

## **ROLE OF KVG BANK AND KG BANK IN AGRICULTURAL CREDIT IN KARNATAKA: A REVIEW**

**Priyadarshini**

Research Scholar, Department of Economics, Karnataka State Open University,  
Mukthagangothri, Mysore

**Harisha N**

Assistant Professor, Department of Economics, Karnataka State Open University,  
Mukthagangothri, Mysore

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### **ABSTRACT**

Karnataka Vikas Grameena Bank (KVGB) and Karnataka Gramin Bank (KGB), are the two major Regional Rural Banks (RRBs) in Karnataka that play a vital role in promoting rural credit and agricultural development. This paper is made an attempt to explore the major objectives like to examine the growth and structure of RRBs in Karnataka and to analyse the trends in agricultural credit disbursement by RRBs over the period and identify the challenges and constraints faced by RRBs. This paper is based on the information collected through available secondary sources and literature reviews. The proposed study mainly in descriptive in nature. Both banks KVGB and KGB have maintained a strong rural orientation, fulfilling their core role in promoting rural banking and agricultural credit with large number of branches. Karnataka Vikas Grameen Bank's total advances rose from ₹10,933.93 crore in 2018–19 to ₹17,571.46 crore in 2024–25, reflecting a consistent upward trend in lending operations. This shows the bank's expanding outreach and improved credit delivery capacity over the years. The total advances of Karnataka Garmin Bank has increased steadily from ₹21,264.77 crore in 2019–20 to ₹29,235.32 crore in 2023–24 an overall growth of about 37.5% over five years. Agricultural advances rose from ₹15,849.84 crore to ₹23,363.66 crore a growth of around 47.4% during the same period. To enhance the effectiveness of Regional Rural Banks (RRBs) in supporting rural development, several strategic measures are essential. Strengthening the management of non-performing assets (NPAs), particularly in the agriculture sector, is critical, this requires robust credit appraisal, close monitoring, and efficient recovery mechanisms.

**Key Words:** Regional Rural Banks, Rural Credit Flow, Financial Inclusion, Non-Performing Assets.

### **INTRODUCTION:**

The establishment of Regional Rural Banks (RRBs) in India was a landmark step in the history of rural banking, aimed at ensuring adequate institutional credit to the rural population, especially small and marginal farmers, agricultural laborers, and rural artisans. The RRBs were established under the Regional Rural Banks Act, 1976, based on the recommendations of the Narasimham Committee (1975), which emphasized the need for regionally focused banking institutions to serve rural credit needs more effectively. Regional Rural Banks (RRBs) have emerged as vital financial institutions that bridge the gap between commercial banks and cooperative banks in the delivery of rural credit. RRBs are established with the objectives of promoting rural development through credit and financial inclusion.

Karnataka Vikas Grameena Bank (KVGB) and Karnataka Gramin Bank (KGB), are the two major Regional Rural Banks (RRBs), that play a vital role in promoting rural credit and

agricultural development. They provide short-term, medium-term, and long-term loans for various agricultural and allied activities, including crop cultivation, dairy, poultry, horticulture, and farm mechanization. Over the years, these banks have expanded their outreach in rural areas, contributing substantially to priority sector lending and government-sponsored rural development programs. As of March 2025, agricultural lending formed over 60% of total advances (about ₹29,000 crore), with extensive coverage under the Kisan Credit Card (KCC) scheme. Despite facing challenges like high NPAs in the farm sector, the bank continues to be a key driver of rural credit flow, financial inclusion, and agricultural growth in Karnataka.

## OBJECTIVES AND METHODOLOGY

This paper is made an attempt to explore the major objectives like to examine the growth and structure of RRBs in Karnataka and to analyse the trends in agricultural credit disbursement by RRBs over the period and identify the challenges and constraints faced by RRBs. This paper is based on the information collected through available secondary sources and literature reviews. The secondary sources include the annual reports of the RRBs and other sources collected from the, various journals, articles, books, documents of different ministries and departments and organizations, websites used in this study. The proposed study mainly in descriptive in nature.

## GROWTH OF RRBS IN KARNATAKA

The RRBs were established in India under the Regional Rural Banks Act, 1976, following the recommendations of the Narasimham Working Group (1975). In Karnataka, the first RRBs were established in 1976–77, with sponsorship from major commercial banks such as Canara Bank, Syndicate Bank, State Bank of India, and Vijaya Bank. Each RRB was assigned specific districts to serve. Some of the early RRBs are Malaprabha Gramin Bank, Cauvery Gramin Bank, Krishna Gramin Bank, Netravathi Gramin Bank, Varada Gramin Bank, Tungabhadra Gramin Bank, Bijapur Gramin Bank.

