Role of Commercial Banks in Agricultural Credit in India

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ABSTRACT

Agriculture including allied activities, accounted for 14.5 per cent of gross domestic product (GDP) at 2004-05 prices, in 2010-11 as compared to 14.7 per cent in 2009-10. Notwithstanding the declining trend in agriculture's share in the GDP, it is critical from the income distribution perspective as it accounted for about 58 per cent employment in the country according to Census 2001. Agricultural credit has played a vital role in supporting farm production in India. It has also been estimated that one per cent growth in agriculture contributes to two per cent growth in industrial and service sectors. Though, the outreach and amount of agricultural credit increased over the years, several weaknesses crept which in turn affected the viability and sustainability of banking and other institutions. The present paper analyses the performance of commercial banks in agricultural credit delivery. The paper also analyses the latest schemes of commercial banks for credit delivery.

Key words: Gross Domestic Product, Marginal Farmer, Credit.

1. Introduction

Growth in agriculture and allied sectors is essential for economic growth of a country. In terms of composition, out of the total share of 14.5 per cent that agriculture and allied sectors had in GDP at 2004-05 in 2010-11, agriculture alone accounted for 12.3 per cent, followed by forestry and logging at 1.4 per cent and fishing at 0.7 per cent. Reasonable growth in agriculture is important both from the nutritional point of view as well as to control food prices and overall headline inflation.

Agriculture sector needs huge investment, realizing the importance of farm credit, both central and state governments are undertaking initiatives to meet the credit requirements of farmers. Reserve Bank of India, Ministry of Finance, NABARD, and all other banking institutions are gearing up for the task of strengthening the institutional framework for effective credit delivery. Achieving growth in agricultural sector is essential for maintaining self-sufficiency in food. It has also been estimated that one per cent growth in agriculture contributes to two per cent growth in industrial and service sectors. The importance of agriculture credit as a critical input to agriculture is reinforced by the unique role of Indian agriculture in the macroeconomic framework and its role in poverty alleviation. Recognizing the importance of the agriculture sector in India's development, the government and the Reserve Bank of India (RBI) have played a vital role in creating a broad-based institutional framework for catering to the increasing credit requirements of the sector. Agriculture polices in India have been reviewed from time to time to maintain pace with the changing requirements of the agriculture sector, which forms an important segment of the priority sector lending of scheduled commercial banks and target of 18 per cent of net banking credit has been stipulated for the sector.

2. Review of literature

Somnath Chatterjee (2007) in his article "The developmental challenge in rural India" stated agriculture in India has always been heavily dependent on the monsoons and hence has been an inherently risky proposition for farming community. Indigenous system of credit had evolved as a consequence of seasonal needs. 87 per cent of villages in India are in clusters of population of 2,000 or below. These villages provide small markets

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without efficient linkages and financing options for which the farmers have fallen prey to middlemen and moneylenders. In many cases, low quality agricultural inputs, some times even spurious products, affects productivity, and that tends to trap the farmer deeper into poverty. One cannot afford to leave the agriculture sector to the vicissitudes of an imperfect market. With intermittent failure of the monsoons and other drawbacks of farming, rural indebtedness has been a serious and continuous characteristic of Indian Agriculture. Because of the high risk inherent in traditional farming activity, the prevalence of high interest rates was the norm rather than the exception.

The 59th National Sample Survey pointed out that of Rs.1000 in the loan availed by farmers, the share of banks is Rs.356, share of a cooperative society is Rs.196, share of money lenders is Rs.257 and the remaining Rs.191 is availed from relatives, friends and others. Also findings highlighted that only 27% of the total number of cultivator households received credit from formal sources while 22% received credit from informal sources. The remaining households, comprising mainly small and marginal farmers, had no credit outstanding. It felt that, there is a need for innovation in credit delivery mechanism for alleviating poverty and larger coverage of rural households. Outreach of banking sector needs to be increased. Necessary legal and regulatory framework for operation of non-banking channel viz. NGOs, Micro Finance Institutions and village organizations are needed.

