

INSTITUTIONAL AND NON-INSTITUTIONAL CREDIT IN RURAL KARNATAKA: AN OVERVIEW

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ABSTRACT

A key factor in the expansion of agriculture and the enhancement of rural livelihoods is rural credit. The credit system in Karnataka serves various segments of the farming community through both institutional and non-institutional sources. In order to investigate the composition, patterns, and function of these credit sources in rural Karnataka, this study offers a descriptive analysis based on secondary data. The results show that commercial banks, cooperatives, and regional rural banks have been the main drivers of the significant expansion in institutional credit in recent years. However, because of their easier access and flexible repayment terms, non-institutional lenders like traders and moneylenders still assist small and marginal farmers. The study emphasizes the necessity of improving credit literacy, bolstering financial inclusion, and boosting institutional mechanisms' effectiveness for sustainable rural financial development.

Keywords: Rural credit, Institutional finance, Non-institutional sources, financial inclusion.

INTRODUCTION

Credit plays a key role in rural and agricultural growth. It affects things like productivity, how people make money, and overall social health. In rural parts of India, getting access to credit really decides if a family can keep up with farming and handle any risks that come up. The credit setup in Karnataka has two main parts. One is institutional credit from places like commercial banks, cooperative banks, and regional rural banks, or RRBs. The other is non-institutional credit that comes from moneylenders, traders, relatives, and various informal lenders.

The rural credit scene in India has changed quite a bit over the years. Banks got nationalized in 1969. NABARD started up in 1982. Those steps made a real difference. NABARD's All India Rural Financial Inclusion Survey from 2022 shows institutional sources handling nearly 70 percent of rural debt these days. Back in the 1950s, that figure sat below 20 percent. In Karnataka, the Economic Survey for 2023 to 2024 noted institutional credit flowing to agriculture at 1.93 lakh crore rupees that year. The growth rate came in around 12 percent annually.

Progress has been solid in many ways. Still, small and marginal farmers often turn to informal lenders. Formal credit stays out of reach for them. Procedures can get complicated. Collateral issues add to the hassle. Getting a clear picture of how institutional and non-institutional credit balance out in Karnataka matters a lot. It shapes better policies. Sustainable rural development depends on that understanding.

Review of Literature

Numerous studies have been conducted on the development of India's rural credit sector. Early studies by Rao (1970) and Basu and Srivastava (1960) emphasized the exploitative nature of informal lending and the prevalence of moneylenders and dealers prior to the growth of formal banks. Institutional strengthening in rural finance began in the post-

nationalization era, as noted by Bhattacharya (1980) and the Reserve Bank of India (1982). As a result of the extensive reforms suggested by the CRAFICARD Committee (1981), NABARD was established in 1982 as the premier organization for coordinating agricultural loans. Cooperative credit reforms were later highlighted by Vaidyanathan (2004) as a way to improve rural lending. More financial inclusion was promoted by the Rangarajan Committee (2008), particularly for small farmers.

Additionally, Kumar and Golait (2009) noted that although informal borrowing continued because of problems with collateral and a lack of knowledge, institutional credit coverage had much improved. According to more recent research by the RBI (2023), NABARD (2020–24), and the Economic Survey of Karnataka (2023–24), institutional sources currently make up over 75% of all rural lending. However, Sriram (2021) discovered that socioeconomic disparities and accessibility constraints were the main causes of the ongoing reliance on moneylenders in several areas of southern Karnataka. Overall, the literature emphasizes the coexistence of official and informal credit systems while highlighting both successes and shortcomings in rural credit delivery.

Objectives of the Study

1. To study the structure of institutional and non-institutional credit in rural Karnataka
2. To analyze recent trends in institutional credit flow using secondary data.
3. To suggest policy measures for inclusive and efficient rural credit delivery.

