

# Agricultural Credit in India: A Study of Public and Private Sector Banks

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## Abstract

*The banking system touches the lives of millions and has to be inspired by the larger socio-economic purpose and has to sub-serve the national priorities and objectives. Within the banking institutions, the role of commercial banks has occupied a new meaning and significance, in the view of the changing structure and requirements of a developing economy like India. The growth of agriculture is an important pre-requisite, not only for the reasons of food security, but, also in terms of forward and backward linkages that the agriculture sector has with the rest of the sectors of the economy. The main objective of this paper is to analyze the performance of commercial banks in financing agriculture sector in India. The secondary data has been used and collected from the various relevant issues of RBI. The exponential growth rate has been calculated to assess the performance of banks in lending to agriculture sector. The behavior of inter-year as well as inter-bank disparities is explained with the help of co-efficient of variation. The performance banks in agriculture credit has been compared with the help of t-test. The study points out that, agriculture credit grew at a lower rate during the second vis-à-vis first phase in both the bank groups. It was also found that, on an average, the prescribed target of agriculture credit was not achieved by banks during the first and second phase. One important issue of concern is the almost stagnant share of agriculture credit in net bank credit over a period of time, which needs immediate attention of the policy makers. The banks also, on an average, failed to achieve the stipulated target of agricultural lending during the first as well as second phase. The study recommends that the banking sector, especially public sector banks, should lead efforts to expand inclusion as private sector initiatives to do so are likely to be curtailed by their objective of maximizing shareholder profit rather than optimizing stakeholder*

**Key Words:** Banking System, Commercial Banks, Developing Economy, Agriculture credit, Secondary Data, Exponential Growth Rate, Co-efficient of Variation, t-test, Stagnant.

## I. INTRODUCTION

As an economic institution, banks are supposed to be more directly and positively related to the performance of the economy than most non-economic institutions are (Nazmi, 2013 [8] and Sooden and Kumar, 2007 [15]). Banking has played a very important role in the economic development of all the nations of the world. The banking system touches the lives of millions and has to be inspired by the larger social purpose and has to sub-serve the national priorities and objectives (Kapoor, 2004 [4]).

Within the banking institutions, the role of commercial banks has occupied a new meaning and significance, in the view of the changing structure and requirements of a developing economy. The increased horizon of commercial banks identifies itself with the problems and responsibilities for making banking an instrument for bringing about social and economic transformation of a developing country (Shajahan, 1998 [13]). Social responsibilities have undergone far-reaching changes. Banks have become the primary movers and pace setter for the achievement of socio-economic objectives of the country. Since commercial banks are the single most important source of institutional credit in India, they fulfill their credit requirements of all types of rural people and help in up-liftment of the rural areas (Shete, 2002-03 [14]).

Priority sector occupies a special place in the Indian economy and is an important feature of the Indian banking policies. Priority sector lending is the crux of social banking. Under the priority sector lending, bank credit is provided on liberal terms and conditions. The socialization of bank credit is the theme of priority sector lending by the commercial banks. Priority sector is and will continue to remain, the bread and butter, both literally and figuratively, of Indian economic growth (Satish, 2007 [12] and Kumar and Gupta, 2008 [5]).

Since priority sector are critical to high and sustained growth of GDP, it should be the business of public sector banks to support these sectors. In 1980, a major review of the components of priority sector was undertaken by a working group headed by K.S. Krishnaswamy (Ambiga and Gandhimathit, 2010 [1])

and Uppal, 2009 [17]). The group recommended the incorporation of weaker sections, so that, the concessions that are being offered to the priority sector as a class could be oriented to meet the needs of the weaker sections. Credit was earmarked for the weaker sections of the society i.e. small and marginal farmer, landless labourers, SC/ST etc. to achieve this task banks opened more branches in rural areas which had no banking facilities (Ghiara,1977 [2]; Satish, 2005 [11] and Sidhu and Gill, 2006 [16]).

