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Priority Sector Lending Of Commercial Banks And Its Impact On The Development Of The Rural Economic Status In India

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***Abstract:** A line from the speech of our Honorable Prime Minister at the occasion of Independence Day--- "In Pyramid of Development the bottom-most layer needs to be strengthened through Financial Inclusion improving purchasing power of the poor."*

He stated that the major development is required at the bottom of the Pyramid, a concept well focused by C K Prahalad, who stated that India lies at the bottom level which comprises of the major masses. For the overall holistic development of the Indian economy we have to develop the large masses. The Financial Inclusion has turned out to be the best tool for this development.

Priority Sector lending is one of the means to infuse capital in the economic system to finance the growth and development of the key sectors of the economy.

This article would be highlighting the concept of Priority Sector lending and the role played by the banking system in India. We would also like to focus on the impacts of these Priority Sector Lending in Rural India and on its economy and growth.

Keywords: Priority Sector Lending, Financial Inclusion, Rural economy, banking

I. INTRODUCTION

A line well said by Sri Aurobindo, the famous yogi and philosopher --- *"The village is the cell of the national body and the cell life must be healthy and developed for the national body to be healthy and developed."*

He believed that the growth of any nation is from its focal point and that is the villages and basically for a country like India which is stated to be an Agrarian State, it's quite essential for the leaders to work for the development of its Rural India.

Even the vision of our Father of the nation was to create Ideal villages in order to achieve the Gram Swaraj which he felt is quite important for the development of our Country. In one of his speech he said that --- *"The future of India lies in its Villages"*. This statement is challenged by our urban leaders who believe in the development of the already developed cities.

It is observed that most of our leaders have either worked to develop the cities or tried to convert the villages as an experiment zone for their projects, which has forced to wipe out the actual features that define a rural India. The Agriculture, their ancestral artifacts are not been given the proper platform for growth and resulting into the disappearance of these modes of occupation.

For the growth of these diminishing sectors and the development of these marginalized people Financial Inclusion is quite essential.

According to the Consultative Group to Assist the Poor (CGAP), a global partnership of 34 organizations housed at the World Bank, digital financial inclusion is *"the access to and use of formal financial services by excluded and underserved populations. Such services should be suited to the customers' needs and delivered responsibly, at cost both affordable to customers and sustainable for providers"*.

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It has been observed that due to lack of the funds, these marginalized groups of people are forced to depend upon petty moneylenders and are victimized to Debt traps leading to the situation where they have only one way to escape from the shackles of the blood thirsty money lenders is the abode of Death.

In order to save these people, Financial Inclusion came into picture – which in simple terms we can state as the delivery of Financial services at an affordable cost to segment comprising of the disadvantaged and the low income groups basically found in the Rural areas of India.

During the era of 1895 people felt the need of this financial inclusion, but it has been observed that even after independence and moving into the 21st century we still find a large segment falling under the zone of Unbanked resulting into the creation of Financial Instability.

Hence, in order to help these low income groups the All-India Rural Credit Survey Committee in their report suggested the introduction of a Multi-agency approach for financing the rural and agricultural sector.

We can summarize the need of the Financial Inclusion in India in the following mentioned points:

- ✓ Create the habit of savings so that they can make themselves prepared for the uncertainty
- ✓ Reducing the gap between the vulnerable group and the formal channels of money sources resulting in enhancing the passion of creativity and innovation in them.
- ✓ Due to the complex Bureaucratic environment the beneficial actually does not receive the benefits meant for it. Hence, the Financial Inclusion may help us to overcome the hurdles and reach the needy.

Role of various institutions in developing Financial Inclusion in India

The Institutions which have played a major role in financing the vulnerable Groups are:

- ✓ All these years, the Rural Regional Banks has acted as a Small man's Bank and has contributed in large extent in the Rural Credit Structure of India.
- ✓ Self Help Groups is also among the best financial instrument for Financial Inclusion with the prime aim to eradicate poverty, reduce the vulnerability rate, enhance capacity building, supporting the marginalized people in creating their assets, resulting in creating an overall sustainable development.
- ✓ Microfinance Institutions along with their vast network plays a key role in Financial Inclusion. Among these MFIs SEWA is one of a kind.
- ✓ This whole procedure of Financial Inclusion is incomplete without the last name that is the Banks which play the backbone of the Financial System in India.

II. CONCEPT OF PRIORITY SECTOR LENDING

In this article our focus would be on the Banks and their role played in meeting the capital requirement in the economy. Banks are not just a mere institution but the backbone of the Economy in a country; it is quite simple to consider it to be the most essential key player in the development of a country. Now when we are talking of the development of the Rural Economy, how can we think of forgetting its role in the same?