METHODOLOGY

This study uses a descriptive research design and relies solely on secondary data obtained from institutional sources, including NABARD Annual Reports (2018–2024), the Economic Survey of Karnataka (2020–2024), the RBI's Handbook of Statistics on the Indian Economy, and publications from the Directorate of Economics and Statistics in Karnataka. It also references relevant research papers and official reports. To analyze data trends and patterns, simple statistical methods like percentages and growth rates are employed. Since the aim is descriptive rather than inferential, no hypothesis testing was performed.

Overview of Rural Credit Structure in Karnataka

Karnataka's rural credit market has two main components: institutional sources like commercial banks, cooperative banks, and regional rural banks (RRBs) that provide credit under the Priority Sector Lending (PSL) guidelines, and non-institutional sources such as moneylenders, landlords, traders, and family members that offer informal credit. The latter often comes with higher interest rates but is more flexible and requires less documentation.

According to NABARD's State Focus Paper for 2024–25, institutional credit to the agricultural sector in Karnataka reached ₹1.93 lakh crore in 2023–24. Commercial banks accounted for 72% of this amount, followed by cooperatives at 17% and RRBs at 11%. However, 25–30% of rural households still depend on non-institutional credit. There are also regional differences, with districts like Mandya, Belagavi, and Davangere showing strong institutional credit access, while areas such as Koppal, Raichur, and Ballari continue to rely more on informal sources due to less developed banking facilities.

Table 1: Institutional Credit Flow in Karnataka (2019–20 to 2024–25)

(₹ in Crore)

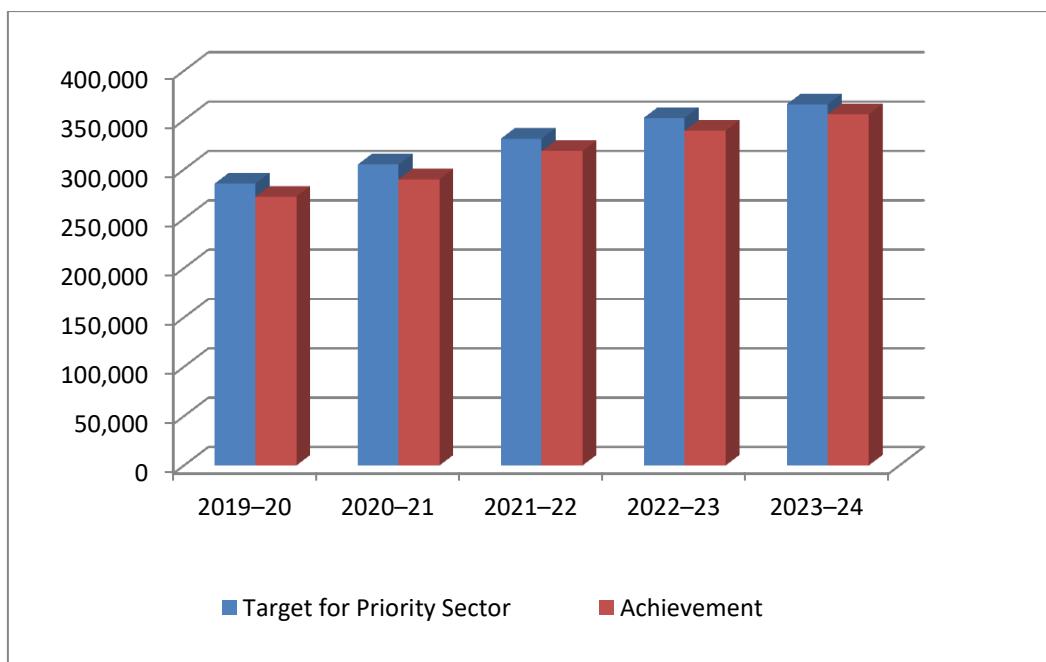
Year	Target for Priority Sector	Achievement	% Achievement	Agriculture Sector Share
2019–20	2,85,690	2,72,540	95.40%	44%
2020–21	3,04,990	2,90,130	95.10%	45%
2021–22	3,31,160	3,18,620	96.20%	46%
2022–23	3,52,400	3,39,250	96.30%	46%
2023–24	3,66,147	3,55,903	97.20%	47%
2024–25*	3,97,036	—	—	46%