The growth of agriculture is an important pre-requisite, not only for the reason of food security, but also in terms of forward and backward linkages that the agriculture sector has with the rest of the economy. According to the Planning Commission, in an underdeveloped economy where agricultural production on the whole, is very low, there is no conflict between agricultural and industrial production (Mujumdar, 1997 [7]). However, economists like Schultz, Viner etc. are of the view that agriculture should be given priority over industry. It is so because industry requires large amount of capital. It is therefore, more profitable to give priority to agriculture and small scale industries over large scale industries (Rawat, 1980 [10] and Oka, 1985 [9]).

Financial inclusion has become central to the Indian policy-making over the past few years and various attempts have been made to expand its scope. Despite these attempts, the challenges to financial inclusion remain formidable (Sooden and Kumar, 2007 [15]). These attempts and challenges have to be not only examined in the context of an increasingly globalised economy, of expanding markets, and of growing state intervention, but, also of local variations. Equally daunting is the magnitude of the task that requires regulating the activities of service providers to millions of illiterate and poor people spread among culturally disparate groups (Mohan, 2006 [6]).

**II. RESEARCH METHODOLOGY**

The main objective of the paper is to analyze the growth of agriculture sector lending in India during the 21<sup>st</sup> century. The entire study is based upon secondary data and all the required information is collected from the various relevant issues published by the Reserve Bank of India and www.rbi.com. Further, the period is sub-divided in to two parts i.e. Period I which includes the years 2001 to 2007 and Period II stretching over the years 2008 to 2014.

With a view to analyze the growth of agriculture sector lending, exponential growth rate has been calculated as follows:

$$Y_i = a_0 * b_i^t$$

$$\ln (Y_i) = \ln (a_0) + t * \ln (b_i)$$

$$g = (b-1),$$

Where: -  $Y_i$  is the value of  $i$ th indicator,  $a =$  constant,  $b_i =$  regression co-efficient of  $i$ th indicator,  $t =$  time period,  $\ln =$  common log value,  $g =$  growth rate.

The structure of agriculture sector lending, bank wise and year wise is examined by mean value of an indicator which, is calculated separately for first and second phase of the study.

The combined mean (X) =

$$\frac{n_1 X_1 + n_2 X_2 + n_3 X_3 + \dots \dots \dots n_n X_n}{n_1 + n_2 + n_3 + \dots \dots \dots n}$$

$$X_i = \frac{\sum_{i=1}^n n_i x_i}{\sum_{i=1}^n n_i}$$

Where,  $n_i$  stands for number of observations and  $X_i$  stands for mean value.

The behavior of year wise disparities in agriculture sector lending is explained with the help of co-efficient of variation (C.V.). The value of C.V. is ascertained as follows:

$$C.V. = \frac{\sigma_i}{X_i} \times 100$$

Where, C.V. stands for co-efficient of variation,

$\sigma_i =$  Standard deviation of  $i$ th indicator,  $X_i =$  Mean value of  $i$ th indicator.

The performance of public and private sector banks in agriculture sector lending during the first and second phase of the study will be compared with t-test. The value of t-test will be computed as follow:

$$t = \frac{X_1 - X_2}{S} \sqrt{\frac{n_1 n_2}{n_1 + n_2}}$$

Where,  $n_1$  and  $n_2 =$  size of two independent samples i.e. no. of years and number of banks.

$X_1$  and  $X_2$  is the mean value i.e. mean value of agriculture sector lending by public and private sector banks.  $S =$  combined standard deviation of two samples i.e. agriculture sector lending. The null hypothesis is tested at 5% and 1% level of significance (Gupta S. P. 2000 [3]).

### III. A COMPARATIVE ANALYSIS OF AGRICULTURE CREDIT BY PUBLIC AND PRIVATE SECTOR BANKS:

#### A. Agriculture Credit by Public and Private Sector Banks:

An analysis of rate of growth revealed that agriculture credit of public sector banks, on an average, increased at a rate of 24.49 per cent per annum during the first phase, however, this rate declined to 17.30 per cent per annum during the second phase of the study (Table-1). Whereas, agriculture credit of private sector banks, on an

average, increased at a high rate of 31.84 per cent per annum during the first phase. However, this rate increased by a margin to 36.44 per cent per annum during the second phase of the study.

