

Bank Credit by Commercial Banks in India: with special reference to Bihar

KUMAR NAYAN

University Department of
Applied Economics & Commerce,
PG Deptt. of Commerce
Faculty of Commerce Magadh University,
Bodh-Gaya, Bihar, India.

DR. Savitri Kumari

Supervisor
Associate professor
B.D. College, Patna
M.U. Bodh Gaya.

Abstract: *The research intent to cover the priority sector lending frame work in operation internationally and the customized model implemented in India with focus on directed lending and the effectiveness of the model. The research covers the broader spectrum of credit need, access to credit, utilization of credit and benefit of credit on the rural beneficiaries. It focuses on the social objective of providing credit to the population which are devoid of mainstream credit access. It also focuses on the viability gap funding and not for profit business models. The current study is an attempt to find out the various factors that justify the performance of commercial banking in Bihar. In this study secondary data was used and the sample size of the study was from 2010 to 2015.*

Formal financial sectors in most developing economies serve only a minority, often no more than 20 – 30 percent of the population. Most households do not have access to even basic financial services. A majority of those who do not have access are concentrated in low-income categories. Even those low-income households who have access to finance are underserved both in terms of quantity and quality of products and services. Access to finance is not a magic bullet capable of lifting poor people out of poverty. However, there is consensus that better access can play a potentially key role in inclusive growth and development. The origin of priority sector prescriptions for banks in India can be traced to the Credit Policy for the year 1967-68, wherein it was emphasised that commercial banks should increase their involvement in the financing of priority sectors, viz., agriculture, exports and small-scale industries, as a matter of urgency. The policy was initiated because of the severe imbalance which had developed in the economy in the preceding two years. However, the description of the priority sector was formalized in 1972 on the basis of the report submitted by the Informal Study Group on Statistics relating to advances to the Priority Sectors constituted by Reserve Bank in May 1971. On the basis of this report, Reserve Bank prescribed a modified return for reporting priority sector advances and certain guidelines were issued in this connection in February 1972, indicating the scope of the items to be included under various categories of priority sector. The overall credit growth in India has been of a high order, the expansion of agricultural credit and credit to small-scale industries sector has not kept pace with it. Retail credit, which is growing from a very low base, has expanded rapidly. While consumption-led growth can help improve the growth rates in the economy, it would also result in increasing risks. The credit utilisation which in-turn impact the overall economic growth has to be mapped to understand whether same is being influenced by socio-economic up liftmen. The research tries to narrate the peculiar pattern of directed credit delivery prevailing in the Patna district.

Introduction

The origin of priority sector prescriptions for banks in India can be traced to the Credit Policy for the year 1967-68, wherein it was emphasized that commercial banks should increase their involvement in the financing of priority sectors, viz., agriculture, exports and small-scale industries, as a matter of urgency. The policy was initiated because of the severe imbalance which had developed in the economy in the preceding two years. However, the description of the priority sector was formalized in 1972 on the basis of the report submitted by the Informal Study Group on Statistics relating to advances to the Priority Sectors constituted by Reserve Bank in May 1971.

On the basis of this report, Reserve Bank prescribed a modified return for reporting priority sector advances and certain guidelines were issued in this connection in February 1972, indicating the scope of the items to be included under various categories of priority sector. In most of these cases, the guidelines indicated only the general description of the advances to be included and no ceilings were fixed, except in the case of small-scale industry and road and water transport operators where ceilings on the value of original investments were indicated. Simultaneously the banks were advised to priorities the lending to weaker sectors to ensure social development. Various notifications were issued to maintain credit flow at the rate of one third of the credit outstanding. Subsequently the proportion of their advances to priority sector was increased from 33.33 percent to 40 percent. The 20 point economic programme of the Government also emphasized the need for disbursing credit to weaker section of the society. Also a sub section titled weaker section within the priority sector was introduced and the credit flow to agriculture and SSI were covered under it.

In 1991, the committee on the financial systems has observed that the directed credit programme has played a useful purpose for extending the reach of the banking system to cover sectors previously neglected. Hence a revamp was proposed and the recommendations were not accepted by the government. However, in 1998, the committee observed that the directed credit has led to increase in non-performing loans and had adversely affected the viability of banks. It was observed that 47 percent of all NPAs emanated from the priority sector.

Many revisions and policy changes were initiated with the prime objective of providing credit access to the weaker section of the society. Various committees were appointed from time to time to understand the proper functioning of the directed credit and necessary policy directions were issued.