Planning Commission (2001) in its Report of the working group on crop husbandry, demand & supply projections and agricultural inputs for the tenth five year plan mentioned that agricultural credit is disbursed through the network of cooperatives, commercial banks and RRBs. Cooperatives cover 48 per cent of disbursement, commercial banks 46 per cent and RRBs about 6 per cent. The cooperative credit system has played a very important role till a few years back. However, the system seems to have collapsed due to heavy overdues and it has affected the resources poor farmers badly. Commercial Banks do not seem to be much interested in providing credit to farmers as is evident from shortfall in priority lending. Against the target of 18 per cent of the Net Bank Credit, the priority sector lending amounted to only 15.7 per cent (2000-01). The flow of credit from the Commercial Banks and the RRBs is not adequate. Apart from the question of the quantum of credit, there is the question of specific targeting of the small and marginal farmers. As there is a separate Working Group on Agricultural Credit, this Working Group do not intent to make any recommendations, however, it emphasises that unless credit needs of the farmers are adequately met the productivity enhancement programme will suffer as farmers would not be able to adopt improved technologies and develop their on farm infrastructure.

From review of literature it can conclude that agriculture sector plays a significant role in Indian economy. This sector needs huge investment for the purchase of capital inputs and working capital. According to government data, share of marginal and small farmers are (farmers owning from 0.1 to less than 2 ha) approximately 82 percent in 2000-01 in total forming community. It is also estimated that only 27% of the total number of cultivator households received credit from formal sources while 22% received credit from informal sources. The remaining households like mainly small and marginal farmers are not getting loan from any sources. In recent years, commercial banks are playing very important role in agricultural credit delivery.

3. Objectives

1) To identify the performance of commercial banks in agriculture credit delivery.
2) To study and analyze the share of commercial banks in agriculture credit.
3) To study the various schemes introduced by commercial banks to cater the needs of agriculture sector.
4) To suggest measures to the policy makers to extend agricultural credit effectively.

4. Research Methodology

The study basically depends on secondary data. The data has been taken for the last Five years (2005-06 to 2010-11) to analyze the performance of commercial banks in agricultural credit. The study attempts to accomplish its objectives by making analysis on the basis of the following parameters:

1. Relative Share of Borrowing of Cultivator Households from Different Sources;
2. Institutional Credit Agriculture Sector;
3. Priority Sector Lending by Public Sector Banks;
4. Performance of Kisan Credit Cards Schemes;
5. Role of Commercial Banks in Financial Inclusion
6. Holding land wise credit flow by commercial banks;
7. Distribution of Commercial Bank Branches in India;
8. Number of banks achieved net bank credit targets;
9. Agricultural Advances Recovery by institutions;
10. Priority Sector Shortfall - Contribution to RIDF by commercial banks;
11. Farmers deposits in commercial banks;

All the parameters have been analyzed for the period of five years, i.e., from 2005-06 to 2010-11

5. Results and Discussions

The following section provides the discussion on various parameters selected for the analysis of the study.

5.1 Rural Credit System:

The rural credit system in the country has undergone radical changes in respect of focus, structure and approach over the time. The institutionalization of credit started with an establishment of co-operatives following the enactment of Co-operative Societies Act, 1904. The key milestone of rural credit system are Rural Credit Survey Committee Report (1954) and acceptance of its recommendations, nationalization of major commercial banks (1969 and 1980), establishment of RRBs (1975), establishment of NABARD (1982) and the ongoing financial sector reforms since 1991. Further, several initiatives like Kisan Credit Card Scheme, Special Agricultural Credit Plans, RIDF Scheme etc, are put together to increase the flow of credit to agriculture sector. An important development in this regard is the phenomenal growth of Self-Help Groups since 1990s.

5.2 Relative Share of Borrowing of Cultivator Households from Different Sources:

Nationalization of banks in 1969 transformed the banking industry beyond recognition. Branch networks of the banks grew significantly reaching across the entire country and the nation saw banking being taken to the masses. Almost two and a half decades of directed, production-based, subsidized social lending were witnessed. Towards the end of this phase, the economy began to buckle under the strain of internal inefficiencies and external pressures. The early 1990s saw major reforms being implemented to shore up the national economy and banking. By the end of the decade, stability had been restored and the first few years of the 21st century have seen the economy on a growth path. During the period after nationalization, the number of bank branches has grown eightfold from 8187 in 1969 to 74,130 at the end of 2007. With the rapid spread of branch networks of banks, the number of customers per branch declined fourfold from 64,000 to 13,466. Consequently, the coverage in terms of total number of customers has more than doubled. The following section deals with successful schemes of commercial banks for financial inclusion in India.