The public sector banks, on an average, deployed 15.64 per cent of NBC in agriculture credit during the first phase of the study. In the year 2001, it was highest (16.33 per cent) and in the year 2006, it was lowest (15.22 per cent). Further, the analysis revealed that in none of the years of the first phase the prescribed target of agriculture credit was achieved by public sector banks.

**Table 1: Agriculture Credit by Public and Private Sector Banks**

Years	Public Sector Banks			Private Sector Banks		
	Agriculture Credit (In Crores)	%age to TPSAs (%)	%age to NBC (%)	Agriculture Credit (In Crores)	%age to TPSAs (%)	%age to NBC (%)
<b>Period –I</b>						
2001	55685	38.00	16.33	5394	25.03	9.56
2002	63082	36.85	15.90	8022	31.20	12.73
2003	73507	36.19	15.38	11872	32.34	14.36
2004	86186	35.08	15.42	17651	33.39	15.82
2005	112474	36.27	15.68	21472	30.72	13.40
2006	154900	37.75	15.22	36185	33.96	14.53
2007	205090	39.35	15.56	52055	36.21	15.46
<b>Avg. Amount</b>	<b>107275</b>	<b>37.07</b>	<b>15.64</b>	<b>21807</b>	<b>31.84</b>	<b>13.69</b>
<b>GR* (%)</b>	<b>24.49</b>			<b>45.01</b>		
<b>C.V. (%)</b>		<b>3.81</b>	<b>2.40</b>		<b>11.05</b>	<b>15.46</b>
<b>Period –II</b>						
2008	248685	40.84	18.22	57702	35.35	16.80
2009	296856	41.22	17.52	76164	40.04	18.73
2010	370729	42.88	17.88	89768	41.65	19.15
2011	414990	40.34	16.66	92136	37.03	17.25
2012	475148	42.05	15.72	100900	35.23	13.87
2013	532801	41.47	15.09	111970	34.21	12.83
2014	687242	42.45	16.72	146687	31.58	13.86
<b>Avg. Amount</b>	<b>432350</b>	<b>41.61</b>	<b>16.83</b>	<b>96475</b>	<b>36.44</b>	<b>16.07</b>
<b>GR (%)</b>	<b>17.30</b>			<b>14.07</b>		
<b>C.V. (%)</b>		<b>2.17</b>	<b>6.78</b>		<b>9.49</b>	<b>15.81</b>

\*GR= Growth Rate

Source: - Compiled on the Basis of Relevant Issues of ‘Report on Trend and Progress of Banking in India’ [19] and Statistical Tables Relating to Banks in India’ [18], Published by RBI and www.rbi.com [20].

The analysis revealed further that the prescribed target of agriculture credit was also not achieved (Except 2008) during the second phase of the study. During this phase, public sector banks, in the year 2008, the highest (18.22 per cent) and in the year 2013, the lowest percentage of NBC (15.09 per cent) was in agriculture credit by public sector banks. The percentage share of net bank credit deployed in agriculture sector, on an average, stood at 16.83 per cent during second phase.

The percentage share of agriculture credit to net bank credit during the two phase of the study has also been also depicted in (Table-1). The private sector banks, on an average, deployed 13.69 per cent

of NBC in agriculture credit during the first phase. In the year 2004, it was highest (15.82 per cent) and in the year 2001, it was lowest (9.56 per cent). Further, the analysis revealed that in none of the years of the first phase the prescribed target of agriculture credit was not achieved by private sector banks. The analysis revealed further that the prescribed target of agriculture credit was also not achieved (except the years 2009 and 2010) during the second phase of the study. During this phase, private sector banks, in the year 2010, the highest (19.15 per cent) and in the year 2013, the lowest percentage of NBC (12.83 per cent) was deployed in agriculture credit by private sector banks. The percentage share of net bank credit

deployed in agriculture credit, on an average, stood at 16.07 per cent during second phase.

