

## Abstract

Commercial banks play an important role for attainment of the socio economic priorities of the Government like growth of agriculture production, promotion of SSI and small entrepreneurs and all-round development of backward area. Before nationalization of banks, commercial banks in India were owned, controlled and managed by big industrialists and bulk of the bank credit was given to large industries and big businesses houses while several sector like agriculture, small scale industries and exports were not getting adequate advances.<sup>1</sup> After nationalization of banks, the coverage of banking network in both rural and urban areas has grown up and there has been a rapid expansion in banking business in the country. Banks made a beginning in increasing their involvement in financing to priority sector such as agriculture, small scale industries, small borrowers, retail trade and the self employed. They have acted as intermediaries for accelerated economic growth.<sup>2</sup>

In spite of the above mentioned progress, the performance of public sector commercial banks vary from region to region. People engaged in priority sector are facing difficulties to meet their credit requirements at time. Supply of credit does not necessarily ensure improvement in demand by the borrowers. There are certain issues related to the priority sector lending which need to be addressed. These are timeliness and adequacy of credit, cost of availing the credit, prevailing rate of interest and cost effective lending procedure.<sup>3</sup> Beside the above mentioned problems faced by borrowers, public sector banks were also facing problems of viability and profitability due to social banking. Target of rural branch expansion, priority sector lending and subsidized interest rate policy have all been responsible for the deterioration in the quality of performance, even as quantitative growth has been spectacular. The burden of default in respect of priority sector has been quite severe and has put a heavy

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<sup>1</sup> Chandrasekher, K. (1986). History of Indian Banking. In Subrahmanya, S. (Ed.), *Trend and Progress of Banking in India* (pp.13). New Delhi: Deep & Deep Publication.

<sup>2</sup> Desai, V. (1991). *Indian Banking-Nature and Problems*. Bombay: Himalaya Publishing House. 270-273.

<sup>3</sup> Mahapatra, M. KJ.(2005). Societal goals of Commercial Banks in India: Promise and Reality, *Centre for Multi-Disciplinary Development Research*, Series No. 49.

obligation on banks.<sup>4</sup> Though public sector commercial banks started priority sector lending for the last few decades, it is essential to examine the extent of achievement of banks with regard to priority sector lending. The present study also deals with the problems faced by the borrowers and bankers regarding priority sector lending at micro level. The proposed study in Golaghat district of Assam is undertaken in order to answer above mentioned issues related to priority sector lending.

### **Objectives of the Study**

The major objectives of the study are as follows:

- 1) To study the performance of public sector commercial banks in terms of growth and pattern of priority sector lending in India vis-a-vis Assam over the study period.
- 2) To examine the components wise lending of public sector commercial banks in regards to priority sector lending in Golaghat District of Assam during the study period.
- 3) To analyze the problems of borrowers as well as bankers of public sector commercial banks regarding loans to priority sector in Golaghat district of Assam.

### **Hypotheses of the Study**

- 1) There is no significant difference between the growth rate of priority sector advances in Assam and India.
- 2) There is no significant difference between the growth rate of priority sector advances in Assam and Golaghat District.
- 3) Public sector banks are unable to meet fully the needs of the borrowers.

### **Research Methodology**

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<sup>4</sup> Dua, H.S. (1996). *Social Banking for Economic Development*. New Delhi: Deep & Deep Publication, pp. 5.

The present study is based on both primary and secondary data. For the first two objectives secondary data were collected from Statistical tables relating to Banks in India, Report on Trend and Progress of Banking in India, Economic Survey of Assam, Reports of State Level Bankers Committee (Assam), Statistical Handbook of Assam, Lead Bank Statement of Golaghat District and District Credit Plan of Golaghat District, Books, journal, websites etc.

Primary data were collected from the 360 sample borrowers and 18 bank managers with the help of schedule, which was prepared keeping in mind the third objective of the study.

The collected data were compiled, tabulated and analysed by using different different statistical tools and techniques. Diagram, graphs are also used in order to make the data attractive.

## **Summary of Findings**

### **Performance of Public Sector Banks in India and Assam**

- 1) Deposits of public sector banks in India as well as Assam significantly increased during the study period. Annual growth of deposits in India is higher than that of Assam during the study period except 2009-10, 2010-11 and 2011-12. The compound annual growth rate of deposits by public sector banks in India (18.4 percent) is higher than that of Assam (17.84 percent) during the study period.
- 2) Credit deployment by public sector banks also increased over the time period. Compound annual growth rate of credit deployment by public sector banks in India (18.36 percent) is higher than that of Assam (16.32 percent).
- 3) The credit deposit ratio of public sector banks in India was above the norms specified by RBI i.e., 60 percent whereas credit deposit ratio of Assam is far below than India and norms specified by RBI during the study periods.
- 4) Priority sector lending by public sector banks showed significant progress over the study period. Compound annual growth rate of priority sector lending in Assam was higher (19.56 percent) than that of India (17.57 percent) during the study period.
- 5) Public sector banks in India had achieved the target of priority sector lending set by RBI i.e., 40 percent of ANBC till 2010-11 except the year 2006-07. After 2011 onwards, percentage share of priority sector lending to ANBC had significantly decreased year

after year and was not able to achieve the target set by RBI. In Assam, the percentage of priority sector advances to total advances by public sector banks during the study period had shown a healthy scenario and above the target prescribed by RBI.