The broad categories of priority sector for all scheduled commercial banks are as under

- (i) Agriculture (Direct & Indirect)
- (ii) Small Scale Industries (Direct & Indirect)

- (iii) Small Business/Service Enterprises
- (iv) Micro Credit
- (v) Education Loans
- (vi) Housing loans

Objective of the study

The purpose of the study is to present the performance of Commercial banks through Credits. The current study is attempts to find out the various data that justify the performance of commercial banking in Bihar have following objectives:-

- ❖ To Study the general different aspect of banking in India
- ❖ To study the development of banking in India
- ❖ To study a conceptual analysis of credit deployment by commercial banks
- ❖ To study bank credit by Commercial banks in India.
- ❖ To study bank credit by Commercial banks in Bihar.
- ❖ To provide some vital suggestions for improvement of credit deployment by Commercial banks.

Literature Review

A review of the previous studies made in priority sector lending to understand the research gap in this area. Various studies have been reviewed for assimilation of the knowledge generated.

Bhatti, V.V. (1970) proposed a scheme of approved dealers to assist the lead banks in providing finance and guidance to farmers and small industrialists. In providing finance and guidance effectively the banks would have or collect the required information ensures recovery of loans and interest, assist in obtaining after sales services and keeps a watch on the working of the assessed enterprise. This work can be made easier by creating and supporting a set of approved dealers.

Joshi, P.N. (1972) requested the RBI to give clear and specific definition of the different components of priority sectors which will enable the commercial banks to increase their participation in lending to priority sector as commercial banks are reluctant to give loans and advances to the priority sector. Some of the bankers are not clear about the precise role and the scope of lending to priority sector. Guidance from the RBI would help them to increase their involvement in farm credit on right lines.

Oommen, M.A. (1972) found that among the institutional sources of finance to SSI in Bihar, commercial banks provided the lion's share. The assistance of commercial banks in Bihar stands at par with some advanced countries. Though the financial institution at state level and all India level provided financial assistance to SSI units for meeting their fixed and working capital requirements, the major part of the financial requirement of SSI units are satisfied by the loans and advances of commercial banks.

Purohith, M.C. (1973) conducted a survey in Jaipur city to examine the potential of small artisans in relation to bank financing. The survey revealed that the average amount borrowed per artisan from bank was 1,040/- and from non-institutional source was 3,313/-. Maximum amount borrowed by an artisan from a commercial bank was 2,000/- and from non-institutional source was 17,000/-. The small artisans therefore were denied sufficient funds from the commercial banks forcing them to borrow from non-institutional sources at higher rates of interest. Due to lack of adequate financial accommodation from the banking system, the artisans buy raw materials through other financiers at higher prices and sell the product to the same agency at a low price. With the financial assistance from the banks, this vicious circle can be broken up.

Thingalaya, N.K. (1974) conducted a study among the village artisans of Karnataka and found that they are receiving an insignificance percent of their total credit requirements from banks. Thus artisans are living under the influence of moneylenders⁷.

Vadilal Dagli (1975) in his study opined that the aim of the banking policy should be to uplift the under privileged class of the society in rural India from subsistence existence to surplus existence. The concept of priority sector should include only the rural poor of the country and by providing them necessary financial assistance; they can be lifted from the pitches of animal existence to the heights of human existence

Nambiar, P.C.D. (1977) conducted a study on financing of priority sector and found that the commercial banks fail to provide adequate credit to agriculture, small scale industries, small artisans and self-employed people and was observed as one of the reasons for their backwardness. The banks are reluctant to take up the financing of the priority sectors due to the smallness of their size and their precarious existence at the margin of viability. Their urban origin, security orientation, methods and procedures of operations are not suitable for financing. Financing of priority sectors is a new experience for the banks and presents a number of problems. They have to reorient their lending policies with a shift of emphasis from security to viability of the project. It is also states that the role of commercial banks in the priority sectors does not end with the provision of finance but it also includes the evaluation of the feasibility of a project and to aid the entrepreneurs to select the right type of projects. An improved co-ordination between various agencies including government agencies and commercial banks is necessary for a better result.⁹

Mello, L.D. (1980) conducted a study on bank credit for weaker sections and states that commercial banks which are serving the business community in cities and urban areas are unable to provide bigger amount of credit to the weaker sections. Diversion of funds for lending to weaker section may affect the profitability of the commercial banks and these commercial banks are not ready to sacrifice their profits.

