CHAPTER-1

INTRODUCTION

1.1. Statement of the Problem

In a developing country like India, the banking sector has played a multi dimensional role for rapid growth of the economy through planned efforts. The primary business of a bank is of institutionalizing/mobilizing savings and utilizing it for lending purpose. The lending business has the effect of fund being transferred from the system to well determined productive purposes/directions to enhance the pace and pattern of growth.

Before nationalization of banks, commercial banks in India were owned, controlled and managed by the private sector enterprises, industrialists, businessmen and concentrated in metropolitan cities and port towns. The bulk of the bank credit was given to large industries and big businesses while several sector like agriculture, small scale industries and exports were not getting adequate advances.[1] After nationalization of banks, banks were asked to contribute to the maximum possible extent towards economic and social development of the country. It was realized that the traditional banking ethics had not compatible with the needs of economic development and that balanced development was not possible without strengthening the hold of commercial banks in the backward and neglected area.[2] 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 the financing of agriculture, small scale industries, small borrowers, retail trade and the self employed. They have acted as intermediaries for accelerated economic growth.[3]

In the post-reform period several new areas and sectors have brought under the purview of priority sector. The sectors of the society economy that impact large

---

[1] 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.

[2] Patel, S.G. (1996). Role of Commercial Banks Lending to Priority Sector in Gujrat-An Evaluation. *Finance India*, X(2), 389-393.

[3] Desai, V. (1991). *Indian Banking-Nature and Problems*. Bombay: Himalaya Publishing hhHouse. 270-273.

segment of the population, the weaker section and the sectors which are employment intensive such as agriculture, SSI, micro credit, retail trade, education loans, housing loans have been retained as priority sector in the revised guideline of RBI in 30th April 2007. Directed credit to priority sector enhanced not only the productivity of the economy but also enhanced employment generation to a great extent which was the prime objective of the most five year plan. For development of the priority sector or neglected sector promotes the overall development of the economy, because around seventy percent of the total population in India are maintaining their livelihood from priority sector i.e. agriculture, small scale industry, retail trade etc.

Inspite 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.[4] Beside the above mentioned problems faced by borrowers, public sector banks are 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 though quantitative growth has been spectacular. The burden of default in respect of priority sector has been quite severe and has put a heavy obligation on banks.[5] 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 present study in Golaghat district of Assam is undertaken in order to answer above mentioned issues related to priority sector lending.

---

[4] Mahapatra, M. KJ.(2005). Societal goals of Commercial Banks in India: Promise and Reality, *Centre for Multi-Disciplinary Development Research,* Series No. 49.

[5] Dua, H.S. (1996). *Social Banking for Economic Development.* New Delhi: Deep & Deep Publication, pp. 5.

1.2. Conceptual Framework

1.2.1. Evolution/History of Commercial Banking in India

From very ancient times, banks constituted an indispensable part of the Indian economy. In India, the ancient Hindu scriptures refer to the money-lending activities during the Vedic period. During the Ramayana and Mahabharata eras, banking had become a full-fledged business activity. During the Smrithi period which followed the Vedic Epic periods, the members of the vaish community carried on the business of banking.[6] Manu, the great Hindu law-giver of the second or third century A.D., has dealt with the law relating to deposits and money lending. Kautilya, an economist, has also laid down that the maximum legal rate of interest should not be more than 15 to 60 percent except when the risk was extraordinarily heavy.[7]

During the Mughal period, the indigenous banks played a very important role in lending money and financing of foreign trade and commerce. Every town, big or small had a 'Sheth' also known as 'Shah', 'Shroff' or 'chettiar' and in case of principal towns there was 'Nagar Sheth' or 'Town bankers' were engaged in money changing and other banking functions.[8] During this period, Hundis or Indigenous bills of exchange came into existence for transferring funds from place to place, financing internal and external trade and providing financial assistance to rulers during the time of crisis.

1.2.2. Banking During the British Period

The first modern commercial bank was established in during the time of East India Company. The English agency houses in Calcutta and Bombay began to serve as bankers to the East India Company. They finance the movement of crop, issued paper

---

[6] Kunjukunju, B. (2008). *Commercial Banking in India- Growth Challenges and Strategies.* New Delhi: New Century Publications, pp. 2.

