# A Study of priority sector lending-Credit Management in Scheduled commercial banks, RRBs, Co-operatives with specific reference to Agriculture Sector

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**Abstract:**

India is a developing economy contributes vibrant role in the economic development of the nation. Prior to nationalization Indian banks were owned and controlled by big industrialists, wherein mostly small industrial concerns and business units were ignored. After nationalization, to up lift small industrial concerns, and various sectors of the economy RBI introduced the concept of Priority Sector Lending (PSL) in its credit policy during the period 1967-68. The concept Priority sector lending is intended to ensure that assistance from the banking sector flows to the sector which have not received adequate support of institutional finance in the past. Financing of Agriculture, Micro, Small and Medium Enterprises, Export Credit, Education, Housing Social Infrastructure, Renewable Energy etc fall under the category/purview of priority sector lending. The RBI sets targets in terms of percentage of total money to be lent by the banks to priority sector, but banks have been succeeded to achieve only a few targets. The present study is an attempt to find out the Credit Management in Scheduled commercial banks, RRBs with specific reference to Agriculture Sector.

*IndexTerms: **Priority Sector Lending, Credit Management, Lending Classification, Targets achieved***

## I. INTRODUCTION

During the era before nationalization, private sector banks were not giving importance to small scale industries, agriculture and its allied industries, employment intensive industries. To elevate the neglected industries and to uplift them the Concept of the term 'Priority Sector' was introduced and a statement was made by Sri Morarji Desai, the then Deputy Prime Minister and Minister of Finance, Government of India in the Lok Sabha on December 14, 1967. Mandatory targets for were laid down to priority sector in the year 1974 to banking sector.

Priority sector refers to those sectors of the economy which are lacking in availing timely and adequate credit like farmers are facing financial crunch for agriculture and its allied activities, Entrepreneurs of MSMEs, poor people who cannot afford for housing construction, students with insufficient funds to pursue higher education and other low income groups and weaker sections are the categories under this sector. Agriculture is the most important and significant sector of Indian Economy which accounts for 18 percent of India's gross domestic product (GDP) and contributes 50% for employment generation. RBI has visualized and taken initiation in the field of institutionalizing agriculture credit to priority sector as per the Reserve Bank of India Act 1934. Indian farmers are categorized into two segments- the first category of farmers are developed, switched to apply modern methods of agriculture and faces comparatively fewer problems in availing finance from banks and financial institutions. The other category of farmers belongs to the underprivileged sector, which are still using traditional methods of production and faces financial problems in availing agricultural credit. To encourage and uplift the deprived sector RBI has made manadatory norms to all banking groups to compulsory extend credit to these sector to ensure consistent growth in the economy.

**Review of Literature:**

Santosh Kumar Panda, et. al. (2017) highlighted on procedure and patterns followed by various banks, to identify the factors which determine priority sector lending.

Naruka, P. (2017).focussed on the ground level impact of the Priority sector lending and tries to establish link between credit surge and development in the concerned subsectors.

Baijal, A. (2015). throws light on the importance of agriculture sector in Indian economy Government and banking sector are persistently working for development of this sector, and highlights on the reasons behind the increasing NPAs in the agricultural sector,

Banerjee and Duflo (2014) found that even though it is made compulsory by Regulatory authority RBI, banks are reluctant to increase the amount of lending to priority as scope of realization of profits is not to a great extent and probability of NPA is to a greater extent.

Wilson, Kastens, and Jones (2007), in their study explored the procedure of sanctioning credit and disbursemental procedure of priority sector lending (PSL) and also highlighted on the part of the regulatory framework for commercial banks/ financial institutions in many countries, both developing and developed countries apart from the regulatory frame work lenders and borrowers specific factors are also studied like credit risk or the expected probability of default impacts bank lending to agriculture.

Kumar and Francisco (2005) found that smaller firms are facing more difficulty in credit access and have more credit constraints, in comparison with larger firms and nationalized banks are preferring to lend more likely to larger firms. Thus, government intervened and made compulsory to all banks to lend to priority sector.

**OBJECTIVES**:

1. To understand concept and classification of Priority Sector Lending.
2. To study the lending targets assigned to various banking groups and their extent of achievement.
**3.** To identify the funding gap percentage by various selected banking groups in India.

