Yadgir DCCB, status of Fit & Proper Criteria of CEOs and Directors in DCCBs, cooperative banking Ombudsman Scheme, Fraud position of bank/internal checks and controls, as also issues pertaining to Government Guarantee and recovery at the level of KSCARDB. During 2021-22, the HLC was held in November 2021 wherein issues pertaining to performance and turnaround of DCCBs, adherence to Fit & Proper criteria of RBI by CEOs and Board of Directors, steps taken by DCCBs in addressing occurrence of frauds and PACS computerization.

5.5.2.2 Institutional Development – Regional Rural Banks (RRBs)

(a) Subsequent to amalgamation of RRBs, the State has two RRBs namely Karnataka Vikas Grameena Bank (KVGB) headquartered at Dharwad with 629 branches, Karnataka Gramin Bank(KaGB) headquartered at Ballary with 1134 branches as on 31.03.2021 (formed by amalgamation of Pragathi Krishna Grameena Bank and Kavery Grameena Bank).

(b) During 2020-21, both the RRBs in the State have been making profits and are sustainably viable with CRAR above 9%. NABARD has carried out the inspections of the two RRBs for position as on 31 March 2021. Accordingly, while the CRAR of KVGB stood at 11.31%, for KaGB, the same was 11.80%.

(c)The performance of the RRBs are reviewed by the Empowered Committee meeting convened by RBI at quarterly intervals. For 2020-21, the 81st EC meeting was convened on 12th June 2020 and 82nd EC was held on 29th December 2020. As part of review, NABARD discussed issues pertaining to performance of the two RRBs in terms of achievement under ACP, increasing NPAs, need for improving agri term lending, financing of SHGs, Government Sponsored schemes, etc. The first meeting for 2021-22, ie., 83rd EC was held on 13 July 2021. Deputy General Managers of NABARD who are on the Board of the RRBs as also General Manager handling Institutional Development attend the meeting.

5.5.2.3 Status of SHG in Karnataka

Cumulative Number of SHGs Saving linked as on 31.03.2021 (Number of live SB accounts of SHGs)	784815
Bank Loan disbursed during the year 2020-21 (Rs Crore)	8445.87
No. of SHGs with loan outstanding as on 31.03.2021	612742
Bank Loan outstanding as on 31.03.2021 (Rs Crore)	11882.75
Average Loan per SHG issued (Rs lakh)	1.93
Percentage of Women SHGs	92%
Source: NABARD, Regional Office, Bangalore	

5.5.2.4 Digitisation of SHGs – EShakti project

In line with the Prime Minister's vision for a digital India, NABARD launched a pilot project, "E-Shakti". Presently, the project has progressed into a unique digital financial inclusion movement covering 100 districts in 22 States and one Union Territory across the length and breadth of the country and has already digitized 12.69 lakh SHGs benefitting 145.73 lakh rural poor at national level (as on 17.12.2021). The project is in covering 250 districts in the country.

5.5.2.5 Impact of RIDF in the state

Under RIDF tranches I to XXVII, as on 20 December 2021, 43695 projects have been sanctioned to Karnataka State with RIDF loan of Rs 16568.40 Crore. Against the sanctioned amount, GoK has drawn Rs 12940.06 Crore. The sector wise sanction and disbursements details are as given below:

				Rs. in Crore
Name of the Sector	**No. of projects**	**Total Financial Outlay**	**Loan Sanctioned**	**Amount Disbursed**
Agriculture and allied projects	4919	1769.44	1607.97	1187.61
Social sector projects	21001	5540.55	4509.94	2720.43
Irrigation projects	5202	4724.26	3908.92	3079.06
Rural roads and bridges	12573	8024.73	6541.57	5952.96
Total	**43695**	**20058.98**	**16568.40**	**12940.06**
Source: NABARD, Regional Office, Bangalore				

40% of RIDF loan has been sanctioned to Social Sector Projects. The share of Agri and allied and Rural Connectivity were of the order of 33% and 27% respectively.