Commercial Banks are plays a significant role in lending loans and advances to agricultural sector in India. After nationalization of commercial banks, agricultural credit has increased substantially. One of the major achievements in the post-independent India has been widening the spread of institutional machinery for credit and decline in the role of non-institutional sources, notwithstanding some reversal in the trend observed particularly in the 1990s. The share of institutional credit, which was little over 7 per cent in 1951, increased manifold to over 66 per cent in 1991, reflecting concomitantly a remarkable decline in the share of non-institutional credit from around 93 per cent to about 31 per cent during the same period. However, the latest NSSO Survey reveals that the share of non-institutional credit has taken a reverse swing which is a cause of concern as shown in following Table 1.

Table 1: Relative Share of Borrowing of Cultivator Households from Different Sources

(Per cent)

Sources Credit	1951	1961	1971	1981	1991	2002
Non-Institutional	92.7	81.3	68.3	36.8	30.6	38.9
of which Money Lenders	69.7	49.2	36.1	16.1	17.5	26.8
Institutional	7.3	18.7	31.7	63.2	66.3	61.1
of which Cooperatives Societies / Banks	3.3	2.6	22.0	29.8	23.6	30.2
Commercial Banks	0.9	0.6	2.4	28.8	35.2	26.3
Unspecified	–	–	–	–	3.1	–
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: All India Debt and Investment Survey and NSSO, 2003.

From the above Table 1 it is clear that non-institutional credit decreases from 92.7 percent (1951) to 38.9 percent (2002). Institutional credit on the other hand, increases from 7.3 percent (1951) to 61.1 percent (2002). Further, the share of money lenders also declined from 69.7 percent (1951) to 26.8 percent (2002). On the other hand, the share of borrowings from cooperative societies/banks had increased from 3.3 percent (1951) to 30.2 percent (2002) respectively. Finally, for commercial banks, the share of borrowings increases from 0.9 percent (1951) to 26.3 percent (2002).

5.3 Institutional Credit Agriculture Sector-Commercial Bank share:

Table 2: Institutional Credit Flow to Agriculture Sector in India

Year	Co-operative banks		Regional banks		Commercial banks		Total
	(Rs. crore)	Per cent	(Rs. crore)	Per cent	(Rs. crore)	Per cent	Rs. Crore
2006-07	42,480	18	20,435	9	1,66,485	73	2,29,400
2007-08	48,258	19	25,312	10	181,088	71	2,54,658
2008-09	45,966	15	26,765	8	228,951	77	301,908**
2009-10	63,497	16	35,217	9	285,800	75	384,514
2010-11	70,105	16	43,968	9	332,706	75	446,779

Source: NABARD

Includes Rs 226 crore by other Agencies.

The above Table 2 indicates the total amount of institutional credit (both short term and medium-term/

long-term) provided by co-operative banks, regional rural banks and commercial banks to the agricultural sector during the period 2006-07 to 2010-11. The total credit facilities extended by co-operative banks, regional rural banks and commercial banks were Rs. 2,29,400 crore in 2006-07, which increased to Rs. 446,779 crore in 2010-11, the share of Co-operative banks was only Rs. 42,480 crore in 2006-07, which rise to Rs. 70,105 crore in 2010-11 an increase of 165 per cent. The share of regional rural banks was Rs. 20,435 crore in 2006-07, which increased to Rs. 43,968 crore in 2010-11 an increase of 215 per cent. Credit facilities provided by commercial banks were Rs. 1,66,485 crore in 2006-07, which increased to Rs. 332,706 crore in 2010-11, it shows an increase of 200 per cent respectively. The share of co-operative banks in the farm credit was 16 to 19 per cent, regional rural banks 8 to 10 per cent and commercial banks 71 to 75 per cent, from last few years the total farm sector lending, the share of commercial banks was more than the regional rural banks and co-operative banks.