**Hypothesis:**

1. $H1_0$: There is no significant difference between targets assigned and target reached for priority sector lending by Scheduled Commercial banking

$H1_1$: There is a significant difference between targets assigned and target reached for priority sector lending by Scheduled Commercial banking

2. $H2_0$: There is no significance difference between targets assigned and target reached for priority sector lending by Co-operative banks

$H2_1$: There is a significance difference between targets assigned and target reached for priority sector lending by Co-operative banks

3. $H3_0$: There is no significant difference between targets assigned and target reached for priority sector lending by Regional Rural Banks

$H3_1$: There is a significant difference between targets assigned and target reached for priority sector lending by Regional Rural Banks

## RESEARCH METHODOLOGY
## RESEARCH PROBLEM

The concept of Priority sector lending is intended to ensure that financial assistance from the banking sector flows to underprivileged sector which have not availed adequate support of institutional finance in the past. According to RBI, Banks in India apart from the primary functions accepting deposits and lending loans mandatorily have to perform the function of lending credit to Priority sector and has to mandatorily consider special schemes and regulations framed by RBI for the deployment of credit to sectors that deserve institutional support. To up lift the society, RBI has given several targets to banks to enhance and extend their support in lending loans in priority sector but out of these targets, banks have been succeeded to achieve only a few targets specifically Co-operatives and Regional Rural Banks. Un achieved lending targets by various banking needs for the study on Priority Sector Lending This un achieved targets situation creates a challenge into the study of Priority Sector PSL trends in Indian Banking Sector.

The research design of this study is Priority Sector Lending by various selected banking groups. Population of the study is banking sector of India. The study has been focused on selected three major bank groups Scheduled Commercial Banks, Regional Rural Banks, and Co-operative banks on the basis of report

provided by RBI in 'Distribution of Targets and Achievements for Agriculture Credit to Priority Sector and Others'.

     Secondary data which is collected from various reports published by Reserve Bank of India and specific banks under Scheduled Commercial Banks, Regional Rural Banks, and Co-operative banks. The study attempts to accomplish its objectives by making analysis of Priority Sector Lending by various bank groups over 5 years of data (2013-2018) and their target percentage (of Adjusted Net Bank Credit (ANBC) or Off Balance Sheet Exposure (OBE) whichever is higher) fixed by RBI.

## Priority Sector Lending classification

The targets and sub-targets for banks under priority sector are as follows:

| Categories | Domestic scheduled commercial banks (excluding Regional Rural Banks and Small Finance Banks) and Foreign banks with 20 branches and above | Foreign banks with less than 20 branches |
|---|---|---|
| **Total Priority Sector** | 40 per cent of Adjusted Net Bank Credit or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher. | 40 per cent of Adjusted Net Bank Credit or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher, to be achieved in a phased manner by 2020. |
| **Agriculture #** | 18 per cent of ANBC or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher. <br><br> Within the 18 percent target for agriculture, a target of 8 percent of ANBC or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher is prescribed for Small and Marginal Farmers. | Not applicable |
| **Micro Enterprises** | 7.5 percent of ANBC or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher. | Not applicable |
| **Advances to Weaker Sections** | 10 percent of ANBC or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher | Not applicable |
| # Domestic banks have been directed to ensure that their overall direct lending to non-corporate farmers does not fall below the system-wide average of the last three years achievement. | | |

*Source: RBI Circular August 01, 2018.*

**Priority Sector Lending to Agriculture sector in India**

**Priority Sector Lending in Agriculture** is specified as per mandatory norms of Reserve Bank of India. Agriculture is plays a vital and integral role in India's economy. Agriculture and its allied activities are the major contributors around 18% to India's Gross Domestic Product (GDP).