The sanctioned projects on completion will provide the following benefits:

❑ Irrigation infrastructure- 4.78 Lakh Ha brought under Irrigation.

❑ Agriculture & Allied- 1684 Veterinary Institutions, 853 Infrastructure projects in Rural Markets, 258 Raita Samparka Kendras, 33 Fish Jetties, 10 Cocoon Quality Testing Labs and 3 Pesticide Residue Labs.

❑ Social Sector- 13353 Rural Education Infrastructure projects (Primary & Secondary schools, PU colleges, Polytechnic, ITI, GTTC, agriculture & horticulture colleges etc), 6472 Anganwadis, , 337 Health Infrastructure Projects (PHC, CHC, MCH)

❑ Connectivity- 45336 km of Rural Roads and 60300 m of Rural Bridges.

5.5.2.6 Farmers Producers Organization (FPOs)

❑ Collectivization of agricultural produce through Producer Organizations (POs) is one of the most effective means of linking Small and Marginal farmers / Producers with the agricultural value chain for the purpose of enhancing their net income.

❑ Since 2014 -15, NABARD Karnataka Regional Office has assisted in promotion of 263

FPOs covering 30 districts of the State. These FPOs have been formed through 80 odd NGOs / Institutions acting as Producer Organization Promoting Institutions (POPIs). Around 1,26,664 farmers of the State are members of FPOs promoted by NABARD supported POPIs involving grant assistance of Rs. 24.53 cr. Out of the 283 FPOs, 268 are registered under various acts thereby mobilizing share capital of Rs.13.32 Cr. Out of these 283 FPOs,10FPOs had availed SFAC grant and 68 FPOs were credit linked availing loan to the extent of Rs.18.14 Cr. Majority of the FPOs are involved in production, procurement and marketing of various Agri - Horti crops. Some of the FPOs are also taking up the activities of promoting High Value Crops such as chia seeds, tender coconuts, coffee, udipimattigulla, etc

Achievements and Way Forward – NABARD

Achievements

National Bank for Agriculture and Rural Development (NABARD) has been playing a lead role in the socio-economic development of the State of Karnataka through various business, promotional, institutional and policy interventions. Following are major operations of NABARD in Karnataka:

(i) Provided financial support of Rs.20,250 Cr. for the year 2020-21 and Rs.20,000 Cr. for the year 2021-22 (as on February 2022) for rural lending to banks and other financial institutions in Karnataka under Production and Investment Credit.

(ii) Under Rural Infrastructure Development Fund (RIDF), sanctioned Rs.1100 crore and Rs.2000 crore during 2020-21 and 2021-22 (as on Feb 2022) respectively to State Government for developing rural infrastructure. The cumulative sanctions and disbursement for Karnataka under RIDF as on February 2022 are to the tune of Rs.17,000 Cr. and Rs.13,000 Cr. respectively for 43822 projects. With this assistance, additional irrigation potential of around 5 lakh hectare has been created and around 45000 kms of rural roads were completed besides creation of rural markets, storage godowns, veterinary health infrastructure etc.

(iii) Grant assistance provided to NGOs, training institutions, SHG federations etc., for skill training, building micro enterprises, etc., which has benefitted around 3000 SHG members.

(iv) Grant support provided to Cooperative Banks and RRBs in the state towards financial inclusion, capacity building of BC/ BFs etc., and also to promote technology adoption of these institutions like on-boarding to BBPS/ Green PIN facility, micro-ATMs/ PoS machines etc.

(v) Special focus has been given for promotion and nurturing of FPOs. Around 320 FPOs have been promoted by NABARD covering over 1 lakh farmers as members.