Research Methodology

The study has been conducted with reference to the data related to Public Sector Banks (SBI and Nationalized Banks) operating in India. The public sector banks have been studied with the belief that they hold largest market share of banking business in India. In this study secondary data was used and the sample size of the study was from 2010 to 2015. The data for the study purpose has been taken mainly from „Economic Survey published by State government.

An unstructured, exploratory study based on small sample was conducted through focus group method involving depth interview to finalize the variables those are required to be captured in the priority sector lending impact research in Patna district. The variables were

factored to arrive at a questionnaire to measure the impact, need, utilization and benefit of directed credit to beneficiaries in Patna District.

BANK CREDIT BY COMMERICAL BANKS IN BIHAR

State Profile:-BIHAR

The present state of Bihar is the result of a bifurcation exercise of the erstwhile undivided Bihar in November 15, 2000. It stretched between latitude 24° 20' 10" N to 27° 31' 00" N and longitude 82° 19' 50" E to 88° 17' 40" E. The recognized state has an area of 94,163 km². It is part of Gangetic plain and is drained by the two major rivers Ganga and Gandak. It is situated in eastern part of India making international border with Nepal from northern side. The present Bihar makes its state's boundary with Jharkhand and West Bengal from southern and eastern side respectively, while state makes its western boundary with Uttar Pradesh. Before bifurcation of the state Orissa and Chhattisgarh were also neighbouring states. A population of 83.0 million, of this rural population is 89.5% and urban 10.5%. It is the 3rd largest state of India in terms of population. The state accounts 8.07% of India's total population, but has only 2.9% of its total area.

Table 1.1

BANK WISE BRANCH STATUS AS ON 31.12.2017					
SL	BANK NAME	BRANCH			
		Rural	Semi-Urban	Urban	Total
1	STATE BANK OF INDIA	365	373	229	967
2	CENTRAL BANK OF INDIA	243	109	88	440
3	PUNJAB NATIONAL BANK	372	112	87	571
4	CANARA BANK	91	75	77	243
5	UCO BANK	140	51	39	230
6	BANK OF BARODA	103	72	63	238
7	UNION BANK OF INDIA	52	65	41	158
8	BANK OF INDIA	169	108	68	345
9	ALLAHABAD BANK	127	56	61	244
10	ANDHRA BANK	8	8	30	46
11	BANK OF MAHARSHTRA	0	2	11	13
12	CORPORATION BANK	9	15	19	43
13	DENA BANK	11	9	25	45
14	INDIAN BANK	18	19	27	64
15	INDIAN OVERSEAS BANK	15	20	25	60
16	ORIENTAL BANK OF COM	11	18	22	51
17	PUNJAB AND SIND BANK	0	1	15	16
18	SYNDICATE BANK	19	13	32	64
19	UNITED BANK OF INDIA	36	28	28	92
20	VIJAYA BANK	4	15	18	37
21	IDBI	20	20	30	70
22	ICICI BANK	9	32	56	97
23	FEDERAL BANK	0	3	5	8
24	JAMMU KASHMIR BANK	0	0	1	1
25	SOUTH INDIAN BANK	0	0	1	1
26	AXIS BANK	13	45	49	107
27	HDFC BANK	3	39	53	95
28	INDUSIND BANK	4	3	22	29
29	KARNATAKA BANK	0	0	1	1
30	KOTAK MAHINDRA	0	9	6	15
31	YES BANK	0	0	3	3
32	BANDHAN BANK	28	28	26	82
TOTAL COMMERCIAL BANK		1870	1348	1258	4476
33	STATE CO-OP. BANK	168	65	57	290

TOTAL COOPERATIVE BANK		168	65	57	290
34	MADHYA BIHAR GRAMIN BANK	550	106	46	702
35	BIHAR GRAMIN BANK	263	98	15	376
36	UTTAR BIHAR GRAMIN BANK	639	349	44	1032
TOTAL REGIONAL RURAL BANK		1452	553	105	2110
TOTAL FOR BIHAR		3490	1966	1420	6876

The overall credit growth in India has been of a high order, the expansion of agricultural credit and credit to small-scale industries sector has not kept pace with it. Retail credit, which is growing from a very low base, has expanded rapidly. While consumption-led growth can help improve the growth rates in the economy, it would also result in increasing risks. The credit utilisation which in-turn impact the overall economic growth has to be mapped to understand whether same is being influenced by socio-economic upliftment.

The objective of the priority sector loan is to ensure that the weaker sections of the society are provided with adequate credit so that the same can be used for the livelihood of the beneficiaries. In order to ensure that the loan was used for the intended purpose, utilisation details were presented in the table 1.2.