During this period, RRBs in Karnataka significantly expanded their branch network in rural and semi-urban areas. They played a key role in crop loans, dairy finance, and self-employment programs under schemes like IRDP (Integrated Rural Development Programme) and SGSY (Swarnajayanti Gram Swarozgar Yojana). By the early 2000s, Karnataka had 9 RRBs, each catering to specific regions. They were instrumental in channelizing funds for agricultural production and rural development.

**Consolidation and Amalgamation Phase (2005–2013):** To improve the financial viability and efficiency of RRBs, the Government of India, NABARD, and the Reserve Bank of India (RBI) initiated a process of amalgamation. In 2005, four RRBs sponsored by Canara Bank like Malaprabha Gramin Bank, Bijapur Gramin Bank, Varada Gramin Bank, and Netravathi Gramin Bank were merged to form Karnataka Vikas Grameena Bank (KVGB) with its headquarters at Dharwad.

In the year 2013, two RRBs sponsored by State Bank of Mysore like Pragathi Gramin Bank and Kaveri Grameena Bank were amalgamated to form Karnataka Gramin Bank (KGB) with headquarters in Ballari. This consolidation helped strengthen capital base, technology integration, and operational reach. Together, they cover all 31 districts of Karnataka with over 1,750 branches and cater to millions of rural customers. Both banks actively participate in government initiatives such as Kisan Credit Card (KCC), Pradhan Mantri Fasal Bima Yojana (PMFBY), Self-Help Group (SHG)-Bank Linkage Programme, and Pradhan Mantri Jan Dhan Yojana (PMJDY).

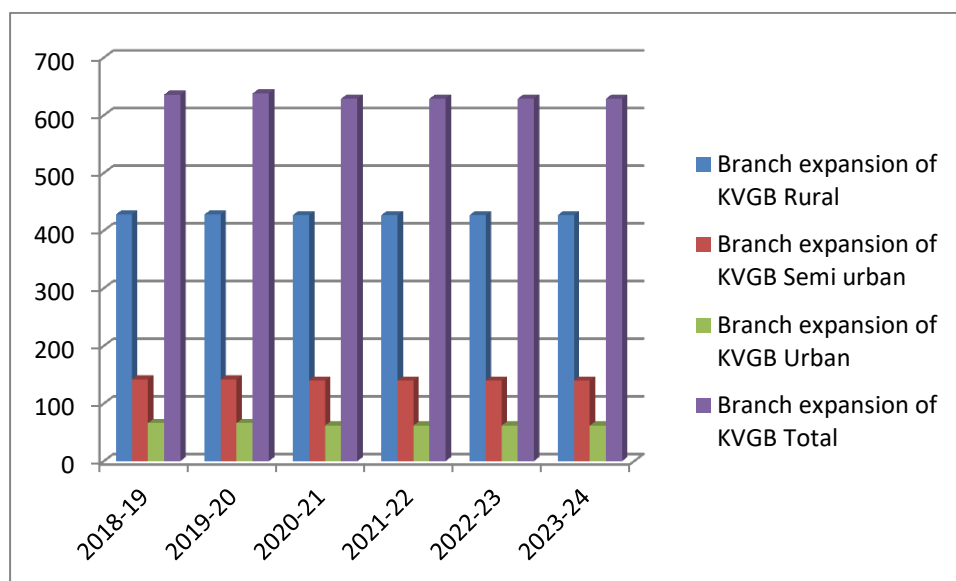
**Table 1: Expansion of Branches of Regional Rural Bank in Karnataka**

Year	Branch expansion of KVGB				Branch expansion of KGB				
	Rural	Semi urban	Urban	Total	Rural	Semi urban	Urban	Metro	Total
2018-19	428	142	66	636	863	150	122	32	1167
2019-20	428	142	66	638	838	150	122	32	1142
2020-21	427	140	62	629	838	149	116	31	1134
2021-22	427	140	62	629	839	147	102	31	1119
2022-23	427	140	62	629	841	147	102	31	1121
2023-24	427	140	62	629	842	147	102	31	1122