5.4 Priority Sector Lending by Public Sector Banks:

Commercial Banks were subjected to priority sector lending targets in 1983 on account of an important role played by these institutions in purveying banking facilities to low and middle income groups from urban and semi-urban areas. Presently, UCBs have to extend 40 per cent of their Adjusted Net Bank Credit (ANBC) or credit equivalent of Off-Balance Sheet Exposure (OBE), whichever is higher, as on March 31 of the previous year, to priority sectors. Of this target, at least 25 per cent needs to be given to weaker sections of the society. However, unlike SCBs, UCBs are not bound by any separate target for agriculture given the primarily urban focus of these banks.

Table 3: Priority Sector Lending by Public Sector Banks

(Rs. crore)

Year	Agriculture	Small-Scale Industries	Total priority sector advances
2006-07	1,73,875 (12.3)	91,020 (6.5)	5,10,175 (36.1)
2007-08	2,49,397 (18.3)	1,51,137 (11.1)	6,10,450 (44.7)
2008-09	2,98,211 (17.2)	1,91,307 (11.3)	7,20,083 (42.5)
2009-10	3,72,463 (17.9)	2,76,319 (13.3)	8,63,777(41.6)
2010-11	4,14,991 (16.5)	3,76,625 (15.1)	10,28,615(41.3)

Source: RBI, RTPB, various years

From the above Table 3 it is clear that the total priority sector advances by public sector banks accounted for 41.3 per cent (2010-11) of their net bank credit (NBC) compared with 41.6 per cent (2009-10). Within the priority sector, the flow of credit to agriculture from Public Sector is increased from 12.3 per cent in 2006-07 to 16.5 percent in 2010-11. This highlights that the commercial banks are achieving its agricultural credit during the study period except one year.

5.5 Kisan Credit Card Scheme:

The Kisan Credit Card (KCC) scheme (introduced in 1998-99) has been implemented through cooperative banks, RRBs and public sector commercial banks to provide an easy access to adequate, timely and cost effective credit to farmers. In addition to meeting the term credit and working capital requirements of agriculture, KCC also covers consumption credit needs of farmers. The endeavour of National Bank for Agriculture and Rural Development (NABARD) has been to bring all farmers including tenant farmers and share croppers into the ambit of KCC.

Table 4: Number of Kisan Credit Cards Issued
(As at end-March 2009)

(Numbers in million)

Year	Cooperative Banks	RRBs	Commercial Banks	Total
2006-07	2.29	1.41	4.81	8.51
2007-08	2.09	1.77	4.61	8.47
2008-09	1.34	1.41	5.83	8.59
2009-10	1.74	1.95	5.31	9.01
2010-11	2.81	1.78	2.67*	7.26
Cumulative#	40.70	15.20	45.03	100.93

* Data for commercial banks available up to 30 June 2010. Source: NABARD.
# Since inception of the Scheme, i.e., August 1998.

From the above Table 4 it is obvious that during 2010-11, 7.26 million KCC were issued by banks with sanctioned credit limit of Rs 43,370 crore as against 9.01 milion cards and credit limits of Rs 34,982 crore during 2009-10. Of the cumulative 100.93 million credit cards issued, as at end- March 2011, 45.03 million cards (44.62%) were issued by commercial banks, followed by 40.70 million cards (40.33%) by co-operative banks and 15.20 million cards (15.05%) by Regional Rural Banks.

5.6 Role of Commercial Banks in Financial Inclusion:

Commercial banks are playing a vital role in financial inclusion in India. It is delivering credit to the needed people with different schemes. Financial inclusion had been one of the top priorities of the Reserve Bank during the recent years. Accordingly, the Reserve Bank had been encouraging the banking sector to expand the banking network both through setting up of new branches and also through BC model by leveraging upon the information and communication technology (ICT). Consequently, the status of financial inclusion improved in 2010-11 over the previous year.

Table 5: Progress of Financial Inclusion

No.	Indicator	2009-10	2010-11
1	Credit-GDP	53.4	54.6
2	Credit-Deposit	73.6	76.5
3	Population per Bank Branch	14,000	13,466
4	Population per ATM	19,700	16,243
5	Percentage of Population having deposit accounts*	55.8	61.2
6	Percentage of Population having credit accounts*	9.3	9.9
7	Percentage of Population having debit cards	15.2	18.8
8	Percentage of Population having credit cards	1.53	1.49
9	Branches opened in Tier 3-6 centres as a per cent of total new bank branches	40.3	55.4
10	Branches opened in hitherto unbanked centres as a per cent of total new bank branches	5.6	9.7

Source: RBI, Report on Trends and Progress of Banking Industry in India, 2010-11 Report.