**Priority Sector lending targets to Agriculture Sector:**

Table1.Targets assigned and Achievement for Agriculture Credit (Rs. Billion)

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Table1.Targets assigned and Achievement for Agriculture Credit (Rs. Billion)

| Year | Scheduled Commercial Banks | | | Co-operative Banks | | | Regional Rural Banks | | | Total | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Target | Achievement | Gap(%) | Target | Achievement | (Gap %) | Target | Achievement | (Gap %) | Target | Achievement | Gap(%) |
| 2017-18 | 7,040 | 8,772 | 24.6 | 1,560 | 1,504 | 3.58 | 1,400 | 1,410 | 0.71 | 10,000 | 11,685 | 16.85 |
| 2016-17 | 6,250 | 7,998 | 27.96 | 1,500 | 1,428 | 4.8 | 1,250 | 1,232 | 1.44 | 9,000 | 10,658 | 18.4 |
| 2015-16 | 5,900 | 6,047 | 2.49 | 1,400 | 1,533 | 9.5 | 1,200 | 1,193 | 0.58 | 8,500 | 8,772 | 3.2 |
| 2014-15 | 5,400 | 6,044 | 11.92 | 1,400 | 1,385 | 1.01 | 1,200 | 1,025 | 14.5 | 8,000 | 8,453 | 5.66 |
| 2013-14 | 4,750 | 5,090 | 7.15 | 1,250 | 1,199 | 4.08 | 1,000 | 827 | 17.3 | 7,000 | 7,116 | 1.65 |

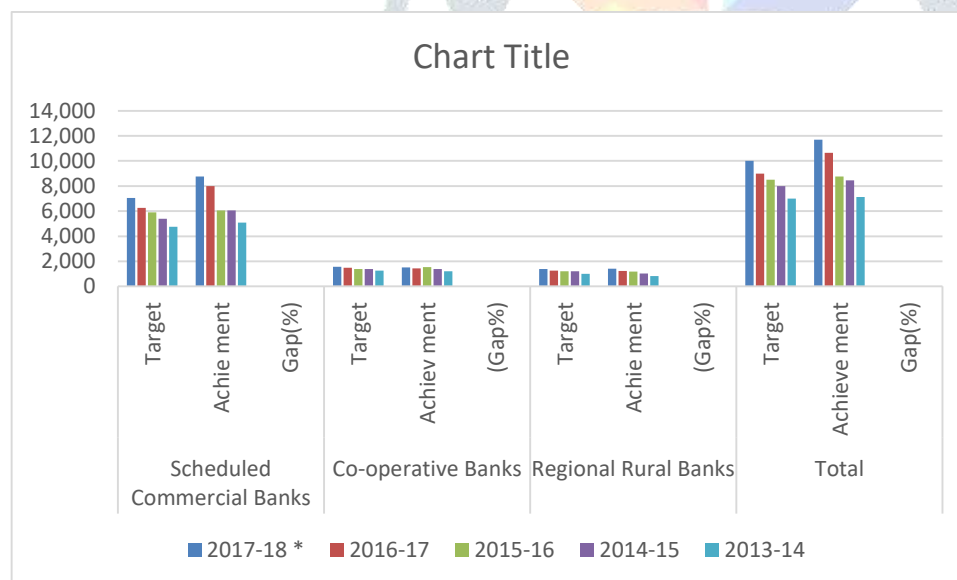*Source: (RBI Annual Report-Credit delivery and financial Inclusion, 2013-2018)*



Figure1 Lending Targets and its Achievement of PSL to SCB,Co-operatives and RRBs

**Findings:**

The Government of India has been mandatorily fixing the target for agricultural credit every year. During 2017-18, the Government set the target of ₹10,000 billion for agricultural credit. As on March 31, 2018, commercial banks achieved 124.6 per cent of their target whereas co-operative banks and regional rural banks (RRBs) achieved 96.4 per cent and 100.7 per cent, respectively.

On a whole over all target for Agricultural credit is surging up year by year and achievement of Scheduled commercial banks is exceeding the target and resulted in positive gap, in case of Co-operative Banks they are underperforming from 2013 to 2014, and also in 2016-17 then gradually surged up during the year 2015-16, and 2017. In case of Regional Rural Banks lending credit to agriculture sector resulted in under performance from past 2013-2017 and in 2017-2018 only slight increase of 1 percent was observed and

resulted in negative gap . Cumulatively as per RBI for priority sector lending targets allocated to agriculture sector and the extent of achievement realized to a great extent.

