



A Study on Priority Sector Lending by Public Sector Banks and Private Sector Banks in India

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Abstract:

Commercial banks have advised to grant at least 40% of their total advance to borrowers in the priority sector. The priority sector lending is mainly intended to ensure that the assistance from the banking system to those sectors of the economy which has not received adequate support of institutional finance. The attainment of the socio economic priorities of the government like promotion of small entrepreneurs, growth of agriculture and development of underdeveloped area etc. are the major responsibility of commercial banks. This research paper is explaining the performance of the commercial bank in priority sector lending. In this research secondary data have been used. This research analysed by statistical tool like F- test (ANOVA). Major finding of the research is that priority sector lending by sample banks have failed to reach the target which given by RBI during the study period. And also found that all the selected banks in private Sector of India have unequal norm with respected to priority Sector Advance to Total Advances.

1. Introduction

Banking sector plays an active and important role in the development and growth of nation. The contribution of banks to Indian economic development through priority sector lending is remarkable. The priority sector lending was evolved and commercial banks were advised to Grand at least 40% of their total advance to borrowers in the priority sector. Priority sector means to those sectors of the economy which may not get timely and equal credit in the absence of this special division. This is essentially meant for an all-round development of the nation economy as opposed to focusing only on the financial sector.

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

1.1 Agriculture and Allied Activities (Direct and Indirect finance)

Direct finance to agriculture shall include short, medium and long term loans given for agriculture and allied activities directly to individual farmers, Self-Help Groups or Joint Liability Groups of individual farmers without limit and to others (such as corporate, partnership firms and institutions) up to Rs. 20 lakh, for taking up agriculture and allied activities.

Indirect finance means agriculture shall include loans given for agriculture and allied activities as specified in Section I, appended.

1.2 Small Scale Industries (Direct and Indirect Finance)

Direct finance means small scale industries shall include all loans given to Small Scale Industries units which are engaged in manufacture, processing of goods and whose investment in plant and machinery (original cost) excluding land and building does not exceed the amounts specified in Section I, appended.

Indirect finance means Small Scale Industries shall include finance to any person providing inputs to or marketing the output of village and cottage industries, hand-looms and to cooperatives of producers in this sector.

1.3 Small Business and Service Enterprises

In this category include retail trade, small business, professional & self-employed persons, small road & water transport operators and other service enterprises as per the definition given in Section I and other enterprises that are engaged in providing or rendering of services, and whose investment in equipment does not exceed the amount specified in Section I, appended.

1.4 Micro Credit

Provision of credit and other financial services and products of very small amounts not exceeding Rs. 50,000 per borrower to the poor in rural, semi-urban and urban areas, either directly or through a group mechanism, for enabling them to improve their living standards, will constitute micro credit.

1.5 Education loans

Education loans include loans and advances granted to only individuals for educational purposes up to Rs. 10 lakh for studies in India and Rs. 20 lakh for studies abroad, and do not include those granted to institutions.

1.6 Housing loans

1. Loans up to Rs. 35 lakh in metropolitan cities where population is above 10 lakh and Rs. 25 Lakh at other centers for construction/purchase of a dwelling unit per family provided total cost of the unit in metropolitan centres and at other centres does not exceed Rs. 45 Lacs and Rs. 30 Lacs respectively. (excluding loans granted by banks to their own employees) and loans given for repairs to the damaged houses of individuals up to Rs.5 lakh in metropolitan centres and Rs. 2 Lakh at other centres.

2. Investments by banks in securitised assets, representing loans to agriculture (direct or indirect), small scale industries (direct or indirect) and housing, will be eligible for classification under respective categories of priority sector (direct or indirect) depending on the underlying assets, provided the securitised assets are originated by banks and financial institutions and fulfill the Reserve Bank of India guidelines on securitisation.