Way Forward

While the existing business and promotional operations will continue, the focus areas for NABARD in the coming years are as follows:

- Transformation of Primary Agriculture Cooperative Societies (PACS) as Multi-Service Centre (MSC) in Karnataka State to saturate all the potential PACS

- Targeted Infrastructure Development in Tier 3 & 4 towns
- Strengthening Agri-Value Chain infrastructure
- Water Resource Management
- Renewable Energy
- Strengthening farmer institutions like SHG Federations, FPOs/OFPOs, PACS etc. in terms of governance, business diversification and profitability
- PACS computerisation through integrated efforts with State Government in tune with GoI schemes and guidelines issued from time to time

5.5.3. Industrial Finance

Karnataka State Financial Corporation (KSFC) is a State Level Financial Institution established by the State Government in the year 1959 under the provisions of SFCs Act, 1951 to cater to the long term financial needs of Micro, Small & Medium Enterprises (MSMEs) in the State of Karnataka. KSFC takes pride being pioneer in serving MSMEs of industrial and service segments in the State for past the 62 years. The cumulative Gross Sanctions of the Corporation reached Rs.18,286.38 Crore covering 1,74,662 units as on 31.3.2021. Since inception upto the end of March 2021, 31.069 units promoted by Women Entrepreneurs were assisted to an extent of Rs.4368.47 Crore, 21,892 cases promoted by Scheduled Caste & Scheduled Tribe Entrepreneurs were assisted to an extent of Rs. 2,266.14 Crore and Rs. 1,351.64 Crore was sanctioned to 19,292 cases promoted by Entrepreneurs belonging to the Minority community.

Details of Sanctions and Disbursements made by KSFC

(Rs. in Crore)

Particulars	2018-19	2019-20	2020-21	2021-22 (30.11.2021)
Sanctions	1098.73	667.81	401.66	196.58
Disbursement	665.9	727.9	432.96	223.56

Source: KSFC

During the FY:2021-22 (April 2021 to November 2021) the Corporation assisted 211 cases to an extent of Rs.196.58 Crore, disbursed Rs.223.56 Crore and recovered Rs.442.67 Crore.

5.5.4. Karnataka State Industrial and Infrastructure Development Corporation (KSIIDC)

KSIIDC, established in 1964, has been greatly instrumental in the industrialization of the State, especially in the large and medium sector. KSIIDC has stopped financial lending activity since October 2002 onwards. At present, recovery of the past lending/advances and loans and disinvestment of Equity are the main activity. However, certain Investments as per the directions of Government of Karnataka are being made from time to time.

KSIIDC continued its proactive role in the promotion of infrastructure projects on Public Private Partnership model and its role as Nodal Agency for Bangalore International

Airport Project. Duly noting the initiatives taken up by KSIIDC in the infrastructure sector, the name was changed to "Karnataka State Industrial and Infrastructure Development Corporation Limited" with effect from November 22, 2010.

5.5.5. Co-operative Credit:

The Cooperative credit system in Karnataka has its own place in the credit delivery of rural and urban areas. Apart from urban cooperative banks, the major Primary Agricultural Cooperative Society/Banks are operating in rural areas. Unlike in other states, in Karnataka two types of Cooperative Credit Institutions are functioning, one is looking after short term and medium term credit and another looking after credit needs of long term.

5.5.5.1. Short term and Medium term Credit Co-operative Structure (STCCS):

The Karnataka State Cooperative Apex Bank through its affiliated District Central Cooperative Bank (DCCB) and Primary Agriculture Cooperative Societies (PACS) at the village level extends short term credit to the farmers and others. The total number of DCCBs is 21 with 818 branches. There are 5751 PACS functioning in the state. These institutions have prepared Business Development Plan (BDP) with a view to strengthen capital base of their financial and organization set up in accordance with guidelines of NABARD, an MOU is signed by NABARD, State Government and Apex bank in June 1995, same was extended from time to time.

As on 31-3-2020 the working capital of DCCBs was Rs.42671.84 Crore. As on 31-03-2021 it had grown to Rs.49272.07 Crore indicating a growth of 15 per cent. The total amount of Deposit in DCCBs was Rs. 28093.45 as on 31-3-2020. It had grown by 15 per cent to Rs. 28563.28 Crore as on 31-3-2021. During 2020-21 all the 21 DCCBs in the State have shown profits. These credit institutions provide short, medium and long term credit to PACS and other societies at gross root level and deal directly with individual borrowers also.