* Data relate to 2008-09 and 2009-10.

Note:

1) Data on credit and deposits are taken from the consolidated balance sheet of SCBs.
2) Data on bank branches, new bank branches, branches opened in Tier 3 to Tier 6 centres, and branches opened in unbanked centres are taken from Master Office File, DSIM. Data relate to April- March.
3) Data on branches include branches of Regional Rural Banks in 2010-11.
4) Data on population for the year 2010-11 are taken from Census of India 2011.
5) Data on population per bank branch and population per ATM for the year 2009-10 are repeated from the Report on Trend and Progress of Banking in India 2009-10.
6) Data on population for the year 2009-10 for calculating Indicators 5-8 are derived from the population per bank branch as reported in the Report on Trend and Progress of Banking in India 2009-10.
7) Data on number of deposits and credit accounts are taken from the Basic Statistical Returns 2009-10.
8) Data on number of ATMs, debit cards and credit cards are sourced from the Department of Payment and Settlement System.

From the above Table 5 it is clear that the progress of financial inclusion shows mixed trend during 2009-10 and 2010-11 respectively. There is marginal increase in credit-GDP ratio during the aforesaid period. Same is the case for credit ratio. On the other hand, there is a sharp decline in population per ATM from 19700(2009-10) to 16243(2010-11).

Yet, the extent of financial exclusion is staggering. Out of every 1000 persons, only 99 had a credit account and 600 had a deposit account as at end-March 2010. Innovative and successful Schemes of commercial banks under financial inclusion are;

a. Microfinance programme
b. 'No-frills' Accounts
c. Farmer's Club Programme
d. Swarozgar Credit Card Scheme
e. Joint Liability Groups
f. Financing Rythu Mitra Groups
g. National Rural Financial Inclusion Plan (NRFIP)
h. Liberalization of Business Correspondents Model
i. Opening of branches in unbanked rural centers

5.7 Share of agriculture credit from different bank branches classified by population Groups:

Table 6: Share of agriculture credit from bank branches classified by population groups

Year	Share of total agriculture credit (in %) supplied through				
	Rural plus semi-urban branches	Only rural branches	Urban and metropolitan branches	Only metropolitan branches	All branches
1990	85.1	55.5	14.9	4.0	100.0
1994	83.4	54.6	16.6	5.6	100.0
1995	83.7	52.7	16.3	7.3	100.0
2005	69.3	43.0	30.7	19.0	100.0
2006	62.4	37.1	37.6	23.8	100.0
2008	66.0	38.4	34.0	20.0	100.0

Source: calculated from Basic Statistical Returns of Scheduled Commercial banks in India.

Note: due to changes in the classification of rural, semi-urban and metropolitan centers, only the following comparison across years are possible: between 1990 and 1994; between 1995 and 2005; and between 2006 and 2008

From the above Table 6 it is observed that between 1995 and 2005, the share of agricultural credit supplied by urban and metropolitan bank branches in India increased from 16.3 per cent to 30.7 per cent. The share of agricultural credit supplied by metropolitan branches alone increased from 7.3 per cent in 1995 to 19 per cent in 2005. While there was a moderate decrease in these shares between 2006 and 2008, urban and metropolitan branches continued to supply about one-third of the total agricultural credit in 2008. Concurrently, there was a sharp fall in the share of agricultural credit supplied by rural and semi-urban branches from 83.7 per cent in 1995 to 69.3 per cent in 2005. In 2008, the share of rural and semi-urban branches in total agricultural credit was 66 per cent.

5.8 Commercial bank branches in rural India:

At present, institutional agricultural credit is mainly disbursed by commercial banks, cooperative banks and Regional Rural Banks (RRBs) under the multi-agency approach. These banks over a period of time have established an impressive branch network: about 82,034 branches of scheduled commercial banks (including RRBs) and over one-lakh outlets of cooperatives in rural and semi-urban areas.