Banking Laws (Amendment) Bill, this was introduced in the Lok Sabha on December 23, 1967 helped the government to create a social control over the banks so that their objectives can be aligned to the goals and objectives of the nation. During the era of 1967, the major goal of the country was to improve the lifestyle of the rural people and enhance more development in the Primary sector of economy that is agriculture and its allied activities.

Reserve Bank of India felt that these mentioned sectors were somehow being ignored and something strictly need to be done in this regard. RBI felt as the banks are considered to be the lifeline of our economy, it was quite essential for them to include the poor, agricultural laborers, artisans, and small entrepreneurs among their benefiters along with the giant corporate houses and the rich city dwellers. This helped in putting the foundation stone for the term "Priority Sector".

Sri Morarji Desai in one of his statement in the Lok Sabha on December 14, 1967, have used the terminology of "Priority Sectors" and emphasized that these priority sectors are the ones which are ignored to the utmost by the banks. This is considered to be the first chance of putting up this concept and from here the Priority Sector Lending came up with.

The National Credit Council (NCC) was set up in the year 1968 with the responsibility of estimating the demand for bank credit from different sectors of the economy.

Social control did not show much impact on rural lending and still, much of the credit went to huge corporate houses. The solution to this situation was brought up by the then Prime Minister Smt. Indira Gandhi in the form of nationalization of 14 commercial banks in the year 1969 with the objectives that comprises of the following:

- ✓ To provide adequate and timely credit for agriculture, small industries and exports
- ✓ To give professional bent to bank management
- ✓ To encourage new class of entrepreneur

The broad categories under priority sector were Agriculture, small scale industries and exports after the nationalization.

70s era was the time when this concept was given the highest emphasis after the plea of the National credit Council which stated that commercial banks need to give more emphasis to the priority sectors. Priority sector lending was formalized in 1972 with the recommendations of

Informal Study Group on Statistics relating to advances to the priority sectors. As per the recommendations, Priority Sector comprises of the following:

- ✓ Agriculture – direct and indirect advances
- ✓ Small scale industries
- ✓ Industrial estates
- ✓ Road and water transport operators
- ✓ Retail traders
- ✓ Professionals and self-employed persons
- ✓ Education

The recommendations from the Council resulted in putting the Priority Sector Lending target of the commercial banks to 33.33% of their total credit.

The Differential Rate of Interest (DRI) Scheme was initiated in the year 1972 and was specifically meant for the weaker sections and advances were granted at a concessional rate of interest under this scheme. Further, it is predetermined that two-thirds of the credit advanced under the DRI scheme should be set out in rural areas and 40 per cent of the credit should be aimed towards scheduled castes/tribes.

At a meeting of the Union Finance Minister with Chief Executive Officers of the public sector banks held in March 1980, it was determined that the banks should elevate the share of priority sector advances to 40 percent by March 1985.

The raise in the percentage flow was emphasized mainly to make certain that sufficient flow of funds is passing on to the beneficiaries belonging to the weaker section. It was during the era of 80s, that special emphasis was given to the agriculture and weaker section.

III. DIFFERENT CATEGORIES OF PRIORITY SECTOR LENDING

ADVANCES TO THE WEAKER SECTIONS

The weaker section loan is given to the following categories of beneficiaries:

- ✓ Small and marginal farmers with less than 5 acres of land holding or are landless labourers, tenants or even share croppers.
- ✓ Artisans or owners of small industrial activities in villages and small towns having a population of less than 50.000 and are the ones whose resources comprises of utilization of locally available natural resources and human resources. Their individual credit requirements should not exceed beyond Rs.25, 000.
- ✓ Beneficiaries of Integrated Rural Development Programme.
- ✓ Scheduled Castes and Scheduled Tribes.
- ✓ Beneficiaries falling under Differential Rate of Interest Scheme

FUNDING FOR AGRICULTURE

As per the RBI's directions, banks need to achieve a minimum of 18 percentage of the net bank credit compiling both direct and indirect finances with the specification that the advances under the indirect category should not go beyond one-fourth of the 18 percentage that is summed up to 4.5 % of the net bank credit.

FUNDING TO SMALL SCALE INDUSTRIES

Funding to the Small Sector Industries comprises of all the loans that are provided to the Small Scale units. These small Scale units are found to be engaged with activities like Manufacturing, Processing or preservation of commodities and the investment should comprise of Plant and machinery and not Land or building.

MICROCREDIT

Financial provisions of a minimal amount not going beyond Rs. 50,000 meant for each borrower. This has done in order to improve the living standards of the poor people living in rural, semi-urban and urban areas.