3. Under Weaker Sections

Priority sector loans to the following borrowers are considered under Weaker Sections category:-

- (a) Small and marginal farmers
- (b) Artisans, village and cottage industries where individual credit limits do not exceed Rs 1 Lakh
- (c) [National Rural Livelihood Mission \(NRLM\)](#)
- (d) Scheduled Castes and Scheduled Tribes
- (e) Beneficiaries of Differential Rate of Interest (DRI) scheme
- (f) Beneficiaries under [Swarna Jayanti Shahari Rozgar Yojana](#) (SJSRY)
- (g) Beneficiaries under the Scheme for Rehabilitation of Manual Scavengers (SRMS)
- (h) Loans to Self Help Groups
- (i) Loans to distressed farmers indebted to non-institutional lenders
- (j) Loans to distressed persons other than farmers not exceeding Rs 1 Lakh per borrower to prepay their debt to non-institutional lenders
- (k) Loans to individual women beneficiaries up to Rs 1 Lakh per borrower.
- (l) Account holders under [Pradhan Mantri Jan Dhan Yojana](#) (PMJDY)
- (m) Renewable energy sector has also been added to priority sector lending in the year 2015.

2. Literature Review

Ahmed (2010) Examined a Priority Sector Lending by Commercial Banks in India. The study found that the level of NPAs in priority sector advances of commercial banks and the recovery performance of priority sector advances of banks over the years by the statistical tools like correlation analysis, regression analysis, growth rate analysis, parametric tests. He concluded that the banks are not able to reach the prescribed target of lending to priority sector. **Dave (2016)** Analysed priority sector lending for selected public sector banks of India. To explore priority sector lending for selected bank like SBI, PNB, CANARA bank, BOB and BOI. He used statistical tool F test- one way ANOVA. He found that the lending activity towards priority sector by the total selected banks are following the norms for advances to priority sector on an average nearer one fourth to one third of their total advances during

the research period. **Solanki (2016)** Analysed priority sector lending by commercial bank in India. The study examined the past and present position of the priority sector lending. Also found that the volume and trend of the priority sector lending by Statistical tools ENOVA test. He used convenient sampling. The research concluded that no significant different in priority sector lending between selected bank. **Uppal (2009)** Explore Priority sector advances in Trends, issues and strategies. The research found that the priority sector lending and targets achieved by various bank groups. He used financial data of public banks , private banks and foreign banks. The researcher concluded that priority sector advances of all the banking groups are increasing.

3. Research Methodology

3.1 Objective

Present research is based on the Priority Sector Lending for Selected Indian banks of private Sector and public sector.

3.2 Hypotheses

H₀: All the selected banks of India have equal norm with respected to priority Sector Advance to Total Advances.

H₁: All the selected banks of India have unequal norm with respected to priority Sector Advance to Total Advances.

3.3 Sampling Design

India has 22 banks in private sector and 20 banks in public sector. In this research sample select by of non-probability convenient sampling method.

3.4 Period of Study

The study period are five years from 2014-15 to 2018-19.

3.5 Source of the Data

This research is mainly based on secondary data. The data collected from annual report of selected banks.

3.6 Research Tool

This study used F- test ANOVA for research.

3.7 Limitations

This study has taken only two sector for research.

1. This study based on secondary data.

2. This research covered five year only.

3. Only six banks have been taken as sample for research so do not make generalised to entire population.

3.8 Sample

HDFC, ICICI, AXIS bank from private sector and BOB, BOI, SBI from public sector has selected as a sample for the present study.