Table 7: Spread of Bank branches across the years

Year	Rural	Semi-urban	Urban	Metropolitan	Total
2006	30,579	15,556	12,032	11,304	69,471
2007	30,639	16,212	12,792	11,826	71,471
2008	30,898	17,695	15,275	13,831	77,699
2009	31,197	17,979	14,602	13,113	76,891
2010	20,773	17,638	16,007	14,742	69,160
2011	21,705	19,800	16,945	15,680	74,130

Source: RBI, Report on Trends and Progress of Banking in India (Various Year:

From the above Table 7 it is obvious that the numbers of rural branches have reduced considerably during the recent past. The commercial banks rural branches are reduced from 30,579 in 2006 to 21,705 by the year 2011. India has seen the closure on an average of one rural branch of a scheduled commercial bank (SCB) every single working day for the last 15 years. In the same period, bank branches in urban metros increased to a great extent.

5.9 Number of banks achieved net bank credit targets to agriculture sector in India:

The target of 18 per cent of net bank credit for lending to agriculture was introduced in the year 1989 and banks were required to achieve this target by March 1990. However, the banking system as a whole has not reached the level of 18 per cent. In April 2001, private sector banks were asked to achieve the target of 18 per cent of net bank credit for lending to agriculture within a time period of two years. The same time frame was subsequently made applicable to public sector banks in May 2001. This was without prejudice to the allocation under RIDF for not meeting the target for lending under priority sector / agriculture during the intervening period. Accordingly, banks were advised by Reserve Bank of India to step up lending to priority sector (including agriculture) so as to reach the stipulated targets by March 2004.

Table 8: Number of Banks achieving the 18 per cent Target

As on the last reporting Friday of	Public sector banks		Private sector banks	
	Achieving the 18% target	Not achieving 18% target	Achieving the 18% target	Not achieving 18% target
2006	7	21	3	23
2007	8	20	3	23
2008	14	14	6	17
2009	14	13	8	14
2010	12	15	11	22
2011	8	18	11	10

Source: RBI, RPCD, various years.

In the above Table 8, the data shows number of banks achieving the 18 percent credit target by March 2011.
The total number of public sector banks not achieving 18 percent target were more as compared to achieving target. Same is the case for private sector banks.

Table 9: Net Bank Credit to agricultural sector

(Per cent)

Year	Mandatory	Public sector Banks	Private Sector Banks
March 2006	18	15.3	13.6
March 2007	18	15.6	12.7
March 2008	18	17.5	15.4
March 2009	18	17.6	15.9
March 2010	18	17.1	15.6
March 2011	18	16.5	15.7

Source: RBI, RPCD, various years.

Table- 9 highlights the inability of both public sector banks and private sector banks in reaching the set target of 18 per cent in terms of average net bank credit to agricultural sector for the period from March 2006 to March 2011. Lending share of the public sector banks has been hovering around 15.3 to 16.5 percent from March 2006 to March 2011. At the same time private sector bank lending to agricultural sector has increased form 13.6 per cent to 15.7 per cent. Consequently, private sector banks are increasing their agriculture sector lending quickly when compare to public sector banks.

5.10 Institutional recovery of Agricultural Advances:

Table 10: Institutional Recovery of Agricultural Advances

(In per cent)

Institution	2005-06	2006-07	2007-08	2008-2009	2009-10
Commercial Banks	80.1	79.7	75.4	75.4	NA
District level Co-Op Banks	74.1	81.5	71	72	75.7
Regional Rural Banks	76.1	78.1	77.4	NA	NA

Source:RBI, Report on Trends and Progress of Banking in India various years.
NA: Not Available

At the aggregate level, the recovery position of overdues with respect to agricultural advances, as evaluated by the percentage of overdues to demand was almost same during review period. The above Table 10 shows the recovery performance of Commercial Banks (CBs) has been quite impressive in comparison to other rural lending institutions. The recoveries in the commercial banking system were around 80.1 (2005-06) to 75.4 per cent (2008-09). The position of RRBs has also improved in same period. The recovery position in the case of cooperatives, however, is not very impressive. The percentage of recovery increased from 71 per cent (2007-08) to 75.7 per cent (2009-10).