Consolidated Financial Status of DCCB (Rs Crore)

Particulars	2018-19	2019-20	2020-21	2021-22 (June)
No of DCCBs	21	21	21	21
Total share capital	1445.41	1636.12	1721.47	1902.25
States' share capital	25.03	25.04	30.50	32.50
Share of the State in Share Capital	1.73%	1.53%	5.21%	1.71%
Deposits	24895.81	28093.45	28563.28	31189.01
Borrowings	8992.67	10070.72	10823.46	11619.69
Loans & Advances Outstanding	24608.81	28492.57	30757.46	33631.44
Banks showing profit	21	20	21	21
Source: Additional Registrar of Cooperative Societies, Bangalore.				

5.5.5.2. Long Term Credit Cooperative Credit Structure (LTCCS):

Karnataka State Cooperative Agriculture and Rural development Bank (KASCARD) at the State level and Primary Cooperative Agriculture and Rural Development Bank at taluk level numbering 177 cater to the long term credit needs in the two tier credit delivery system. The National Bank for Agriculture and Rural Development (NABARD) provides refinance to the KASCARD Bank.

Achievements, Challenges and Way forward

Cooperatives Achievements

1. During the year, Rs. 17735.28 crore of agricultural loan has been disbursed to 16.19 lakh farmers as against the target of Rs.15702.50 crore of loan to 25.12 lakh farmers, achieving 113%. Cooperative institutions have covered approximately 38% of the farmers in the state.

2. Co-operative institutions have disbursed Rs. 100 crore of working capital loans for Dairy and Animal husbandry to 65,000 farmers, which stood among 1st in the entire country in giving the KCC cards to dairy farmers.

3. Under the Agri Infra Fund scheme of Atma Nirbhar scheme of Central Government Rs.306.68 crore loan has been sanctioned by NABARD to 885 PACS, which stood at 4th largest state in the scheme in the entire country.

Challenges

1. Though cooperative banks could cover 38 % of the farmers in the state, average short term agri loan to farmers from cooperative institutions have stood at Rs.64,826 per farmer much lesser than commercial banks due to the fund availability to cooperative banks.

2. Though 5751 Primary Agricultural Credit Cooperative Societies are operating in rural areas covering all the villages in the state. They have been restricted to do only credit business without giving banking facilities to rural population either as small savings bank or business correspondent of DCC banks.

3. Out of 5751 PACS, approximately 2000 pacs have been computerized on their own, which has become the main obstacle to monitor the business growth development of these PACS.

4. DCC banks deposit position is weak compared to commercial banks as these banks are not scheduled banks and not able to acquire the new digital technology.

Way forward

1. NABARD can increase the refinance facility from present 60% to 75% to DCC banks operating in back ward districts and drought prone districts in order to increase the per capita crop loan to farmers of Cooperative institutions.
2. It has been proposed to computerize all the working PACS in the state with the collaboration of Centre, State and PACS in the next 3 years.
3. RBI may consider PACS as small savings banks and allow them to extend banking facilities to rural poor as given to post offices so that state and centre govt grants can be delivered to rural population at their door step.

4. All DCC banks can be merged to Apex Bank to reduce the overhead cost, increase the lendable resource and there by provide loans to members at lower interest rate.

5.6 Rural Credit Reforms- "A Single Window Credit Facility" for increasing credit flow to Self Help Groups and rural Karnataka.

Lack of direct bank credit linkages to SHG's and rural poor leading to higher interest credit through various private sources like MFI's, NBFC's, Fin-tech BC's and money lenders resulting in rural credit distress.

Banks have not been actively lending directly to SHG's due to not having the capacity, deeper rural presence, technology and rural lending expertise.

Proposed Solution:

Enabling a technology driven 'Single window credit facility' through regulated 1 or 2 intermediary partners (Execution Partner – PPP Model) to increase credit flow to SHG women and rural Karnataka.

In the model PSB alliance to bring together all the public sector banks under one umbrella' (Lenders) to facilitate loans at regulated rates and practices. One of the PSB's may be nominated as the 'Anchor Bank', which takes the lead in mobilizing the participant PSB's, RFPs for the implementing partners and drives implementation of the service.