[7] Jain, J.P.(1949). *Indian Banking Analysed (Directory of Banking in India & Pakistan).* Delhi: Rajhans Publications. pp. 5-6.

[8] Pandey, R.N. (1989). *Commercial Banks and Rural Development.* New Delhi: Deep & Deep Publications. pp. 66-67.

money and paved the way for establishment of Joint Stock bank. The earliest of these was the Hindustan Bank which was established in 1770 by one of the agency houses in Calcutta. But it was wound up in 1832, when the firm of Alexander and Company, with which it was intimately connected, failed.[9] Couples of other banks namely Bengal bank and General bank of India were established in 1785. But latter was liquidated in 1791, due to its inability to earn profits and the former failed little earlier owing to a severe run.[10]

The real growth of modern commercial banking began in the country when the government was awakened to the need for banks in 1806 with the establishment of the first Presidency Bank called the Bank of Bengal in Calcutta in that year. Two other presidency banks were set up in Bombay and Madras in 1840 and 1843 respectively. All of these three banks were established under charters from the British East India Company. These banks were given the monopoly of government banking. After 1832 they were also given the right of note issue, which was taken over by the government in 1862. The three banks merged in 1921 to form The Imperial Bank of India, which was nationalized as the State Bank of India in 1955.[11]

After presidency bank, 'Allahabad Bank' was established in the year 1865 still survives and is one of the five biggest bank in India. The Alliance Bank of Simla was set up in 1874 and closed its doors in 1923 mainly due to misfortunes.[12] The Oudh Commercial Bank, a first one with limited liability and Indian management, was established in 1881, with its head office at Fyzabad. In 1894 Punjab National banks was established with Lahore as its head office. The People's Bank was started in 1901 and liquidated in 1913 under the stroke of the terrible banking crisis.

1.2.3. Commercial Banks during Swadeshi Movement

The Swadeshi movement started in 1903 gave an immense stimulus to banking and many Indian entrepreneurs launched banking institutions during the period of 1906-

---

[9] Panandikar, S.G. (1948). *Banking in India.* Bombay: Orient Longmans Ltd. pp. 4-5.

[10] Sandhu, B.S. (1996). *Banking and Rural Development: Promises and Performance.* New Delhi: Deep & Deep Publications. pp. 25.

[11] Pandey, R.N. (1989). Op.cit., pp. 68.

[12] Garg, K.N. (1959). *Banking In India.* Allahabad: Kitab Mahal. pp. 9-10.

1921. Some of the present reputed banks were Bank of India (1906), Corporation Bank (1906), Indian Bank (1907), Bank of Baroda (1908), Canara Bank (1910), Central Bank of India (1911) Union Bank of India (1920), Bank of Mysore etc.[13]

During 1922-48, while the number of joint stock banks increased further and on the other hand there was a simultaneous failure of many banks. The major banks established during this period were Andhra Bank (1923), Karnataka Bank (1930), Syndicate Bank (1925), Federal bank (1930), Vijaya Bank (1931) Dhana Lakshmi Bank (1935), Bank of Maharastra (1936), Indian Overseas Bank (1937), Dena Bank (1938), Lord Krishna Bank(1940), Oriental Bank of Commerce (1943), and United Commercial Bank (1943) etc.[14]

1.2.4. Imperial Bank of India

The Imperial Bank of India Act was passed in 1920 and The Imperial Bank of India came into existence on 27th January 1921, by amalgamating the presidency bank of Bengal, Bombay and Madras. It acted as a primitive central bank of the country, as a treasurer of the government, as an agency of note issue and as a banker's bank. The passing of the Reserve Bank of India Act in 1934 amended the Imperial
Bank of India Act. The Reserve Bank of India that started functioning in April 1935 was to act as the central bank of the country in its true sense and had the responsibility to control the currency and credit of the country. Wherever the Reserve Bank had an office it was to act as Bankers to Government (Central and Provincial) and to hold government balances. But where it had no office the Imperial Bank was to act as an agent to the Reserve Bank of India and manage government accounts. The note issuing function that vested with the government was also transferred to the Reserve Bank.[15] The Reserve Bank of India was nationalized in 1948 just after the country's independence and accordingly it was fully owned by Government of India. The nationalization of RBI is regarded as the first step towards public sector banking in India.