The value of co-efficient of variation shows that there did not exist high inter-years disparities (2.40 per cent) with respect to agriculture credit as a percentage to net bank credit during the first phase, however, during the second phase, this value increased to 6.78 per cent with respect to agriculture credit of public sector banks. In case of the private sector banks, there exist high inter-year disparities (11.05 per cent) with respect to agriculture credit during the first phase. However, during the second phase, the value of co-efficient of variation decreased marginally to 9.49 per cent with respect to agriculture credit of private sector banks.

**B. Public Sector Bank-wise Agricultural Credit**

The public sector bank-wise rate of growth revealed that agriculture credit, on an average, increased at a rate of 27.92 per cent per annum during the first period (Table-2). The agriculture credit during the first phase, increased at a very high rate in State Bank of Travancore (34.43 per cent) and lowest rate in Punjab and Sind Bank (16.80 per cent). During the second phase, agriculture credit by public sector banks, on an average, increased at a rate of 22.02 per cent per annum. However, during this phase, credit to agriculture sector increased at a high rate in State Bank of India (60.13 per cent) and the lowest rate in Punjab National Bank (7.97 per cent).

The table shows that 25 selected public sector banks, on an average, deployed 15.56 and 15.52 per cent of net bank credit (NBC) in agriculture sector during the first and second phase of the study respectively (Table-2).

**Table 2: Banks-wise Agriculture Credit of Public Sector Banks**

Banks	Period I (2001-2007)			Period II (2008-2014)		
	Avg. Amt. (In Rs. Cr.)	%age to NBC (%)	GR (%)	Avg. Amt. (In Rs. Cr.)	%age to NBC (%)	GR (%)
State Bank of Bika.& Jaipur	1872	17.57	30.29	7324	19.73	17.57
State Bank of Hyderabad	2059	15.37	20.14	9673	17.01	21.30
State Bank of India	22393	13.91	17.82	66547	15.11	60.13
State Bank of Mysore	1132	15.18	25.51	5107	16.86	17.55
State Bank of Patiala	2509	17.89	26.02	7024	13.79	20.46
State Bank of Travancore	1475	13.45	34.43	6757	14.80	28.76
Allahabad Bank	3697	17.30	30.71	13271	17.04	23.07
Andhra Bank	2635	16.80	31.00	9936	15.68	30.41
Bank of Baroda	5203	16.17	20.06	21687	15.54	27.38
Bank of India	6114	17.30	25.44	18512	13.15	29.93
Bank of Maharashtra	1845	14.34	28.37	6269	14.54	14.58
Canara Bank	8696	15.63	29.34	25621	20.89	47.34
Central Bank of India	5086	16.18	23.49	14272	12.17	34.34
Corporation .Bank	1346	9.24	22.00	7159	10.38	24.45
Dena Bank	1857	14.60	18.54	5933	15.46	21.00
Indian Bank	2877	18.88	26.89	11613	18.62	24.19
Indian Oversea Bank	3904	17.92	30.97	13900	15.14	25.71
Oriental Bank of Comm.	3145	12.90	23.00	11151	12.88	25.24
Punjab& Sind Bank	1351	17.65	16.80	10358	16.37	28.49
Punjab National Bank	10029	17.66	29.85	29603	17.57	7.97
Syndicate Bank	3807	17.63	30.39	13905	17.00	15.93
UCO Bank	3037	14.20	34.41	10697	15.57	8.32
Union Bank of India	5449	14.62	30.87	18140	15.70	13.27
United Bank of India	1545	12.41	22.78	6091	13.26	23.27
Vijaya Bank	1672	14.09	28.17	6000	13.67	14.46
<b>Avg. Amount</b>	<b>4151</b>	<b>15.56</b>	<b>27.92</b>	<b>14262</b>	<b>15.52</b>	<b>22.02</b>
<b>CV (%)</b>		<b>14.32</b>			<b>15.18</b>	

Source: - As per Table 1.