**Analysis:**

Data Analysis is done using SPSS 20.0 Version and for testing null hypothesis Chi-Square test is used. Results so obtained are discussed as below:

**"Chi-square"-Test for Ratio of Priority Sector lending for target assigned and to Target achieved for Scheduled Commercial Banks**

Table2. Chi-Square Value for Scheduled Commercial Banks

| | Value | Asymp. Sig. (2-sided) |
|---|---|---|
| Pearson Chi-Square | 20.000[a] | .220 |
| Likelihood Ratio | 16.094 | .446 |
| Linear-by-Linear Association | 3.579 | .059 |
| N of Valid Cases | 5 | |

From the "Chi-square" test Table as calculated above it shows that calculated value is 0.220 while tabular value of chi-square at 5% level of significance is 9.488 which shows that null hypothesis is accepted which indicates that there is no significant difference between lending Target assigned and achieved for Priority Sector lending to Agriculture Sector in Scheduled Commercial Banks.

**"Chi-square"-Test for Ratio of Priority Sector lending for target assigned and to Target achieved for Co-operative banks:**

| | Value | Asymp. Sig. (2-sided) |
|---|---|---|
| Pearson Chi-Square | 15.000[a] | .241 |
| Likelihood Ratio | 13.322 | .346 |
| Linear-by-Linear Association | 2.435 | .119 |
| N of Valid Cases | 5 | |

From the "Chi-square " test Table as calculated above it shows that Calculated value is 0.241 while tabular value of chi-square at 5% level of significance is 9.488 which shows that null hypothesis is accepted which indicates that there is no significant difference between lending target assigned and achieved for Priority Sector lending to Agriculture Sector in co-operative banks

**"Chi-square"-Test for Ratio of Priority Sector lending for target assigned and to Target achieved for Regional Rural Banks:**

| | Value | Asymp. Sig. (2-sided) |
|---|---|---|
| Pearson Chi-Square | 15.000[a] | .241 |
| Likelihood Ratio | 13.322 | .346 |
| Linear-by-Linear Association | 3.676 | .055 |
| N of Valid Cases | 5 | |

From the "Chi-square " test Table as calculated above it shows that Calculated value is 0.241 while tabular value of chi-square at 5% level of significance is 9.488 which shows that null hypothesis is accepted which indicates that there is no significant difference between lending target assigned and achieved for Priority Sector lending to Agriculture Sector in in Regional Rural Banks.

**Suggestions:**

1.     From the above analysis, priority sector lending of Scheduled Commercial Banks surging at a greater lever when compared to Co-operatives and Regional Rural Banks. Co-operatives and Regional Rural Banks have to focus more on advance technology, they should extend their lending hand in deploying funds to Agriculture sector by giving proper training to band of its employees particularly senior and middle level employees to enhance their skills in the area of PSL.

2.     Institutional financial agencies should extend their credit lending at a lower cost to specified sectors and small borrowers, following a uniform pattern of interest rate structure.

3.     The Government and/or RBI should frame policies, should give licenses to the banking groups for opening more branches in rural backward areas of the country.

4.      Banks must strengthen effective credit administration process by way of credit appraisal, monitoring the progress of loans and their efficient recovery to minimize the NPAs.

5.      Banks should continuously bring innovations in designing their products and methods of delivery by making efficient utilization of technology.

6.      To sum up, the priority sector lending efforts would not be successful unless innovative structures, products and processes are not created. Market players should be willing to take risks and innovate. The priority sector lending is indeed indispensable in view of ground socio-economic realities of the Indian economy. However, its quality across various banks needs to be reappraised and improved in a big way.

**Conclusion:** The concept  Priority Sector Lending plays a significant role in Indian economy for the development of nation, As per RBI specifications mandatorily banks have to lend specific prescribed portion to few specific sectors like Agriculture, Micro, Small and Medium Enterprises, Export Credit, Education, Housing, Social Infrastructure, Renewable Energy and Others. Out reaching Institutional Credit from the banking sector to agriculture sector is essentially needed. PSL has remarkable significance in terms of upgrading the inclusive growth to the society. Still further refinement in PSL will bring confidence among the priority sector as they will get loans at a cheaper rate and timely credit with minimum turn around time. However, utmost care should be taken that such advances are not misused by people other than the needy sector people. The borrowers will also feel at ease if local people are recruited for value added service as there won't be any language barrierAs per the study and analysis out reach of institutional Credit of scheduled commercial banks is better when compared to Co-operatives and Regional Rural Banks. RRBs and Co-operatives have to increase their lending activity towards PSL to boost up the economy as Priority Sector is the key segment of the development of the country.

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