EDUCATION LOAN

Financial services meant for the purpose of education and the funding can go up to Rs. 10 lakhs for any kind of education in India and if the individual is seeking for education in abroad, then the funding may move up to Rs. 20 lakhs and excludes the scholarships granted from the respective institutions.

HOME LOANS

Funding in the PSL category for the home loans can move up to the amount of Rs. 15 lakhs per individuals. This of course excludes the loans that are granted by the banks to their own employees. Loans are also provided under this category meant for repairs to the spoiled houses for the individuals that may go up to Rs. 1 lakh in rural and Semi-urban areas while an amount to Rs 2 lakhs for urban areas.

IV. PRIORITY SECTOR LENDING BY PUBLIC, PRIVATE AND FOREIGN BANKS IN INDIA

The Priority Sector Lending scheme meant for the development of the Priority sectors like agriculture, exports, small business, housing, and economically weak sectors has required the initiatives from the commercial banks – Public, Private as well Foreign banks. Bank has moved a bit beyond their primary objective of pumping in the savings as well as the pumping out of the investible funds in various channels. The banking system of India has taken up the initiative in releasing the rural poor people from the shackles of the so called unorganized banking sector that consists of the moneylenders and indigenous bankers catering to the credit needs of the masses at the village level.

As per our history of PSL development in India, till the late 1970s it was the domain of only public sector to disseminate loans for the priority sectors. After this period the Private sectors also came into this mandatory zone and it was expected from all domestic banks no matter whether they were public or Private, they had to lend 40% of their Adjusted Net Bank Credit or credit that was equivalent to their off balance sheet exposure, whichever is higher.

The Foreign Banks came into this mandatory zone once India moved in the era of 1988 – 89. Till the year 2012, it was mandated that they have to lend 32% of their ANBC to the priority sectors like export and small scale industries. But, as per the guidelines stated by RBI in the year 2012, stated that the Foreign banks that had more than 20 branches had to lend 40% of their ANBC similar to all domestic banks.

Private sectors have contributed a lot in the efficiency of the Banking Industry and have also created a benchmark for the public sectors to achieve and resulting into the development of the Public sectors too. With the implementation of the innovative technologies even the public sector is working at par with the private sector banks and has been able to extend his services even to the remotest areas.

Foreign banks having a benefit in facilitating the cross-border transactions of aspirant Indian corporations and multinationals through mechanisms, like export collection services, import financing, external commercial borrowings and remittances have a better knowledge about the foreign markets.

Hence, the Private and the foreign have played a major role in enhancing the efficiency of the banking system in India as a whole.

V. IMPACT OF PRIORITY SECTOR LENDING IN INDIA

To assess the impact of PSL in Rural Economy, we have tried to analyze few tables and statistics from different sources and have compiled the results below.

✓ PRIORITY SECTOR LENDING BY PUBLIC SECTOR BANKS (AMOUNT IN CRORE)

Sector	2006		2007		Growth Rate (%)
	Amount	Percentage to net bank credit	Amount	Percentage to net bank credit	
Priority Sector Advances	4,09,748,	40.3	5,21,180	39.6	27.19
Agriculture	1,55,220	15.3	2,05,091	15.6	32.13
Small-scale Industries	82,434	8.1	1,04,703	8.0	27.01
Other Priority Sector	1,63,756	16.1	2,01,023	15.3	22.76

Source: Report on Trend and Progress of Indian Banking, RBI, Mumbai, 2006 – 2007.

Table 1

As we are observing that the Priority Sector Lending in 2006-07 has grown upto 27.19% with agriculture advances soaring as high as 32.13%, small-scale industries moving on to 27.01% and other sectors achieving 22.76% of the financial resources. The total agricultural advances of the agricultural advances amounted to 15.6% of the Net bank credit.