Further, the bank-wise analysis revealed that, during the first phase of the study, on an average, the highest percentage of NBC was deployed in agriculture sector by Indian Bank (18.88 per cent) and lowest percentage by Corporation Bank

(9.24 per cent). During the second phase of the study, on an average, highest percentage of NBC was deployed in agriculture sector by Canara Bank (20.89 per cent) and the lowest percentage of NBC was

deployed in agriculture sector by Corporation Bank (10.38 per cent).

The value of co-efficient of variation shows that there did exists high inter-bank disparities (14.32 and 15.18 per cent) with respect to agriculture credit as a percentage to net bank credit by public sector banks during the first and second phase respectively of the study.

**C. Private Sector Bank-wise Agriculture Credit:**

An analysis of rate of growth revealed that agriculture credit by private sector banks, on an

average, increased at a very high rate of 46.15 per cent per annum during the first period (Table-3). However, during the second phase, agriculture credit, on an average, declined to 10.10 per cent per annum. The bank-wise analysis of growth of credit to agriculture revealed that during the first phase, it increased at a very high rate in ICICI Bank (81.55 per cent) and lowest rate in Jammu & Kashmir Bank (2.93 per cent). During the second phase, agriculture credit increased at a high rate in Ratnakar Bank (52.02 per cent) and lowest rate in ICICI Bank (-7.98 per cent).

**Table 3: Bank-wise Agriculture Credit of Private Sector Banks**

Banks	Period I (2001-2007)			Period II (2008-2014)		
	Avg. Amt. (In Rs. Cr.)	%age to NBC (%)	GR (%)	Avg. Amt. (In Rs. Cr.)	%age to NBC (%)	GR (%)
Catholic Syrian Bank	157	7.40	61.50	673	14.93	-6.56
City Union Bank	135	7.32	27.57	1309	15.07	45.85
Development Credit Bank	267	9.23	6.00	724	14.74	-4.72
Dhanlaxmi Bank	156	10.11	48.25	950	18.53	22.01
Federal Bank	826	12.56	38.58	3619	13.77	13.39
HDFC Bank	3636	13.08	56.59	20822	14.50	23.26
ICICI Bank	6848	14.25	81.55	22574	14.50	-7.98
Indusind Bank	794	12.60	31.40	3307	14.94	19.92
ING Vysya Bank	748	11.12	10.96	2447	11.60	22.54
Jammu & Kashmir Bank	702	5.77	2.93	2656	11.33	24.86
Karnataka Bank	556	11.43	17.91	2333	13.66	30.83
KarurVysya Bank	579	12.21	39.82	2939	17.65	35.38
Lakshmi Vilash Bank	310	13.70	27.76	1419	19.84	26.29
Nainital Bank	46	12.92	31.80	249	18.78	11.29
Ratnakar Bank	54	10.59	23.45	379	18.19	52.02
South Indian Bank	490	10.09	57.59	2397	16.75	7.05
Tamilnad Mercantile Bank	342	12.44	35.27	1857	20.07	25.97
<b>Avg. Amount</b>	<b>979</b>	<b>10.90</b>	<b>46.17</b>	<b>4156</b>	<b>15.81</b>	<b>10.10</b>
<b>CV (%)</b>		<b>22.94</b>			<b>16.86</b>	

Source: - As per Table 1.

The table shows that 17 private sector banks, on an average, deployed 10.90 and 15.81 per cent of net bank credit in agriculture credit during the first and second phase respectively. Further, the bank-wise analysis revealed that, during the first phase of the study, on an average, highest percentage of net bank credit was deployed in agriculture credit by ICICI Bank (14.25 per cent) lowest percentage by Jammu & Kashmir Bank (5.77 per cent). During the second phase, on an average, the highest percentage of NBC was deployed in agriculture sector by Tamilnad Mercantile Bank (20.07 per cent) lowest percentage was deployed in agriculture sector by Jammu & Kashmir Bank (11.33 per cent).