- 6) Compound annual growth of agriculture finance in Assam was 26.67 percent which was higher than that of India (19.0 percent) during the study period.
- 7) Public sector banks in India have not achieved the target of agricultural credit set by RBI i.e., 18 percent except 2007-08. In Assam, public sector banks have failed to achieve the target prescribed by RBI during the study period. The percentage was laid within 9.25 percent to 17.54 percent during the study period.
- 8) Micro and small enterprise finance (MSE) finance by public sector commercial banks in India as well Assam had significantly increased but annual growth rate was highly fluctuated during the period.
- 9) Compound annual growth rate of finance to MSE sector by public sector banks in India (28.32 percent) is higher than that of Assam (21.42 percent).
- 10) Compound annual growth rate of other priority sector advances by public sector banks in India (6.87 percent) is lower than that of Assam (15.21 percent).

### **Performance of Public Sector Banks in Golaghat District of Assam**

1. Deposit mobilisation and credit deployment by public sector banks in Golaghat district had increased significantly during the study period. Compound annual growth rate of deposit mobilization in Golaghat was 19.66 percent which was higher than that of credit deployment (11.94 percent) during the study period.
2. Credit-Deposit ratio of public sector banks in Golaghat district was very poor during the study period. Credit-Deposit ratio of public sector banks was below the norms specified by RBI during the study periods i.e., 60 percent except the year 2007. Though Credit Deposit Ratio is below the RBI norms but it is above the credit deposit ratio of Assam during the study period and is far below than India during the study periods.
3. Public sector banks in Golaghat district had achieved the target of priority sector lending set by RBI i.e., 40 percent of ANBC in all the year except 2006-07. Compound annual growth of priority sector lending in Golaghat district during the period was 22.60 percent,

which was more than that of priority sector lending in India and Assam during the study period.

4. Compound annual growth of agriculture finance was 33.37 percent which was higher than that of agriculture lending in India (19.06 percent) and Assam (26.77) during the study period. Percentage share of agriculture credit to ANBC had below the target set by RBI in the year 2006-07 and 2007-08 and after that the percentage is improving as well as above the target set by RBI i.e., 18 percent of ANBC. Percentage share of agriculture credit to ANBC in Golaghat district was above the percentage in India and Assam during the study period except the year 2006-07 and 2007-08.
5. Annual growth rate of MSE finance was significantly fluctuating during the period. Annual growth rate of MSE finance was the highest (137.88 percent) in the year 2009-10 and the lowest (-13.80 percent) in the year 2011-12. Compound annual growth rate of credit deployment during the period was 17.38 percent which was lower than that of MSE finance in India (28.32 percent) as well as Assam (21.41 percent).
6. Annual growth rate of other priority sector in Goaghat district had shown positive during the study period except the year 2008-09 and 2009-10. Annual growth rate was the highest (65.55 percent) in the year 2007-08 and the lowest (-33.94 percent) in the year 2009-10. Compound annual growth rate of OPS lending during the study period was 9.87 percent.

### **Problems of Borrowers Regarding Priority Sector Lending**

The following are the main problems of borrowers regarding priority sector lending:

#### **1) Filling up loan application form**

Out of the total borrowers, 50.28 percent of borrowers filled up their loan application form with the help of others i.e., friends, relative, neighbours and some facilitation centre followed by 28.33 percent of borrowers filled up their loan application form with the help of bank employee and remaining 21.39 percent borrowers filled up the loan application form from their own.

Out of the total sample borrowers, majority i.e., 88.06 percent of borrowers faced difficulty in fill up of loan application form.

The study revealed that 27.44 percent of borrowers found it difficult due use of difficult words in the form followed by 23.03 percent borrowers due to use of technical language, 18.93 percent borrowers due to illiteracy of them, 17.35 percent borrowers due to lengthy form and 13.25 percent borrowers due to inclusion of irrelevant questions.

## **2) Delay in Sanctioning the Loan**

It is found that 33.33 percent of the total borrowers reported that their loan was sanctioned within 1-2 months, 31.39 percent received sanctioned amount within 15-30 days, 19.44 percent received sanctioned amount after 2 months and 15.83 percent received loan amount within 15 days.

The study reveals that 38.33 percent of the total borrowers visited the bank 4-6 times, 31.11 percent of borrowers visited 7-9 times, 18.06 percent borrowers visited 10 or more than 10 times and 12.50 percent borrowers visited 1-3 times for sanctioning the loan.

Out of total borrowers, majority of borrowers said that excessive documentation is the main reason for delay in sanctioning the loan followed by unnecessary delay (25.56 percent). 19.27 percent borrowers expressed callous attitude of bankers, 17.78 percent said shortage of bank staff is responsible for delay in sanctioning the loan.