✓ ADVANCES OF PUBLIC SECTOR BANKS TO PRIORITY SECTOR PERCENT

Name of the Bank	Total Agricultural Advances	Weaker Section	Total Priority Sector Advance
	Percent to NBC	Percent to NBC	Percent to NBC
Public Sector Banks	15.6	7.2	39.6
Nationalized Banks	16.0	7.1	39.9
Allahabad Bank	18.3	6.6	39.6
Andhra Bank	18.5	9.5	41.1
Bank of Baroda	15.9	7.5	40.6
Bank of India	18.4	10.1	47.1
Bank of Maharashtra	14.0	5.2	41.7
Canara Bank	15.7	6.0	40.2
Central Bank of India	15.8	7.2	43.6
Corporation Bank	9.2	3.3	40.6
Dena Bank	15.2	5.0	42.0
Indian Bank	21.0	11.5	49.4
Indian Overseas Bank	18.7	10.2	40.9
Oriental Bank of Commerce	11.1	4.5	36.5
Punjab National Bank	18.9	11.0	41.9
Punjab and Sind Bank	16.0	5.6	42.8
Syndicate Bank	17.4	10.1	39.9
Union Bank of India	16.8	6.9	44.4
United Bank of India	12.0	8.0	41.7
UCO Bank	13.9	4.0	40.4
Vijaya Bank	12.4	5.8	41.0
IDBI Ltd	2.2	0.3	15.2
State Bank Group	14.8	7.3	38.8
State bank of India	14.5	7.6	38.4
State Bank of Bikaner & Jaipur	18.3	10.3	41.0
State Bank of Hyderabad	13.7	7.1	40.8
State Bank of Indore	17.2	10.0	40.0
State Bank of Mysore	13.8	9.7	38.3
State Bank of Patiala	15.8	1.1	36.3
State Bank of Saurashtra	18.8	6.8	42.2
State Bank of Travancore	12.6	5.4	41.0

Source: Report on Trend and Progress of Indian Banking, RBI, Mumbai, 2006 – 2007.

Table 2

During the tenure of 2007-08, the funding by the public sector banks have played a key role in boosting economic development of India and enhancing the GDP .The capital deficit and the sectoral demand for funds were fulfilled by the extended credit limit by the banks which is shown in the table above.

It is also evident that Indian Bank made the highest agricultural credit to the extent of 21%, followed by the Punjab national Bank (18.9%) and State bank of Saurashtra (18.8%).The lowest being that of IDBI bank Ltd

Extension of credit towards the weaker section is important for meeting the short term and the long term financial needs of this group and the volume of lending the was topped by Indian Bank ,followed by State Bank of Bikaner & Jaipur.

This would further have an additional allocation in future as per the market demand, which in turn is affected by industrial growth, sectoral developments, inflation and other economic parameters.

✓ ADVANCES OF PRIVATE SECTOR BANKS TO PRIORITY SECTOR PERCENT

Name of the Bank	Total Agricultural Advances	Weaker Section	Total Priority Sector Advance
	Percent to	Percent to	Percent to

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	NBC	NBC	NBC
Private Sector Banks	12.82	1.55	42.71
Axis bank	14.09	1.11	42.58
Bank of Rajasthan	6.05	1.12	31.49
Bharat Overseas Bank	11.08	1.63	41.05
Catholic Syrian Bank	12.49	1.69	45.35
Centurian Bank of Punjab	14.63	0.53	38.35
City Union Bank	7.12	1.54	40.01
Development Credit Bank	13.67	3.29	41.57
Dhanalakshmi Bank	16.02	6.43	46.55
Federal Bank	15.80	6.50	44.37
Yes Bank	18.84	-	42.74
HDFC Bank	14.24	0.70	44.21
ICICI Bank	11.65	0.80	44.87
Indusind Bank	13.86	0.09	41.52
ING Vysya Bank	8.74	3.86	41.01
Jammu & Kashmir Bank	4.73	3.13	24.57
Karnataka Bank	8.16	1.37	35.11
Karur Vysya Bank	15.90	4.17	40.56
Kotak Mahindra Bank	16.26	-	41.25
Lakshmi Vilas Bank	18.19	6.59	41.08
Lord Krishna Bank	9.80	1.03	44.92
Nainital Bank	13.93	1.24	50.33
Ratnakar Bank	14.60	2.23	43.08
Sangli Bank	24.30	7.63	93.86
SBI Commercial and International Bank	8.76	-	42.37
South Indian Bank	17.23	4.05	41.56
Tamilnad Mercantile Bank	15.62	6.27	48.85
Source: Report on Trend and Progress of Indian Banking, RBI, Mumbai, 2006 – 2007.			

Table 3

The above table reflects the sectoral lending by the private sector banks during the time period of 2007-08, wherein the highest agricultural credit was extended by Sangli bank(24.30% of Net bank credit),followed by South Indian Bank(17.23% of Net bank credit)and Dhanalakshmi bank (16.02%) of Net bank credit.

✓ BANK WISE COSTS AND RETURNS OF PSL

Bank Type	Total Cost of Credit	Total Return
Public Sector Banks	39.1%	11.5%
Private Sector Banks	26.7%	14%
Foreign Banks	25.7%	14%
Source: For Public Sector Banks, State Bank of India's rate for loans up to INR50, 000 for crop or production loans has been considered. http://www.sbi.co.in/user.htm. For Private Sector Banks, ICICI Bank's interest rate on Agricultural term Loans has been considered. http://www.icicibank.com/rural/loans/farmer-finance/sevice-charges.html. The return on Foreign Banks has been assumed to be same as private sector banks.		