Source: Projected data for 2024–25 as per NABARD State Focus Paper (2024–25)

The table illustrates the trend of institutional credit flow to the priority sector in Karnataka from 2019–20 to 2024–25. The credit target has consistently risen from ₹2,85,690 crore in 2019–20 to an anticipated ₹3,97,036 crore in 2024–25, indicating an increase in institutional lending. The achievement rates have remained high, fluctuating between 95 and 97 percent, which demonstrates the financial institutions' effectiveness in reaching their credit objectives. Additionally, the proportion of agricultural lending within the overall priority sector has gradually increased from 44 percent in 2019–20 to 47 percent in 2023–24, underscoring the growing significance of agricultural financing in the state's credit framework. The figures for 2024–25 are projections based on NABARD's State Focus Paper, so actual achievement data is not yet available. Overall, the trend reflects a robust performance in institutional credit with a sustained focus on agricultural development.

Figure 1: Institutional Credit Flow in Karnataka (2019–20 to 2024–25)

(₹ in Crore)



The graph depicts the target and achievement of institutional credit flow to the priority sector in Karnataka from 2019–20 to 2023–24. It shows a steady rise in both target and achievement levels over the years. While the targets have increased consistently, the achievement bars remain close to the targets each year, indicating efficient performance by lending institutions. The gap between target and achievement is relatively small, reflecting that Karnataka has maintained a high rate of credit disbursement, averaging above 95 percent annually. This overall upward trend highlights the strengthening institutional credit flow and the state's commitment to supporting priority sectors, particularly agriculture.

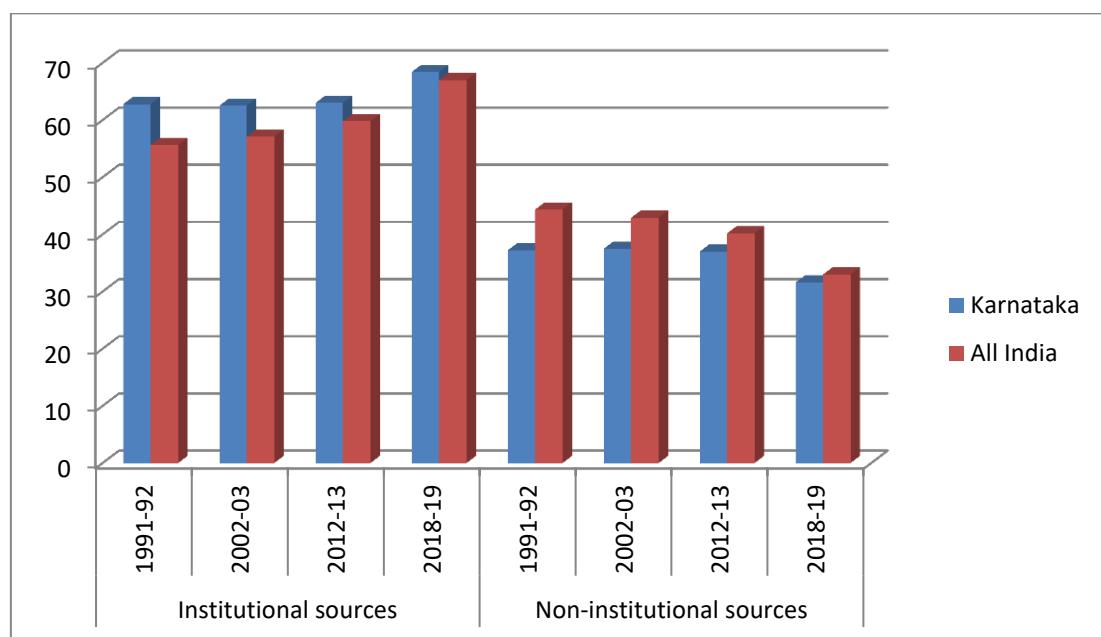
Table: 2. Share of Institutional and Non-Institutional Borrowings in Karnataka and India: 1991-92 to 2018-19 (%)