---

[13] http://www.sbpatilmba.com/pdf/Jomat-Vol-3-Issue-1.pdf

[14] Kunjukunju, B. (2008). Op.cit. pp. 7.

[15] M, Dhanya.(2008). *Priority Sector Lending by Nationalised Banks- A Case Study of Indian Overseas Bank.* Ph.D Theses, University of Calicut. Pp. 74.

1.2.5. Public Sector Banks

Public sector banks are those banks where a majority stake (i.e. more than 50 percent) is held by a government. The shares of these banks are listed in stock exchanges. Nationalization is a process whereby government takes over the private organization, industry or assets into public ownership by an Act or ordinance or some other kind of orders. Thus at present all the nationalized banks are public sector banks. The public sector in banks in India came into existence in different stages. At the first stage the Imperial Bank of India was nationalized and renamed as State Bank of India in 1955 and subsequently the State owned/State associated seven banks were made subsidiary banks of India in 1959. At the second stage, the fourteen major commercial banks were nationalized on 19th July, 1969. On April 1980, another six private owned commercial banks were nationalized. At present there are 26 public sector banks in India comprise of SBI and its five subsidiaries and twenty nationalized banks.

1.2.6. State Bank of India and its Subsidiaries

After independence, Indian Banking system underwent a substantial changes, structurally, geographically and functionally to achieve the planned economic development. The period also saw RBI efforts towards the institutionalization of savings in order to meet the need of a developing economy and strengthening of banking structure and organization of banking system with a view to improve the quality of its services and widening of the geographical and functional spread of its activity. The major development during 1950's was the setting up of State Bank of India by nationalizing Imperial Bank of India in July, 1955.[16] This was the outcome of the recommendation of the All India Rural Credit Survey Committee appointed by the Reserve Bank of India in 1955. The committee strongly recommend for the setting up of State Bank as a strong commercial banking institution with an effective machinery of branches, spread throughout the country to stimulate banking development. The object of nationalization of SBI, as stated in the preamble of the State Bank of India Act, 1955, are "the extension of banking facilities on a large

---

[16] Joshi, P.L.(1985). *Institutional Financing in India,* New Delhi: Deep & Deep Publications, pp.75.

scale, more particularly in the rural and semi urban areas, and for diverse other public purposes."[17]

In 1959, the State Bank of India (Associate Banks) Act was passed and this paved the way for creating the State Bank Group. Accordingly State Bank of Hyderabad, State bank of Bikaner and Jaipur, State Bank of Indore, State Bank of Mysore, State Bank of Patiala, State Bank of Saurashtra and State Bank of Tranvancore constitute the State Bank Group.[18] Bank of Saurashtra and State Bank of Indore was merged with SBI in the year 2008 and 2010 which results in come down the number of SBI associates from seven to five.

After nationalization of SBI group, State Bank of India made significant progress in terms of branch expansion, deposit mobilization and purveying credit. The no of branches of State Bank of India group in rural, semi-urban, urban and metropolitan areas were significantly increased. Bank branches of SBI and its subsidiaries become more than double between the first ten years of nationalization i.e., 1960-70. During a short span of three years, that is, 1969-72, the number of rural bank office increased from 818 to 1662. Similarly the number of semi-urban, urban and metropolitan branches also increased but percentage share of branches to total branches was declined except metropolitan areas.[19]

Table1.1: Area-wise Classification of Bank Offices of State Bank of India Group in India

Centre	**30th June, 1969**		**30th June, 1972**		**31st March 2013**	
	No of Offices	Percentage Share	No of Offices	Percentage Share	No of Offices	Percentage Share
Rural	818	33.2	1662	40.5	7095	33.29
Semi-urban	1172	47.6	1556	37.9	6137	28.79
Urban	247	10.1	511	9.5	4355	20.43

17 Suneja, H.R. (1979). *Bank Lending to Priority Sectors (Principle and Techniques).* New Delhi: Shakti Publishers. pp. 3.