5.11 Priority Sector Shortfall - Contribution to RIDF:

The domestic scheduled commercial banks credit flow to agriculture has been falling short of the priority sector target of 18 per cent for agriculture. As mentioned earlier Commercial banks which fail to meet priority sector lending requirements to agriculture are required to contribute a part of the shortfall to RIDF which was established by NABARD in 1995.

Table 11: Measured Gap between Default and RIDF Allocation for all Domestic Scheduled Commercial Banks

(Rs. Crore)

	2003-04	2004-05	2005-06	2006-07*
Number of banks defaulting in respect of achievement of agricultural lending target	45	43	44	NA
Amount of agricultural credit defaulted	4,585.65	31,759.11	36,627.81	NA
Amount allocated to banks for RIDF under respective tranches as per corpus announced by the Government	8,000 for RIDF-X (for 2004-05)	8,000 for RIDF-XI (for 2005-06)	14,000**	16,000 **
Difference between Amount defaulted and allocations	16586	23759	Rs..22628	NA

Note: * not yet allocated.
** Rs. 4,000 crores under the separate window for rural roads component of Bharat Nirman Programme under RIDF-XII for 2006-07 and RIDF XIII for 2007-08.
Source: 1. RBI (in a special communication to the Expert Group) and
2. Ministry of Finance, Task Force on Revival of Rural Cooperative Credit Institutions, 2005 and Nabard.

According to the data presented in the above Table 11 only a part of this shortfall (default) has been allocated to RIDF by banks. For instance, from the total outstanding credit in 2005-06, the shortfall was Rs. 36,628 crore whereas the amount allocated to RIDF was Rs.14, 000 crore only. There is a need to allocate the additional funds for investment in agriculture either directly by NABARD or through the issue of Rural Development Bonds (RDBs) by the Government of India.

5.12 Share of Farmers' Deposits in Commercial Banks:

There are hard numbers behind the enthusiasm of the banks and micro-finance institutions in tapping rural India. Farmers now account for almost 11% of the total deposits with banks, savings and current accounts included. The data, released by Reserve Bank of India show the farming community has significant linkage with the banking sector. The numbers, almost Rs2 lakh core, show there is a strong need for the banking sector to develop varied product that appeal to farmers. As of now, there are no deposit products with banks which are meant for farmers. Almost all the deposit schemes, run by the scheduled commercial banks are aimed at the salary and wage earners. This picture is ripe for change. Deposits from farmers now rank closely behind that of salary and wage earners, as the accompanying Table 12 shows.

Table 12: Ownership of deposits with scheduled commercial banks

(Rs. Crore)

	2006	2007	2008
Farmers	152295 (7.0)	172442(6.4)	177190 (5.3)
Wage & Salary earners	164166 (7.6)	178033 (6.6)	218195 (6.6)
Trusts, associations, clubs etc	45208 (2.1)	71663 (2.7)	80977 (2.4)
Education institutions	19583 (0.9)	26112 (1.0)	28595 (0.9)
Religious institutions	7004 (0.3)	9502 (0.4)	8474 (0.3)
Total household sector	1264373 (58.5)	1549716 (57.4)	1928017 (58.1)

Figures in brackets indicate percentages to total
Source: RBI

The above Table 12 indicates that farmer contribution is decreasing from 7 percent (2006) to 5.3 percent (2008). On the other hand, total household contribution remains constant during this period.

6. Conclusion

During the review period it was observed that public sector banks achieved their priority sector-lending target of 40 per cent of aggregate bank advances effectively. Their credit flow to priority sector is around.40.3 per cent during the review period. But where as 18% target fixed for the agricultural sector with in the Adjusted Net Bank Credit (ANBC) lending norms, have not achieved by both public and private sector banks effectively. In this regard private sector banks performance was very dismal in comparison to public sector banks. At the same time the commercial banks rural branches are reduced from 30,579 in 2006 to 21,705 by the year 2011. The study also reveals that commercial banks are not offering any schemes for farmer's deposits As there are several constraints in agricultural lending both on supply side and demand side there is a need for renewed thinking on the methods and processes of credit delivery. Banks need to develop an array of financial products and services that are adapted to the needs of the majority of rural people at affordable prices.

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