Source: Annual reports of KVGB and KGB

The above table clearly indicates that Karnataka Vikas Grameena Bank (KVGB) maintained a stable branch network, with totals remaining around 629–638 branches from 2018–19 to 2023–24. Karnataka Gramin Bank (KGB) had a much larger network, though it slightly declined from 1,167 to 1,122 branches in the same period. Both banks maintained a strong rural orientation, fulfilling their core role in promoting rural banking and agricultural credit. KVGB's rural branches stayed steady at around 427, showing consistent service coverage in rural Karnataka. KGB's rural branches declined slightly from 863 to 842, possibly due to rationalization and merger adjustments. Semi-urban branches remained nearly constant for both banks, indicating stability in small-town service delivery. Urban branches decreased marginally, showing limited expansion toward city-based banking. Only KGB had metro branches (around 31–32), giving it wider geographical coverage than KVGB. The overall branch contraction reflects a shift from physical expansion toward digital and technology-based banking services. Both banks continue to play a crucial role in strengthening rural financial inclusion under the "One State, One RRB" approach.

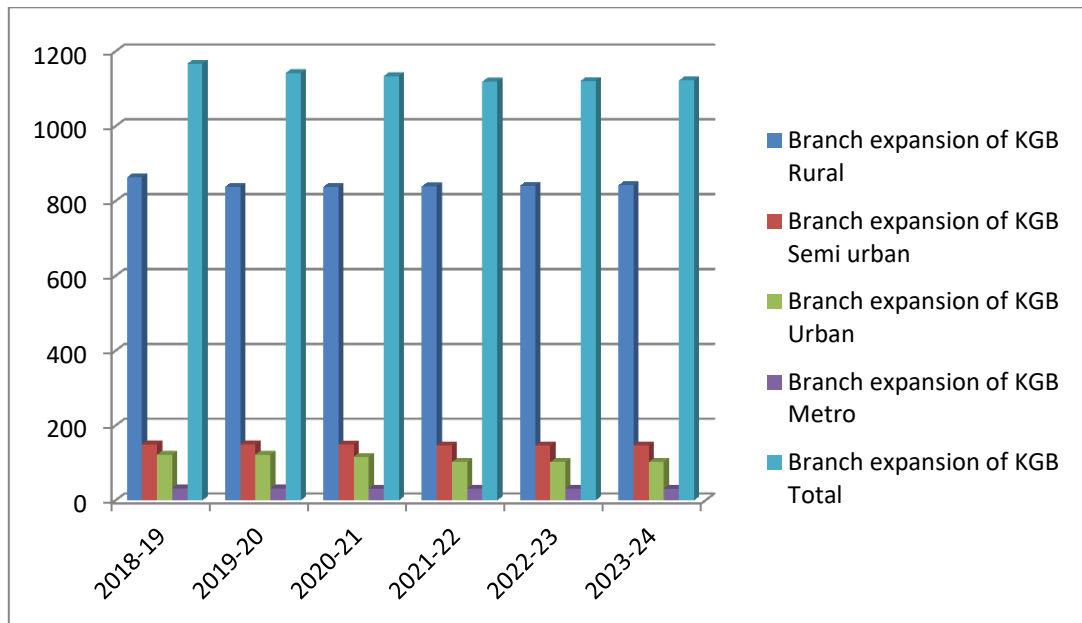
**Figure: 1. Branch expansion of KVGB in Karnataka**



Source: Annual reports of KVGB and KGB

The figure 1 shows the branch expansion of Karnataka Vikas Grameena Bank (KVGB) in Karnataka from 2018–19 to 2023–24. The number of rural branches remained the highest, followed by semi-urban and urban branches. The total number of branches stayed almost constant at around 640 during the period, indicating that KVGB has maintained a strong rural presence with limited expansion in semi-urban and urban areas.

Figure: 2. Branch expansion of KGB in Karnataka



Source: Annual reports of KVGB and KGB

The figure 2 shows the branch expansion of Karnataka Gramin Bank (KGB) in Karnataka from 2018–19 to 2023–24. The number of rural branches remained the highest, followed by semi-urban, urban, and metro branches. The total number of branches stayed nearly constant at around 1,100 during the period, indicating that KGB maintained a wide rural network with limited expansion in other areas.