Table 1.2

Use of Loan for the Intended Purpose by the Priority Sector Beneficiaries

Sl. No.	Use of Loan	Total	Percentage	Cumulative Percentage
1.	Used for the intended purpose	370	73.10	73.10
2.	Not used for the intended purpose	136	26.90	100.00
	Total	506	100.00	

Source : Primary Data

Table 1.2 highlights the use of credit for the intended purpose and it can be seen that 73.10 percent of the beneficiaries used the loan for the intended purpose and 26.90 percent of the beneficiaries has not used the loan for the intended purpose. Therefore it can be concluded that majority of the beneficiaries utilised the loan for the intended purpose and hence the objective of priority sector credit is fulfilled.

In order to evaluate the slippage in the priority sector lending and to provide policy review, the diversion mode was analysed with the variables like family consumption, construction or maintenance of house, purchase of household articles, marriage/festival, medical treatment and repayment of debts. The distribution of the beneficiaries based on mode of diversion is tabulated in table 1.3

Table 1.3

Mode of Diversion of the Loan by the Priority Sector Beneficiaries

Sl. No.	Mode of diversion of loan	Total	Percentage	Cumulative Percentage
1.	Loan used for intended purpose	370	73.10	73.10
2.	Family consumption	32	6.30	79.40
3.	House construction/ Maintenance/Extension	10	2.00	81.40
4.	Purchase of house hold articles	40	7.90	89.30
5.	Marriage/Festivals	22	4.30	93.70
6.	Medical treatment	24	4.70	98.40
7.	Repayment of debts	8	1.60	100.00
	Total	506	100.00	

Source : Primary Data

The results shown in table 1.3 indicate that majority of the beneficiaries used the loan for intended purpose. However, the beneficiaries who diverted the loan for purchase of household articles were 7.90 percentage and the beneficiaries who diverted the loan for family consumption were 6.30 percentage. The loan was also diverted for medical treatment and for marriage/festivals.

The research attempted to investigate whether there is a statistically significant relationship between the demographic variables like age, marital status, gender and use of credit using chi-square technique. The null hypotheses that there is no association between the variables were tested. The strength of the relationship is assessed using Cramer's V and the results are given in table 1.4

Table 1.4
Relationship between Demographic Variables and Use of Credit by
Priority Sector Beneficiaries

Variable	Group	Loan used for the intended purpose		Total	χ^2	Phi/ Cramer's V
		Used	Not Used			
Gender	Male	302 (81.60)	120 (88.20)	422 (83.40)	3.142	0.079
	Female	68 (18.40)	16 (11.80)	84 (16.60)		
	Total	370	136	506		
Marital Status	Married	298 (80.50)	114 (83.80)	412 (81.40)	0.709	0.037
	Un-married	72 (19.50)	22 (16.2)	94 (18.60)		
	Total	212	136	506		
Age	Upto 35 years	114 (30.80)	46 (33.80)	160 (31.60)	1.945	0.062
	36 to 45 years	156 (42.20)	60 (44.10)	216 (42.70)		
	46 to 55 years	80 (21.60)	26 (19.10)	106 (20.90)		
	Above 55 years	20 (5.40)	4 (2.90)	24 (4.70)		
	Total	370	136	506		

Source : Primary Data

Note : Figures in parenthesis indicates percentage

* Significant at five percent

level

Table 1.4 shows the Pearson Chi-square results which indicate that none of the demographic variables are significantly different. Thus the null hypothesis that there is no association between demographic variables viz., gender, marital status and age and use of credit is accepted.

The research attempted to locate the undermining relationship among multiple independent variables with the dependent variable using logistic regressions. The logistic regressions help in explaining the strength of the relationship between the independent variable and the dependent variable. Logistic regression is helpful in predicting a categorical variable from a set of predictor variables. The benefit of credit (categorical variable) was tested to understand the underlying independent factors which include demographic variables. The variables included in the logistic regression model were age, education, amount of loan, profitability of asset purchase and income after loan. Logistic regression conducted to assess whether the five predictor variables age, education, amount of loan, profitability of asset purchase and income after loan significantly predict whether or not the purpose or goal of the loan has been achieved. The results are summarised in table 1.5

Table 1.5
Logistic Regression Predicting the Achievement
of the Purpose/goal of Loan

Sl. No.	Variable	β	Standard Error	Odds ratio	p
1.	Age	.160	.128	1.173	.213
2.	Education	.154	.070	1.167	.027
3.	Loan amount	.010	.002	1.000	.672
4.	Profitability of asset purchase	.333	.139	1.395	.017
5.	Income after loan	.339	.131	1.404	.009
	Constant	-4.032	.653	0.018	.000