Table 4

Loans are an important asset for the bank; however there is a cost of fund which is a significant factor. And it is different for different sources of capital. As, the commercial banks are exposed to credit risk, interest rate risk, market risk the banks consider several credit appraisal criteria before loan disbursement as there is always a chance of Loan asset becoming Non-Performing assets for which the banks have to make adequate provisioning. It could either be in the category of Standard assets, sub-standard assets, Doubtful assets and loss assets.

The interest rate fluctuations and the statutory rate alteration (CRR, SLR) at times make the loans cheaper or costlier. But the priority sector lending is at marginalized rate. Banks have to do the cost benefit analysis for these proposals so that their Net Interest margin doesn't fall below the prescribed limits. In the above table, the cost of lending for the Ps-banks is 39.1% whereas the return is 11.5% for the private sector it is 26.7% with a return of 14% and for foreign banks, the cost of credit is 25.7% respectively with a return of 14%.

✓ YEAR-WISE PRIORITY SECTOR ADVANCES OF COMMERCIAL BANKS IN INDIA (RS. IN CRORE)

Year	Public Sector Banks			Private Sector Banks		
	TPS Advances (Rs.)	Total Advances (Rs.)	%age Share of PS to Total Advances	TPS Advances (Rs.)	Total Advances (Rs.)	%age Share of PS to Total Advances
1990-91	42276	121678	34.74	2688	12067	22.28
1991-92	44995	135832	33.13	2819	12432	22.68
1992-93	48384	138295	34.99	3319	13165	25.21
1993-94	53197	148388	35.85	3846	15452	24.89
1994-95	61794	167063	36.99	4064	18765	21.66
1995-96	69609	204257	34.08	6283	20154	31.17
1996-97	79131	222158	35.62	8832	27055	32.64
1997-98	91319	254916	35.82	11614	35062	33.12
1998-99	107200	295654	36.26	14155	44161	32.05
1999-00	127807	351383	36.37	18019	56877	31.68
2000-01	146546	405430	36.15	21550	82748	26.04
2001-02	171185	473951	36.12	25709	115020	22.35
2002-03	203095	529244	38.37	36705	143091	25.65
2003-04	244456	616570	39.65	48920	174107	28.10
2004-05	310093	817344	37.94	69384	226944	30.57
2005-06	409748	1075073	38.11	106586	302941	35.18
2006-07	521180	1374327	37.92	143768	390064	36.86
2007-08	608963	1702039	35.78	163223	470745	34.67
Exponential Growth Rate (%)	**17.30**			**29.15**		
Source: Compiled and calculated from Report on Trend and Progress of Banking in India from 1990-91 to 2007-08						

Table 5

The above table highlights the comparative status of the priority sector lending of the public sector and the private sector banks since the time of liberalization of the economy and the adoption of the 'LPG' strategy by the Narashima Rao Govt. However the banks of the public sector advanced greater volume of credit than the private sector banks. The alterations in the lendings occurred due to changes in the policy of different governments, changes in interest rates, banking sector reforms and various other factors that changes over a span of over 15 years but the private sector banks achieved a higher exponential growth rate of PS lending as compared to that of the public sector banks.

Higher volume of NPA s and capital inadequacy of the commercial banks restricted them to a high risk exposure which in turn resulted in restricting the limits of PS lending.

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SECTORAL ANALYSIS

✓ YEAR-WISE AGRICULTURAL ADVANCES BY COMMERCIAL BANKS IN INDIA (RS. IN CRORE)

Year	Public Sector Banks			Private Sector Banks		
	AGR Advances (Rs.)	%age of Total PS Advances	%age Share of Total Advances	AGR Advances (Rs.)	%age of Total PS Advances	%age Share of Total Advances
1990-91	16871	39.91	13.87	496	18.45	4.11
1991-92	18464	41.04	13.59	519	18.41	4.17
1992-93	19935	41.20	14.41	566	17.05	4.30
1993-94	21204	39.86	14.29	634	16.48	4.10
1994-95	23513	38.05	14.07	816	20.08	4.35
1995-96	26351	37.86	12.90	1233	19.62	6.12
1996-97	31012	39.19	13.96	1953	22.11	7.22
1997-98	34305	37.57	13.46	2746	23.64	7.83
1998-99	40078	37.39	13.56	3257	23.01	7.38
1999-00	46190	36.14	13.15	4239	23.53	7.45
2000-01	53685	36.63	13.24	5394	25.03	7.57
2001-02	63082	36.85	13.31	8022	31.20	6.97
2002-03	73507	36.19	13.89	11873	32.35	8.30
2003-04	84435	34.54	13.69	14730	30.11	8.46
2004-05	112475	36.27	13.76	21475	30.95	9.46
2005-06	155220	37.88	14.44	36712	34.44	12.12
2006-07	205091	39.35	14.92	52056	36.21	13.35
2007-08	248685	40.84	14.44	57702	35.35	12.13
Exponential Growth Rate (%)	16.82			35.48		