**Towards “One State, One RRB policy:** Under the Government of India’s “One State, One RRB” policy, Karnataka Vikas Grameena Bank (KVGB) and Karnataka Gramin Bank (KGB) were merged on 1 May 2025 to form the unified Karnataka Grameena Bank, sponsored by Canara Bank. The merger aims to strengthen rural banking, improve efficiency, and enhance agricultural credit delivery across all 31 districts of Karnataka. The new bank operates over 1,750 branches with a business volume of about ₹1.05 lakh crore, of which nearly 60% is agricultural lending. This consolidation is a major step toward ensuring uniform rural credit access, better NPA management, and more effective support for agricultural and rural development in Karnataka.

### RRBs and Agricultural Credit Disbursement

RRBs in Karnataka have made significant contributions to agricultural lending by providing both short-term and long-term credit. Short-term loans are primarily extended for seasonal agricultural operations, including the purchase of seeds, fertilizers, pesticides, and other inputs. Long-term loans are provided for capital investments such as irrigation facilities, farm mechanization, horticulture, and dairy development. Over the last decade, the volume of agricultural credit disbursed by RRBs has shown a consistent increase, reflecting their expanding outreach and improved financial performance. Both Karnataka Gramin Bank

(KGB) and Karnataka Vikas Grameena Bank (KVGB) have achieved substantial growth in their agricultural loan portfolios, contributing significantly to the overall agricultural credit flow in the state.

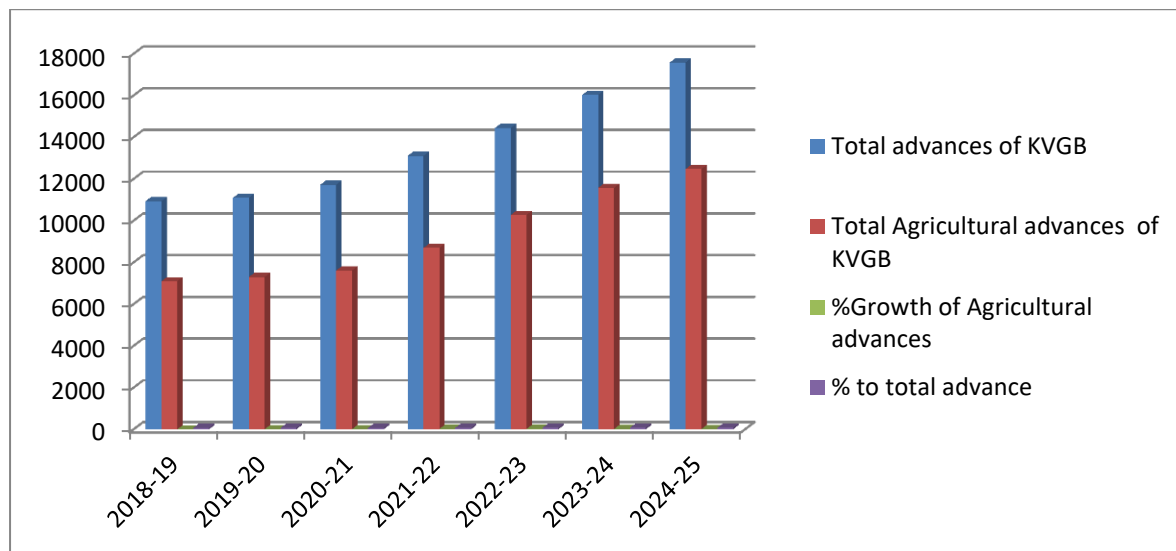
**Table 2: Total Agricultural advances of KVGB and percentage to the total advance**

Year	Total advances of KVGB	Total Agricultural advances of KVGB	%Growth of Agricultural advances	% to total advance
2018-19	10933.93	7094.31	-	64.88
2019-20	11090.32	7295.12	2.83	65.78
2020-21	11718.31	7609.88	4.31	64.94
2021-22	13101.00	8690.26	14.20	66.33
2022-23	14440.32	10273.70	18.22	71.14
2023-24	16027.33	11568.66	12.60	72.18
2024-25	17571.46	12467.55	7.78	70.95