Advantages:

- ❏ Regulated interest rates for the SHG's and their communities
- ❏ 30 Lakh SHG women directly benefit from the initiative
- ❏ Jobs / Livelihood creation support for rural poor
- ❏ Digital lending reducing Turn-around-Time and frauds
- ❏ Better monitoring of the small credit to underserved segments
- ❏ One-Stop-Shop approach reducing disparities
- ❏ Data authenticity through a single source i.e., PSB alliance partners

5.7 Conclusion and Way Forward

Karnataka is a relatively underbanked state and is behind comparable states across parameters related to financial sector development. Karnataka should increase the bank credit to GSDP ratio to 50%, which could generate additional growth of 1.42% to its GSDP. The following policies are recommended for the development of the financial sector in Karnataka

1. State Level Bankers Committee (SLBC) currently sets sector-wise targets for banks in both the priority and non-priority sectors. As Karnataka performs poorly in its credit allocation to the transport and trade sector relative to other states, SLBC must significantly increase the lending targets for these sectors

2. State Government should encourage and incentivize banks to open branches in rural centers (URCs). The state government business can be made conditional for banks

on the fulfillment of a minimum number of branches or BC outlets being opened in URCs. Priority should be given for opening branches in districts with the lowest per capita branches. The state government should set goals to open bank branches in all villages with more than a population of 5000 and banking correspondent outlets (BC outlets) in villages with more than a population of 2000.

3. As the MUDRA scheme covers only loans up to Rs.10 lakh, many small businesses with higher credit requirements are financially constrained. The state government can design a government guarantee scheme in line with CGTMSE to encourage lending to small and medium enterprises in specific sectors identified as highly credit constrained. However, creation of a credit gurantee fund at state level may have huge financial implications.

4. Equip cyber cells with relevant tools and technologies to ensure quick disposition of digital payments-related fraud cases. The state government can consider framing legislation to codify all frauds associated with digital payments and prescribe strict punishment to create deterrence.

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Annexure 5.9

Annexure 5.1 – District-wise co-operative bank credit as a share of total bank credit and other economic variables

District	Cooperative Bank share	Per Capita NDDP	Poverty rate	10-year CAGR in Per Capita NDDP(2010-2020)
Bagalkote	21.03%	163875	31.1	19.8%
Bengaluru Rural	2.62%	196658	11.3	11.1%
Belagavi	15.09%	113608	16.4	12.9%
Ballari	4.84%	161715	28.8	13.6%
Bidar	38.67%	100234	25.5	16.0%
Vijayapura	19.19%	104190	30.4	14.1%
Chamarajanagar	1.87%	139006	23.8	21.4%
Chickballapur	4.44%	130430	23.1	17.9%
Chikkamagaluru	7.62%	250119	13.1	23.2%
Chitradurga	3.16%	119191	20.9	17.0%
Dakshina Kannada	7.92%	351271	6.4	22.1%
Davangere	3.00%	122546	16.8	14.2%
Dharwad	1.16%	162131	13.5	12.7%
Gadag	1.16%	115187	30.2	15.0%
Kalaburagi	1.90%	99322	29.7	13.6%
Hassan	8.14%	157301	11.6	18.6%
Haveri	1.16%	112383	20.5	15.9%
Kodagu	16.60%	130264	10.5	3.5%
Kolar	4.44%	133084	14.8	14.8%
Koppal	3.87%	100497	30.8	11.5%
Mandya	12.49%	172467	10.9	22.9%
Mysuru	1.87%	142383	9.4	11.7%
Raichur	3.87%	105654	36.1	15.7%
Ramnagara	2.62%	179519	12.4	15.8%
Shivamogga	7.59%	205368	16.4	22.1%
Tumakuru	4.46%	174884	19.4	21.9%
Udupi	7.92%	284521	11.7	20.8%
Uttara Kannada	34.09%	155582	16.3	17.4%
Yadagiri	1.90%	97353	49.0	16.3%
Bengaluru Urban	2.62%	496208	1.9	15.3%