Source: Compiled and calculated from Report on Trend and Progress of Banking in India from 1990-91 to 2007-08

Table 6

Focusing exclusively on agricultural credit, in the pre-liberalization era the agricultural lending was as low as 13.87% of the total bank credit for the PS banks whereas it was as low as 4.11% of the total bank credit. These funding were remarkably low as compared to the due capital deficiency of the financing institutions. But in the post liberalization era, with establishment of more financing institutions, increase in per capita income, there was higher capital formation this credit enhanced thus pumping more resources to the needy sectors, alongside with the infusion of additional capital banks could absorb a higher level of risk.

The exponential growth for the private sector banks was 35.48% which is higher than the 16.82%.

✓ YEAR-WISE SMALL SCALE INDUSTRIAL ADVANCES BY COMMERCIAL BANKS IN INDIA

Year	Public Sector Banks			Private Sector Banks		
	SSI Advances (Rs.)	%age of Total PS Advances	%age of Total Advances	SSI Advances (Rs.)	%age of Total PS Advances	%age of Total Advances
1990-91	16756	39.63	13.77	1594	59.30	13.21
1991-92	17689	39.31	13.02	1693	60.06	13.62
1992-93	17487	36.14	12.64	2131	64.21	16.19
1993-94	21561	40.53	14.53	2378	61.83	15.39
1994-95	25843	41.82	15.47	3050	75.05	16.25
1995-96	29482	42.35	14.43	3482	55.42	17.28
1996-97	31542	39.86	14.20	4754	53.83	17.57
1997-98	38109	41.73	14.95	5848	50.35	16.68
1998-99	42674	39.81	14.43	6451	45.57	14.61
1999-00	45788	35.83	13.03	7313	40.58	12.86
2000-01	48445	33.06	11.95	8158	37.86	9.86
2001-02	49743	29.06	10.50	8613	33.50	7.49
2002-03	52988	26.09	10.01	6857	18.68	4.79
2003-04	58311	23.85	9.46	7590	15.52	4.36
2004-05	67634	21.81	8.27	8668	12.49	3.82
2005-06	82434	20.12	7.67	10421	9.78	3.44
2006-07	104703	20.09	7.62	13063	9.09	3.35
2007-08	148651	24.41	8.63	26069	28.24	5.48
Exponential Growth Rate (%)	12.14			14.36		

Source: Compiled and calculated from Report on Trend and Progress of Banking in India from 1990-91 to 2007-08

Table 7

Highlighting the need for Small Scale Industries suffered initially due to small allocation and less budgetary support but gradually with the five year plans gaining momentum, there was an increased financial support and with the implementation of the various financial inclusion programmes, the industrial credit grew to a larger extent and the ps-banks achieved and exponential growth of 12.14% wherein the private sector banks reached a target of 14.36% during the calendar year of 2007-08.

RISK ANALYSIS

✓ COMPONENT-WISE PERCENTAGE OF NON-PERFORMING ADVANCES OF PUBLIC AND PRIVATE SECTOR BANKS TO TOTAL PRIORITY SECTOR

Year	PUBLIC SECTOR BANKS				PRIVATE SECTOR BANKS			
	AGR	SSI	OPS	TPS	AGR	SSI	OPS	TPS
2000-01	13.87	19.44	12.11	45.42	5.03	15.61	7.98	28.62
2001-02	13.84	18.73	11.92	44.49	3.76	12.73	5.33	21.82
2002-03	14.60	19.24	13.39	47.23	4.52	10.63	5.45	20.60
2003-04	14.44	17.62	15.48	47.54	4.43	12.91	7.35	23.97
2004-05	15.21	16.43	17.42	49.06	5.29	10.96	8.62	24.87
2005-06	14.99	16.72	22.36	54.07	6.57	10.31	12.29	29.17
2006-07	16.86	15.14	27.47	59.47	9.31	6.98	14.93	31.22
2007-08	20.80	14.60	28.21	63.61	11.31	5.02	10.02	26.35

Source: compiled from Trend and Progress of Banking in India from 2000 to 2007-08

Table 8

For a banking business, risk is unavoidable NPA is a major cause of concern for the banks world over. A glance over the NPA status reflects that the NPAs are on the rise with the increased volume of credit. Introduction of additional capital would make the banks financially stronger and reduce the writing off of losses. There has been a infusion of capital of the amount of 6,000 crores for the public sector banks as announced in the budget of February 2016.As per the BASEL III norms, all banks are required to enhance their capital adequacy ratio so that they are in a position to absorb higher risk and manage the operational risk.