The value of co-efficient of variation shows that there did exists high inter-years bank disparities (22.94 per cent) with respect to agriculture credit as a percentage to net bank credit by private sector banks during the first phase of the study (Table-3).

However, during the second phase, inter- year bank disparities (16.86 per cent) with respect to agriculture credit as a percentage to net bank credit by private sector banks declined.

**IV. RESULTS AND DISCUSSION:**

**A. Test of Hypothesis of Mean Value of Credit Deployed to Agriculture Sector by Two Bank Groups**

The statistical values and t-test of agriculture sector lending by public and private sector banks during the first and second phase of the study has been exhibited in (Table-4). The null hypothesis states that there is no significant difference in the mean value of agriculture credit deployed by two bank groups ( $H_0: \mu_1 = \mu_2$ ). Whereas, the alternative hypothesis states that there is significant difference in the mean value of agriculture credit deployed by two bank groups ( $H_1: \mu_1 \neq \mu_2$ ). Since, the calculated value of t-test during the first phase is 3.53, which is more

than the table value (for  $v = 12$ ,  $t_{0.05} = 2.17$ ) and it is found significant at 1% and 5% level (Significance, two tailed test=0.006), so the null hypothesis is rejected and alternative hypothesis is accepted, and

we conclude that there is significant difference in the mean value of agriculture credit deployed by public and private sector bank groups ( $H_1: \mu_1 \neq \mu_2$ ) during the first phase.

**Table 4: Test of Hypothesis of Mean Value of Credit Deployed to Agriculture Sector by Two Bank Groups**

<i>Period I</i>	<i>Mean Value</i>	<i>Std. Dev.</i>	<i>t-test</i>	<i>d. f. (v)</i>	<i>Sig. (2-Tailed Test)</i>
Public Sector Banks	4291.00	2194.69	3.53	12	0.006
Private Sector Banks	1282.78	989.32			
<i>Period II</i>	<i>Mean Value</i>	<i>Std. Dev.</i>	<i>t-test</i>	<i>d. f. (v)</i>	<i>Sig. (2-Tailed Test)</i>
Public Sector Banks	17294.01	5957.23	5.70	12	0.000
Private Sector Banks	5675.02	1656.94			

**Source: Authors Calculations.**

**Note:**  $n_1=7$  and  $n_2=7$  (Number of Years).

Degree of freedom, d. f. (v) =  $n_1+n_2-2=7+7-2=12$ .

The value of t-test for two tailed test for  $v=12$  is ( $t_{0.05}$ ) = 2.17.

During the second phase, the calculated value of t-test is 5.70, which is also more than the table value (for  $v = 12$ ,  $t_{0.05} = 2.17$ ) and it is also found significant at 1% and 5% level (Significance, two tailed test=0.000), so the null hypothesis is rejected and alternative hypothesis is accepted, and we conclude that there is significant difference in the mean value of agriculture credit deployed by public and private sector bank groups ( $H_1: \mu_1 \neq \mu_2$ ) during the second phase first phase of the study also.

The statistical values and t-test of bank wise agriculture credit during the first and second phase of the study has been exhibited in (Table-5). Since, the calculated value of t-test during the first phase is 3.30, which is more than the table value (for  $v = 12$ ,  $t_{0.05} = 2.17$ ) and it is found significant at 1% and 5% level (Significance, two tailed test=0.007), so the null hypothesis is rejected and alternative hypothesis is accepted, and we conclude that there is significant difference in the mean value of bank wise agriculture credit deployed by public and private sector bank groups ( $H_1: \mu_1 \neq \mu_2$ ) during the first phase.