Source: Karnataka State Co-operative Apex Bank Website, Economic Survey Karnataka 2020 & 2010, NFHS Multi-dimensional poverty 2015-16

Annexure 5.2 – District-wise share of villages with bank branches		
District	% Villages with bank branches	
	Semi-urban	Rural
Bagalkote	100.0%	15.0%
Bengaluru Rural	100.0%	16.9%
Belagavi	87.7%	16.4%
Ballari	100.0%	19.3%
Bidar	100.0%	10.6%
Vijayapura	95.0%	15.8%
Chamarajanagar	100.0%	11.5%
Chickballapur	100.0%	5.4%
Chikkamagaluru	100.0%	10.3%
Chitradurga	87.5%	10.2%
Dakshina Kannada	93.3%	38.1%
Davangere	77.8%	9.7%
Dharwad	100.0%	19.0%
Gadag	100.0%	18.1%
Kalaburagi	93.8%	9.4%
Hassan	100.0%	6.0%
Haveri	100.0%	14.1%
Kodagu	100.0%	23.5%
Kolar	100.0%	4.9%
Koppal	88.9%	9.3%
Mandya	100.0%	8.3%
Mysuru	80.0%	9.6%
Raichur	94.7%	7.6%
Ramnagara	100.0%	8.4%
Shivamogga	100.0%	7.5%
Tumakuru	100.0%	4.9%
Udupi	92.9%	52.9%
Uttara Kannada	94.4%	7.7%
Yadagiri	100.0%	7.9%
Source: RBI MOF Branch locator; Population Census 2005, 2011		

Annexure 5.3 – Comparison of Underbanked Districts and Banked Districts during 2004-05 to 2012-13 (RBI policy incentivized opening branches in underbanked districts in this period)

District	Growth in the number of Branches	Credit Growth	Change in per capita NDDP	Increase in the number of establishments	Status
Bengaluru Rural	11.5%	16.3%	20.4%	37.5%	Previously Underbanked Districts
Bidar	4.5%	13.1%	16.8%	15.8%	
Chamarajanagar	5.5%	19.2%	13.8%	56.5%	
Kalaburagi	4.2%	15.9%	15.0%	31.1%	
Koppal	5.4%	21.1%	20.7%	-4.3%	
Raichur	6.0%	22.0%	16.5%	16.0%	
Average	6.2%	17.9%	17.2%	25.4%	
Bagalkote	5.4%	20.0%	14.9%	19.4%	Previously Banked Districts
Belagavi	3.9%	14.1%	14.6%	-17.9%	
Ballari	4.8%	19.9%	13.1%	22.8%	
Vijayapura	4.4%	18.1%	15.5%	9.7%	
Chikkamagaluru	3.3%	13.1%	12.1%	27.7%	
Chitradurga	3.1%	15.1%	14.9%	-20.5%	
Dakshina Kannada	4.8%	8.5%	12.9%	33.3%	
Davangere	2.8%	18.5%	14.5%	5.7%	
Dharwad	4.6%	14.0%	16.2%	8.1%	
Gadag	5.6%	16.8%	15.0%	-5.0%	
Hassan	3.0%	15.0%	15.7%	-6.1%	
Haveri	6.2%	16.6%	13.4%	11.2%	
Kodagu	1.9%	9.6%	16.4%	-28.6%	
Kolar	3.1%	16.0%	17.4%	29.5%	
Mandya	2.3%	15.5%	14.2%	34.5%	
Mysuru	4.4%	13.2%	14.9%	-43.8%	
Shivamogga	3.6%	11.3%	14.9%	-5.3%	
Tumakuru	3.5%	17.0%	16.0%	14.8%	
Udupi	3.9%	4.9%	16.3%	10.4%	
Uttara Kannada	3.8%	0.7%	15.5%	16.4%	
Average	3.9%	13.9%	14.9%	5.8%	

Source: RBI Quarterly district-wise credit, offices and deposits; Economic Survey of Karnataka 2005,2013; Economic Census 2005, 2013;