It is observed from the table that across different sectors NPA is on the rise from year after year.

Recently, the Prime Minister, Mr.Narendra Modi, warned the public sector banks to adopt stringent measures to control NPAs and enhance the profitability margins. As the PSL is a mandation for the banks so a proper recovery system can help avoid such losses.

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✓ CURRENT PRIORITY SECTOR TARGETS

TYPE OF LOAN	DOMESTIC AND FOREIGN BANKS WITH 20 OR MORE BRANCHES	DOMESTIC AND FOREIGN BANKS WITH LESS THAN 20 BRANCHES
Total priority sector Advances	40% of NBC[Net Bank Credit]	32% of NBC
Total agricultural advances	18% of NBC	32% of NBC
SSI Advances	No target	10% of NBC
Export Credit	Export credit does not form part of priority sector	12% of NBC
Advances to weaker sections	10% of NBC	No target
Source: www.indianresearchjournals.com		

Table 9

With the introduction of the new priority sector lending norms by Reserve Bank of India, it has become mandatory for the private sector banks and the foreign banks operating in India to make priority sector lending upto the prescribed limits. The revised targets set for the commercial banks are stated in the table.

As per the summarized data of 2015, as provided in the table, Loans & advances under the various categories shows that priority sector occupies a larger share of the total Net bank credit which is as high as 40% (domestic banks) and 32% for foreign banks ;out of which the agricultural credit aggregated to 18% of the total PS lending ,However there are no specific targets for Small Scale advances for domestic banks but foreign banks have to comply with a target of 10% of the Net bank credit. Although export credit is not within the purview of priority sector lending but banks have made a head away by extending advances to a certain extent. One of the most important aspect is advances to weaker section amounted to 10% of net bank credit. This reflects that with the economic growth accelerating towards 7.1%, the lending by the banks fulfills the capital requirement in the economy.

✓ TRENDS IN GROWTH OF PRIORITY SECTOR ADVANCES & TOTAL BANK CREDIT OF SCBS IN INDIA (OUTSTANDING)

Items → Year ↓ (end March)	**Total Priority Sector Credit**	**Total Bank Credit**	**Price Index (WPI) (1980-81=100)**	**Priority Sector Credit**	**Total Bank Credit**
	(Current Prices) (Rupees Billions)			**(Constant Prices of 1980-81) (Rupees Billions)**	
	1	2	3	4	5
1980-81	85	254	100	85	254
1990-91	428	1163	183	234	636
1991-92	454	1256	208	218	604
1992-93	498	1520	229	218	664
1993-94	539	1654	248	217	667
1994-95	642	2116	279	230	758
1995-96	733	2540	301	244	844
1996-97	849	2784	315	270	884
1997-98	995	3241	329	302	985
1998-99	1146	3688	349	328	1057
1999-00	1318	4360	360	366	1211
2000-01	1544	5114	386	400	1325
2001-02	1753	4672	400	438	1168
2002-03	2116	5304	413	512	1284
2003-04	2638	7639	436	605	1752
2004-05	3815	11004	464	822	2372
2005-06	5107	15071	485	1053	3107
2006-07	6360	19312	517	1230	3735
2007-08	7481	23619	538	1391	4390
2008-09	9325	27756	585	1594	4745
2009-10	10922	32448	607	1799	5346
2010-11	12394	39421	667	1858	5910
Trend Rate of Growth (1990-2011% p.a.)	86.4	70.3	-	13.0	13.0
CARG (1980-1990)	17.8	16.4	-	10.7	9.6
Mean (weighted)	64.3	52.9	-	12.3	12.5

Source: Handbook of Statistics on the Indian Economy, RBI.
Notes: 1. GDP deflator is calculated by dividing GDP (at factor cost) in current prices by GDP in constant price of 1980-81. 2. For 1980-81 to 1990-91 CARG formula used and for the continuous data, semi log function was employed. The two growth rates are averaged to obtain single growth rate by giving weights based on numbers of years.