State/Region	Institutional sources				Non-institutional sources			
	1991-92	2002-03	2012-13	2018-19	1991-92	2002-03	2012-13	2018-19
Karnataka	62.78	62.51	63.00	68.40	37.22	37.49	37.00	31.60
All India	55.65	57.09	59.80	67.00	44.35	42.91	40.20	33.00

Source: NABARD Working Paper 2022-23

Table 2 shows the changing composition of institutional and non-institutional borrowings in Karnataka and India from 1991–92 to 2018–19. The data reveal a steady improvement in institutional credit penetration over the years, both at the state and national levels. In Karnataka, the share of institutional borrowings increased from 62.78% in 1991–92 to 68.40% in 2018–19, while the dependence on non-institutional sources declined from 37.22% to 31.60% during the same period. A similar trend is observed at the all-India level, where institutional credit rose from 55.65% to 67.00%, indicating significant progress in formal financial inclusion. This upward shift reflects the expanding reach of banks, cooperatives, and other regulated institutions following financial sector reforms, credit-linked government schemes, and rural banking initiatives, even though informal sources continue to play a role, especially among small and marginal farmers.

Figure 2: Share of Institutional and Non-Institutional Borrowings in Karnataka and India: 1991-92 to 2018-19 (%)



The bar chart visually presents the share of institutional and non-institutional borrowings in Karnataka and India from 1991-92 to 2018-19. It clearly shows a progressive increase in institutional credit and a decline in dependence on non-institutional sources over time. Karnataka consistently maintained a higher share of institutional borrowings than the all-India average across all years shown, indicating relatively stronger financial inclusion in the state. By 2018-19, institutional sources accounted for about 68.4% in Karnataka and 67% in India, while non-institutional credit fell to 31.6% and 33%, respectively. This trend reflects the expansion of formal banking networks, cooperative credit, and government initiatives promoting institutional finance, alongside a gradual reduction in the influence of moneylenders and informal credit channels.

MAJOR FINDINGS

In recent years, institutional credit in Karnataka has seen significant growth, largely due to the expansion of the banking network and advancements in digital financial inclusion efforts. Cooperative banks are essential in providing credit to small and medium-sized borrowers in rural areas. However, non-institutional credit sources still play an important role due to their easier access, flexible repayment terms, and minimal paperwork. Farmers' financial literacy and awareness significantly impact their ability to secure and use institutional credit effectively. There are still notable regional differences in credit availability and distribution, highlighting the necessity for tailored strategies to enhance inclusive financial access.

POLICY IMPLICATIONS

In recent years, institutional credit in Karnataka has seen significant growth, largely due to the expansion of the banking network and advancements in digital financial inclusion efforts. Cooperative banks are essential in providing credit to small and medium-sized borrowers in rural areas. However, non-institutional credit sources still play an important role due to their easier access, flexible repayment terms, and minimal paperwork. Farmers' financial literacy and awareness significantly impact their ability to secure and use institutional credit effectively. There are still notable regional differences in credit availability and distribution, highlighting the necessity for tailored strategies to enhance inclusive financial access.

CONCLUSION

Karnataka's rural credit system has made significant strides in expanding institutions and reducing reliance on non-institutional sources. Initiatives like NABARD refinancing, priority sector lending mandates, and digital financial inclusion have greatly enhanced access to credit. However, small and marginal farmers still turn to informal credit due to challenges related to procedures or collateral requirements. To ensure lasting improvement, policies must continue to emphasize inclusive, affordable, and technology-driven credit solutions, so that all rural households can benefit from institutional financial services.

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