Table 1.5 indicates the β coefficient and the odd ratios with the level of significance and it is understood that when all the five predictor variables (age, education, amount of loan, profitability of asset purchase and income after loan) are considered together, they significantly predict whether or not the purpose/goal of loan is achieved, $\chi^2 = 26.745$, $df = 5$, $N = 506$, $p < .001$. The odds ratios suggest that the odd of estimating correctly the achievement of the purpose/goal of loan improve by 16.70 percent if the education is known, by 39.50 percent if the profitability of the asset purchase is known and by 40.40 percent if the income after the loan is known...

Conclusion

The impact of priority sector lending by commercial banks on rural development has been determined by several independent variables. There have been 23 variables identified that have a vast influence on the priority sector beneficiaries. A part of the variables have positive influence and certain variable have negative influence on priority sector lending. Out of the said variables, a certain group of variables had a significant influence on the priority sector lending.

The factor analysis (principal axis method) helped in reducing the variables in to broader factors, so that the understanding of the impact of the lending was visible and the latent variables provided more insight in the determination of the benefits. The determinants were further understood through multiple regression which provided the model that connects the entire scheme of things. Under the model, the impact factors played the vital role and thus it can be concluded that the priority sector lending benefited the beneficiaries in a major way and the broader areas of improvement were in social conditions, savings and investment, employment generation and

The use of priority sector credit is important as it enhances the socio-economic conditions of the beneficiaries and will help in generating sustained revenue for their livelihood. Also the benefit of credit is critical for rural development and growth. The research attempted to understand the factors influencing the use and benefit of credit and various inferential statistical tools were applied. The Chi-square provided the relationship; the ANOVA with the post-hoc tests provided the difference between groups and the logistic regression providing the model and the predictor variables. Thus it may be concluded that the beneficiaries of priority sector credit in Patna have

benefited and the credit has been used for the intended purpose. Thus, the priority sector greatly influences the socio-economic conditions of the beneficiaries and more directed credit will enhance the livelihood of the bottom of the pyramid.

Reference

- [1] Bhatti,V.V. (1970). “Bank Finance to Agriculture, Small Industry, Proposal for a scheme for approved dealers”, *Economic & Political Weekly*, Vol.V, No.47.
- [2] Joshi, P.N. (1972). “Financing of Priority Sectors by Commercial Banks”, *The Journal of the Indian Institute of Bankers*, Vol. XLIII, No.1, pp.27-34.
- [3] Oommen, M.A. (1972). “The Pattern of Financing small-scale industries in Bihar”, *The Journal of Indian Institute of Bankers*, Vol. XLIII No.3, pg.32
- [4] Purohith, M.C. (1973). “Small Artisans and Potential for Bank financing”, *Prajnan*, Vol. II No.1, pp 83-92.
- [5] Thingalaya, N.K. (1974). “Village Artisans and Bank Credit”, *The Journal of the Indian Institute of Bankers*, Vol. XLV, No.4.
- [6] Vadilal Dagli (1975). “Social Responsibility of Commercial Banks”, *the Journal of the Indian Institute of Bankers*, Vol. XLVI, No.2.
- [7] Nambiar, P.C.D. (1977). “Financing of Priority Sectors”, *SBI Monthly Review*, Vol. XVI No.12, pp.447-453
- [8] Mello, L.D. (1980). “Bank credit for weaker sections: performance and prospects”, *Indian Institute of Banker’s Journal*, Vol.LI (2), pp.87-95
- [9] Abhijit, V. Banerjee and Esther Duflo (2012). “Do Firms want to borrow more? Testing credit constraints using a directed lending programme”,
- [10] Department of Economics, MIT CEPR and BREAD
- [11] Bhati, S. (2006). “Trust between Branch Managers and Loan Officers of Indian Banks”, *International Review of Research Papers*, 2 (4): 51-58.
- [12] Bishnoi,T.R. (1991). “Policy constructors and Bank Profitability – Impact of priority sector credit”, *International Journal of Development Banking*, Vol. 9 (1), pp.39-46.
- [13] Annual Reports (Various Issues), Reserve Bank of India.
- [14] Registrar General & Census Commissioner (2001). “Census of India - Population Totals” Government of India.
- [15] Reserve Bank of India (2005). “Draft Technical Paper by the IWG on Priority sector lending.”