Source: Annual reports of KVGB

The above table clearly indicates that, KVGB's total advances rose from ₹10,933.93 crore in 2018–19 to ₹17,571.46 crore in 2024–25, reflecting a consistent upward trend in lending operations. This shows the bank's expanding outreach and improved credit delivery capacity over the years. Agricultural advances increased significantly from ₹7,094.31 crore to ₹12,467.55 crore during the same period. This 76% rise highlights KVGB's continued commitment to the agricultural sector, which remains the backbone of rural Karnataka's economy. The proportion of agricultural advances to total advances consistently stayed above 64%, peaking at 72.18% in 2023–24. This clearly demonstrates KVGB's dominant role as a rural-oriented institution catering mainly to farmers and agri-based enterprises. The agricultural credit growth was moderate in the initial years like 2.83% in 2019–20 and 4.31% in 2020–21 possibly due to economic slowdown and pandemic-related disruptions. However, post-2021, there was a sharp revival, with 14.20% growth in 2021–22 and an impressive 18.22% in 2022–23, driven by recovery in farm activities and credit demand for crop loans and allied sectors. The strong growth during 2021–23 reflects the bank's proactive role in supporting the agriculture sector during the recovery phase, through schemes like Kisan Credit Card (KCC), PM-KISAN, and other government-backed refinancing programs. The growth rate moderated to 12.60% in 2023–24 and 7.78% in 2024–25, indicating a maturing loan portfolio and stabilization after rapid expansion. This slowdown could also suggest diversification into non-agricultural sectors to balance the portfolio risk. The steady increase in the share of agricultural credit from 64.88% to 72.18% shows KVGB's deeper engagement in inclusive rural financing. Even with a small dip to 70.95% in 2024–25, the share remains well above the industry average for regional rural banks.

Figure: 2. Total Agricultural Advances of KVGB



Source: Annual reports of KVGB

The figure 2 shows the trend in total advances and agricultural advances of Karnataka Vikas Grameena Bank (KVGB) from 2018–19 to 2024–25. Both total and agricultural advances have increased steadily during this period. Total advances rose from around ₹11,000 crore in 2018–19 to nearly ₹18,000 crore in 2024–25, while agricultural advances increased from about ₹7,000 crore to ₹13,000 crore. This indicates a consistent rise in agricultural lending, showing the bank's strong commitment to supporting the agriculture sector in its overall credit portfolio.

**Table 3: Total Agricultural advances of Karnataka Garmin Bank and percentage to the total advance (in Crore Rs)**

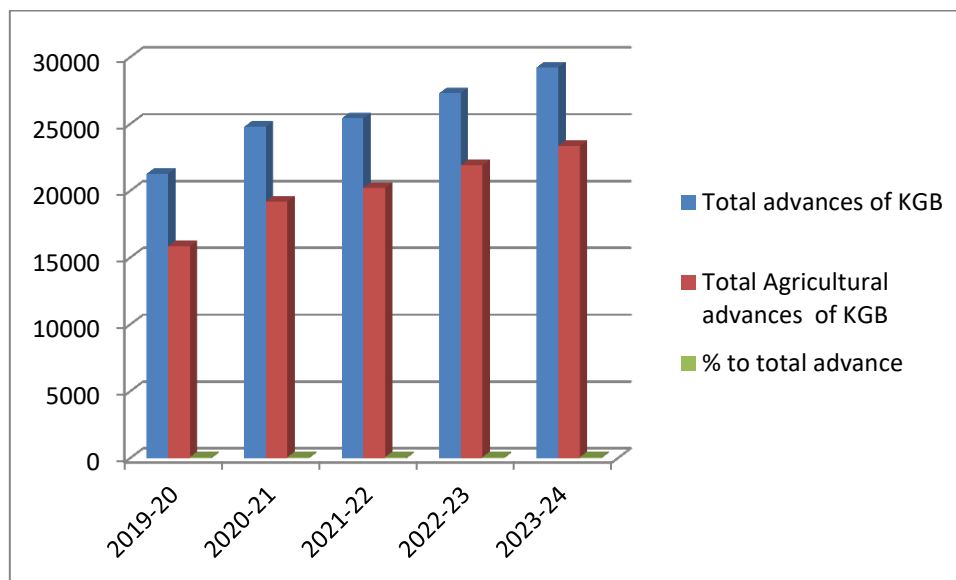
Year	Total advances of KGB	Total Agricultural advances of KGB	% to total advance
2019-20	21264.77	15849.84	74.54
2020-21	24787.17	19201.41	77.46
2021-22	25421.83	20219.54	79.53
2022-23	27297.61	21911.52	80.27
2023-24	29235.32	23363.66	79.92