## **3) Inadequacy of Loan Amount**

Mean credit requirement of sample borrowers was Rs. 188291.67 out of which mean credit disbursed by the banks amounted to Rs. 153172.22. Average credit gap as a whole was Rs. 35119.44. The survey also revealed that 18.65 percent of credit requirement of the borrowers was not met by the public sector banks.

Average credit gap of borrowers was highest in agriculture sector (Rs. 37539.06) followed by other priority sector (Rs. 31934.78) and MSME sector (Rs. 30888.16). Percentage of credit gap indicates huge variation in agriculture sector with MSME and other priority sector. Percentage of credit gap was highest in agriculture sector (36.47percent) followed by MSME (11.50percent) and other priority sector (10.64 percent).

Majority of borrowers depended on friend or relatives (48.74 percent) for procurement of additional fund followed by selling of their assets (20.59 percent).

One of the reasons of delay in sanctioning of loan installment is delay in pre-sanction and post-sanction visit. Out of the total borrowers, 61.39 percent of borrowers reported that

bank official visited their place once before sanctioning the loan whereas 26.11 percent borrowers said that no bank official ever visited their place before sanctioning the loan. Majority of total borrowers reported that bank officials visited their place occasionally and 19.17 percent reported that bank officials never visited their place after disbursement of loan.

#### **4) Problems of Fund Diversion**

Bank and financial institutions do not provide loan for unproductive purposes such as marriage, birth rights etc. But as a social being borrowers do not ignore social norms. So they are compelled to divert their loan amount for meeting such expenditure. Moreover for payment of old debt, a part of sanctioned amount is used by some borrowers.

The study reveals that 60.28 percent of total borrowers partly utilised their loan amount, 29.44 percent borrowers fully utilised their loan amount and 10.28 percent borrowers have not utilised their loan amount for the purpose for which loan was taken.

The study reveals that the main reason for diversion of funds is untimely or delayed in credit disbursement followed by amount spent on social ceremonies, inadequacy of loan amount, repayment of old debt and amount spent for better investment which is applicable for borrowers of both the banks i.e., SBI and UBI.

#### **5) Problems of Repayment**

Out of the total borrowers, 35 percent borrowers repay their installment in time in few cases followed by 26.11 percent borrowers in most of the cases, 24.17 percent borrowers repay their installment without regular schedule and only 14.72 percent borrowers always repay their installment in time.

Reason for non-payment of loan reveals that majority of borrowers of both banks i.e., SBI and UBI have failed to repay their loan due to low return from the activity followed by hoping for loan waive off, compelling family consumption, repayment of old debt and lack of recovery effort from bank.

Sector-wise borrowers responses regarding reason for non-payment of loan reveal that 56.36 percent borrowers of MSE and 46.52 percent of agriculture sector fails to repay their loan due to low return from the activity. 43.08 percent borrowers of other priority sector fail to repay their loan for meeting family consumption and 34.22 percent of

agriculture sector willfully do not repay loan on the expectation of loan waive off in near future.

### **Problems of Bank manager**

The following are the main problems of bank managers regarding priority sector lending:

- 1) In order to follow the direction of RBI and also to avoid penalty banks have given much importance on the achievement of priority sector target. Due to achievement of target banks are compelled to sanction the loan. As a result there is a chance of inclusion of non-viable projects.
- 2) The number of skilled staff for project evaluation, field visit is comparative very less. This also adversely affects in proper evaluation, sanctioning and monitoring of projects.
- 3) High non-performing assets in priority sector are great problem for the banks. The burden of default in respect of priority sector has been quite severe and has put a heavy obligation on banks.
- 4) Loan waive off by the Government in different times is one of the reason for willful default. A reasonable portion of priority sector borrowers do not repay their loan amount on the hope that the government may waive their loan off in near future. Low return from the borrower's activity is also another reason for non-payment of loan amount.

### **Conclusion**

Public sector commercial banks have made remarkable progress in deposit mobilization and deployment of credit to priority sector due to Government intervention and policy initiative of the Reserve Bank of India. Public sector banks in Golaghat district achieved the target of priority sector lending set by RBI i.e., 40 percent of ANBC in all the year except 2007. Compound annual growth rate of priority sector lending was higher than that of Assam and India during the period. Compound annual growth rate of agriculture finance by public sector banks was higher than India and Assam during the study period. In nutshell, it can be said that public sector banks in Golaghat district have achieved a remarkable success in terms of achieving quantitative targets of priority sector. Though public sector banks achieved tremendous success in priority sector lending but borrowers of priority sector faced various problems such as cumbersome process of getting loan, excessive documentation, delay and inadequacy of loan amount, irregularity in repayment of loan etc. Mounting overdues is one



of major problems faced by the banks in priority sector lending which adversely affects in recycling of funds and profitability. Banks should properly scrutinize the economic viability and technical feasibility of projects to reduce the defaults in payment.