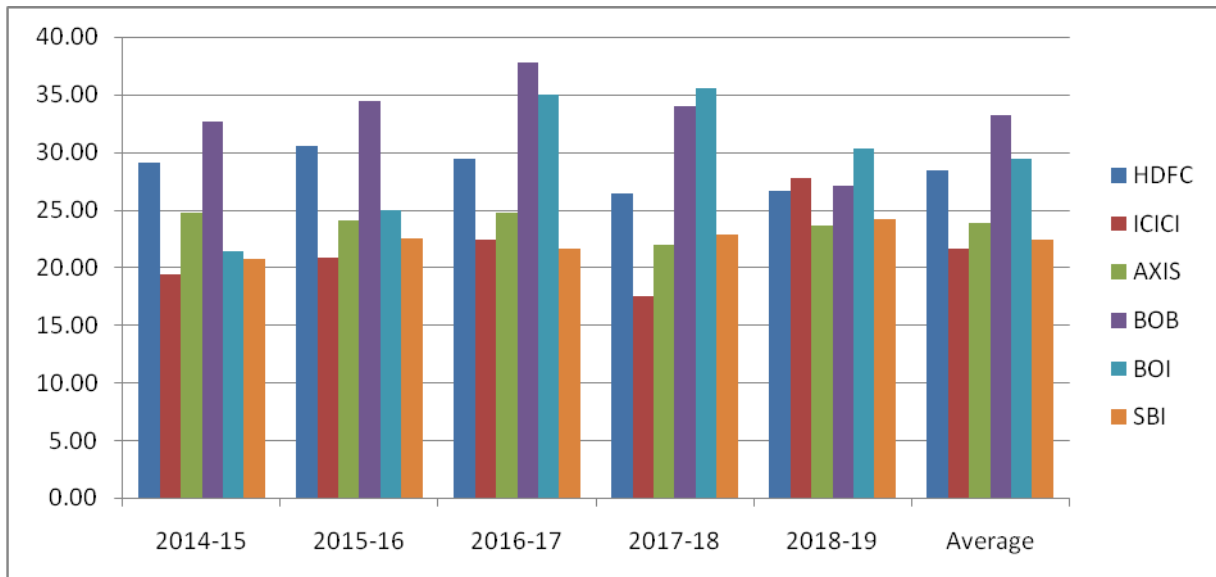
3.9 Data Analysis and Interpretation

Table 1: Ratio of Priority Sector Advances to Total Advances

Sector	Name of Bank	Year					Average
		2014-15	2015-16	2016-17	2017-18	2018-19	
	HDFC	29.06	30.55	29.38	26.41	26.67	28.41

Private	ICICI	19.36	20.82	22.39	17.53	27.71	21.56
	AXIS	24.75	24.06	24.69	22.00	23.59	23.82
Public	BOB	32.69	34.43	37.76	34.02	27.12	33.20
	BOI	21.40	24.93	35.02	35.58	30.28	29.44
	SBI	20.72	22.50	21.62	22.79	24.22	22.37
Formula : (Priority Sector Advances/Total Advances) x 100							

* Source: Annual report



3.10 Analysis

From the above table and chart, it is clear that Selected Private Sector Banks are providing their advances to Priority Sector average 21% to 29% and Public Sector Banks are providing their advances to Priority Sector average 22% to 34% during study time that shows the banks are following the norms not fulfil their total advances during the research period. The performance of BOB has been satisfactory among the total selected banks.

4. Testing of Hypothesis

ANOVA						
Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	529.4511367	5	105.8902273	8.477308285	0.00009836	2.6206541
Within Groups	299.78448	24	12.49102			
Total	829.2356167	29				

It is evident from above table, here, calculated value of F test is 8.4773. the table value of F test at 5% level of significance and where degree of freedom (5,24) is 2.6207. Hence, the calculated value is more than table value. so the alternative hypothesis (H_1) is accepted. There is significance difference between selected banks in priority sector lending.

5. Findings and Conclusion

5.1 Finding of the Research

1. Priority sector lending by BOB has to reach the target in the year 2016-17 only. Initially three years of the study this bank has failed to reach the target. i.e. the bank has not grant 40% of their total advances to borrowers in the priority sector.

2. Priority sector lending by BOI has to reach nearest the target in the years 2016-17 and 2017-18. Remaining three years of the study BOI has failed to reach the target.
3. Priority sector lending by HDFC has to reach nearest the 30% of average in the years of study.
4. Priority sector lending by remaining banks like SBI, AXIS and ICICI have failed to reach the target.

5.2 Conclusion

The research has analysed the priority sector lending by commercial bank in India. It is found that there is significant different in priority sector lending between selected banks during the study period. Overall performance of BOB and BOI are good as compare to other banks. Because priority sector lending by BOB has success to reach the target in three years out of five years study and BOI has success to reach the target in two years out of five years study. Total priority sector advance of these two banks are more than compare to other three banks.

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