Source: Annual reports of KGB

The table 3 indicates that the total advances increased steadily from ₹21,264.77 crore in 2019–20 to ₹29,235.32 crore in 2023–24 an overall growth of about 37.5% over five years. Agricultural advances rose from ₹15,849.84 crore to ₹23,363.66 crore a growth of around 47.4% during the same period. This indicates that agriculture remained the dominant focus of KGB's lending portfolio. The share of agricultural advances improved consistently from 74.54% in 2019–20 to 80.27% in 2022–23, showing that KGB increasingly prioritized agriculture. In 2023–24, there was a slight dip to 79.92%, possibly due to higher growth in non-agricultural lending (like MSMEs, housing, or personal loans). However, the level still reflects a strong agricultural orientation. The data highlights Karnataka Gramin Bank's

pivotal role in promoting rural and agricultural development, aligning with the objectives of Regional Rural Banks (RRBs). The steady increase in agricultural credit signifies effective outreach to farmers and agribusinesses. The minor decline in 2023–24 could be attributed to diversification of the loan portfolio or stabilization after rapid growth in previous years. KGB has shown consistent and sustainable growth in both total and agricultural advances. The average share of agriculture over the five years is around 78.7%, underscoring its strong rural focus. The bank's performance reflects successful implementation of agricultural credit schemes and government-supported programs like Kisan Credit Card (KCC), NABARD refinance, and priority sector lending.

**Figure: 3. Total Agricultural advances of Karnataka Garmin Bank**



The figure 3 shows the total advances of Karnataka Gramin Bank and total agricultural advances of KGB (KGB) from 2019-20 to 2023-24. The bank's advances have increased steadily each year. In 2019-20, the total was around 23,000, and by 2023-24, it rose to about 31,000. This shows that KGB has more shares of agricultural loans over the years.

### FINDINGS:

The study highlights the significant role played by Regional Rural Banks (RRBs), particularly Karnataka Vikas Grameena Bank (KVGB) and Karnataka Gramin Bank (KGB), in promoting agricultural credit and rural development in Karnataka. Over the years, both banks have consistently increased their total and agricultural advances, reflecting their strong commitment to the rural economy. KVGB's agricultural credit grew by 76% from 2018–19 to 2024–25, while KGB's agricultural lending rose by 47.4% between 2019–20 and 2023–24. In both cases, agriculture accounted for over 70% of the total lending portfolio, indicating a strong sectoral focus. Despite some fluctuations in growth rates, the share of agricultural advances remained consistently high, showing sustained institutional support for farmers. The branch network remained largely stable, with KVGB maintaining around 629 branches and KGB slightly reducing from 1,167 to 1,122 branches, reflecting a shift toward digital banking rather than physical expansion. The merger of KVGB and KGB in 2025 under the "One State, One RRB" policy further aims to streamline operations and boost efficiency.

## SUGGESTIONS:

To enhance the effectiveness of Regional Rural Banks (RRBs) in supporting rural development, several strategic measures are essential. Strengthening the management of non-performing assets (NPAs), particularly in the agriculture sector, is critical—this requires robust credit appraisal, close monitoring, and efficient recovery mechanisms. Alongside a stable physical presence, RRBs must enhance their digital outreach by investing in mobile banking, UPI, and digital platforms, while also training farmers and rural customers to use these tools effectively. Diversifying the loan portfolio beyond agriculture into allied sectors such as MSMEs, rural housing, and services can help reduce sectoral risks and ensure more stable financial performance. Additionally, there is a pressing need to improve financial literacy among rural populations through targeted campaigns that educate customers on banking services, loan products, insurance, and repayment obligations. Finally, RRBs should actively leverage government schemes like PM-KISAN, Kisan Credit Card (KCC), Pradhan Mantri Fasal Bima Yojana (PMFBY), and Self-Help Group (SHG) programs to boost rural credit flow and enhance livelihood opportunities, ensuring timely and effective implementation for maximum impact.

## CONCLUSION:

Regional Rural Banks in Karnataka have played a pivotal role in deepening rural financial inclusion and supporting agricultural development. Both KVGB and KGB have shown commendable growth in agricultural lending, reflecting their alignment with national priorities and rural needs. Their consistent focus on agriculture, priority sector lending, and participation in government schemes has made them key instruments in rural economic transformation. The recent merger under the “One State, One RRB” initiative is expected to bring operational synergies, better resource allocation, and uniform service delivery across the state. However, to sustain and strengthen this impact, RRBs must address challenges like NPAs, digital infrastructure gaps, and credit diversification while continuing to empower rural communities. With the right policy support and strategic reforms, RRBs can continue to be engines of inclusive growth in Karnataka's agrarian economy.

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