Table 10

The above table shows the indexation of the bank credit to the current time period. The period from 1981-82 till 2010-11 has been considered. The year 2010-11 shows the highest indexed value of the bank credit, with a trend growth rate of 13%.Indexation is necessary to reflect the inflation adjustment of the cost of credit and the rate of return. Over the period of time the country witnessed several setbacks be it social problems, economic downturns, environmental issues, international issues, political troubles, the volatility in capital market, rate of industrialization entry of foreign players in the domestic market increase the demand for financial resources. With the existence with several financial institutions, availability of funds in the market has cheaper and easier

✓ PATTERN OF PURPOSE-WISE DISTRIBUTION OF PRIORITY SECTOR CREDIT (OUTSTANDING) BY SCBS IN INDIA

Items → Year (End March) ↓	**Ag. & Direct**	**Indirect**	**As %**	**SSI Setting**	**Incl.**	**Small Business**	**Education**	**Housing**	**Other Priority Sector**	**Total(10=1+5 to 9)**
	1	2	3	4	5	6	7	8	9	10
1995-96	34	29	5	15	42	16	Neg.	3	5	100(808)
1996-97	35	29	6	17	41	16	Neg.	3	5	100(938)
1997-98	33	27	6	18	42	15	Neg.	4	6	100(1100)
1998-99	32	26	6	19	40	15	Neg.	6	7	100(1263)
1999-2000	32	23	9	28	37	15	Neg.	8	8	100(1558)
2000-01	36	26	10	28	33	14	1	11	5	100(1823)
2001-02	32	23	9	28	36	14	1	14	3	100(2026)
2002-03	32	23	9	28	25	17	1	21	4	100(2510)
2003-04	32	23	9	28	23	13	1	25	6	100(3113

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2004-05	33	24	9	27	21	12	2	28	4	100(3957)
2005-06	35	25	10	29	19	16	2	23	5	100(5458)
2006-07	36	24	12	30	18	14	2	27	3	100(7038)
2007-08	37	26	11	30	26	9	3	24	1	100(8248)
2008-09	39	27	12	31	27	8	3	22	1	100(9674)
2009-10	41	28	13	32	32	2	3	20	2	100(11384)

Source: Statistical tables relating to Banks in India, RBI

Notes:
1. Figures in parentheses refer to credit in billions.
2.SHGs = Self Help Groups
3.From 2006-07,small business include micro credit, credit given to SHGs
4. In other priority sector Advances (Col.8) export# credit share is neg. in 2006-07, 2007-08, 2008-09& 2009-10.

Table 11

The above table shows the priority sector loans that are outstanding since 1995-96 till 2009-10.It shows an increasing trend. Collection of receivables is a major challenge. A proper monitoring and credit collection system must be in place so as to ensure 90% debt collection. The credit period and relationship with the creditor is an important criterion for swift debt collection. The SARFAESI Act [Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002] gives the right to the lender to recover the outstanding dues from the borrower in case of any default by the latter. The introduction of the INSOLVENCY ACT makes lending more secured, with more recourse at the time of non-payment. The interest rate on the long outstanding dues goes on accumulating along with the principal amount.

VI. CONCLUSION

Priority Sector Lending Mechanism used by most of the financial institutions has turned out to be great support for the growth and development of the Rural Economy especially in the areas of Agriculture, Micro and Small Enterprise and even in exports. But, for this growth and development the cost incurred by the Banks is quite high than compared to the returns they receive on this ground.

At such a high competitive global environment, it becomes a severe financial loss for the banks in order to fulfill the mandatory target meant for them in the domain of Priority Sector Lending. It's usually observed that people who borrow under this category rarely pay their amount bank resulting in the increase in the Non-Performing Assets for the Banks. Many a times over interference of Government in the proceedings of the lending system creates lots of issues leading to the movement of the money to the rich instead of the needy. These PSL comes under the small loans and the transaction costs and time consumed in the proceedings of these loans is too costly and turns out to be a burden for the banks.

Hence, working on this approach and compromising on the profitability of the banks can turn out to be a massacre for not only the banks but even for the whole of economy. It's been suggested that there should be more interventions for the development of the sectors leading to the decrease of the risks in the sectors. Hence would enhance the attraction for the investors towards the sectors. Commanding mandatory PSL targets on all types of SCBs at a uniform basis, is not only an unproductive means of meeting the needs of the sectors, but is also highly expensive for the banks.

In order to save the banks from such problem Reserve Bank of India has taken initiatives in order to formulate few guidelines that may help the banks in their proceedings. It's suggested by many economists that the banks need to be vested with discretionary powers for the sanction of the loans. There are even few measures meant for the banks by which they can try to retrieve their loans and hence would be able to reduce their Non- Performing Assets.

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