**B. Bank Wise Test of Hypothesis of Mean Value of Credit Deployed to Agriculture Sector by Two Bank Groups**

**Table 5: Bank wise Test of Hypothesis of Mean Value of Credit Deployed to Agriculture Sector Credit by Two Bank Groups**

<i>Period I</i>	<i>Mean Value</i>	<i>Std. Dev.</i>	<i>t-test</i>	<i>d. f. (v)</i>	<i>Sig. (2-Tailed Test)</i>
Public Sector Banks	4189.40	4424.30	3.30	40	0.007
Private Sector Banks	979.18	1721.60			
<i>Period II</i>	<i>Mean Value</i>	<i>Std. Dev.</i>	<i>t-test</i>	<i>d. f. (v)</i>	<i>Sig. (2-Tailed Test)</i>
Public Sector Banks	14262.00	12634.92	3.34	40	0.004
Private Sector Banks	4156.12	6687.94			

**Source: Authors Calculations.**

**Note:**  $n_1=25$  and  $n_2=17$  (Number of Banks).

Degree of freedom, d. f. (v) =  $n_1+n_2-2=25+17-2=40$ .

The value of t-test for two tailed test for  $v=12$  is ( $t_{0.05}$ ) = 2.17.

During the second phase, the calculated value of t-test is 3.34, which is also more than the table value (for  $v = 12$ ,  $t_{0.05} = 2.17$ ) and it is also found significant at 1% and 5% level (Significance, two tailed test=0.004), so the null hypothesis is rejected and alternative hypothesis is accepted, and we conclude that there is significant difference in the mean value of bank wise agriculture credit deployed by public and private sector bank groups ( $H_1: \mu_1 \neq \mu_2$ ) during the second phase first phase of the study also.

**V. CONCLUSION AND POLICY IMPLICATIONS**

It was found that, the agriculture credit by private sector banks registered a higher rate of growth vis-à-vis public sector banks, during the first phase, whereas, during the second phase, public sector banks registered a higher rate of growth as compared to private sector banks. Agriculture credit grew at a lower rate during the second phase vis-à-vis first phase in both the bank groups. It was also found that, on an average, the prescribed target of agriculture credit was not achieved by public as well as private sector banks during the first and second phase. Although, on an average, the prescribed target

of lending has not been achieved, but, one important issue of concern is the almost stagnant share of agriculture credit in net bank credit over a period of time by both the public and private sector banks, which needs immediate attention of the policy makers. However, public sector banks in one year and private sector banks in two years achieved the prescribed target of lending to agriculture (18 per cent of net bank credit). The inter-year disparities with respect to agriculture credit in case of private sector banks are found to be higher as compared to public sector banks in both the phases.

The 25 public sector banks, on an average, could not deploy 18 per cent of net bank credit in agriculture sector and thus, failed to achieve the stipulated target of agricultural lending during the first as well as second phase. It was found that, during the first phase, none of the public sector bank, whereas, during the second phase, three banks deployed 18 per cent of credit in the agriculture sector. The rate of growth of agriculture credit declined in public sector banks during the second phase vis-à-vis first one. The 17 private sector banks also, on an average, failed to achieve the stipulated target of agricultural lending during the first as well as second phase. It was found that, during the first

phase, none of the private sector bank, whereas, during the second phase, four banks deployed 18 per cent of credit in the agriculture sector. One important result of the study is that the rate of growth of agriculture credit declined by a huge margin of 36 per cent in private sector banks during the second phase vis-à-vis first phase.

Financial inclusion and agriculture/rural/credit or micro-finance are closely interconnected subjects as financial inclusion is the process and agriculture/rural credit are the business effect/ end product of the same in the books of the banks. Any attempt to strengthen the agriculture or rural sector lending is essentially a small step in a long journey of financial inclusion. This means that expanding financial inclusion requires, among other things, a paradigm shift that goes beyond opening bank accounts and facilitating direct cash transfers to the financial excluded. The banking sector, especially public sector banks, should lead efforts to expand inclusion as private sector initiatives to do so are likely to be curtailed by their objective of maximizing shareholder profit rather than optimizing stakeholder value.

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