18 http://socioeconomyataglance.blogspot.com/2012/09/employment-to-tribals.html

19 Sandhu, B.S. (1996). Op.cit. pp. 33-34.

Metropolitan	225	9.1	374	9.1	3728	17.49
Total	2462	100.0	4103	100.0	21315	100.0

Source: Trend and Progress of Banking in India 1974, 2013-14.

During the period 1955-67, State Bank of India extended credit facilities to medium and large scale industries and fails to provide credit facility to small scale industries, agriculture and allied activities, retail trade, self employed and other small borrowers. The role of other commercial bank was worse also during this period. Credit to industry and commerce stood at 83.7 percent of the total credit at the end of March, 1967 which clearly reflects the ignorance of agriculture, SSI and other neglected sector.[20]

During sixties, Government of India adopted improved agronomic technology to increase the agricultural production which was known as 'Green Revolution in India'. High yielding variety programme, changes in cropping pattern, extension of irrigation facility etc opened new vistas in agricultural development. For adopting modern technology finance was the main problem for small and marginal farmers.

1.2.7. Social Control over Banks

Failure of commercial banks regarding credit deployment to agriculture, SSI and other neglected sector is took a serious turn in May 1967 which resulted in a debate in the Rajya Sabha. A resolution was passed which committed the Government to initiate such steps including nationalization as may be necessary to extend effective social control over these institutions. In accordance with this, an in-depth examination of the policies and practices of commercial banks were undertaken which led to the formulation of social control announced in the Parliament in December 1967.[21] The basic objective of such control was to ensure in the immediate future, an equitable and purposeful distribution of credit within the resource

[20] Reserve Bank of India. (1969). *Organisational Framework for the Implementation of Social Objectives* (Gadjil Study Group Appointed by National CreditCouncil), Mumbai. P.36.

[21] Begum, S.M. (2002). *Impact of Priority Sector Lending by Commercial Banks in Assam (A Study in Golaghat and Jorhat District).* Ph.D. Theses, Gauhati University, Assam. pp. 8-9.

available, keeping in view the relative priorities of developmental needs. All India National Credit council recognized three priority sector namely agriculture, SSI and exports for credit deployment. To loosen the hold of large industry and business houses on banks Government of India passed Banking Laws (Amendment) Act, 1968 on February 1, 1969 and Board of Directors of banks were reconstituted with the effect that 51 percent of the directors were to possess special knowledge or practical experience in accountancy, agriculture and rural economy, banking, cooperation, finance, economics, law, small-scale industry and other area relevant to the banking sector.

However, nothing significant happened because of the social control envisaged a pace of reform (inevitable under a system of private ownership) which was too slow to satisfy public opinion.[22] The urban origin and profit-cum-security orientation of the commercial banks had restricted their operation mainly to commercial and industrial sector. Though a sizable part of their deposits came from small depositors and rural areas, not much was done for the neglected and weaker sections due to fear of risk and adequate security.

1.2.8. Nationalization of Banks

Prior to1969, most of the commercial banks had owned, controlled and managed by the private sector enterprise, industrialist and businessmen and concentrated in metropolitan cities and port town. These private sector banks advanced to well-placed traders, businessmen and large scale industrialist. Agriculture, small scale industry and small business received a negligible amount of loan from these commercial banks.[23] Social control over banks also failed to provide desired result of social justice and economic progress of the country. So, some structural changes in the functioning of commercial banks were considered essential. In this regard, government felt that public ownership and control over lending policy is very much

[22] Chawla, A.S. (1987). *Nationalisation and Growth of Indian Banking*. New Delhi: Deep and Deep Publication, pp.17.

[23] Saikia, P.J. & Goswami, P.J. (2015). *Priority Sector Lending by Commercial Banks in Assam.* In Ahmed, J.U. & Singh, Kh.D. (Ed.), Financing Priority Sector in India: Scenario, Setback and Solution (pp. 85). Jaipur: Manas Publishers and Distributors.

essential for credit deployment to neglected sector. It was only as a consequence of this great realization that the ordinance of nationalization of 14 major commercial banks in India each with a deposit of Rs. 50 crores or above was promulgated in 1969. According to the Banking Companies (Acquisition and transfer) of Undertakings) Act, 1969, the banks were taken over "in order to serve better the needs of development of the economy in conformity with national policy and objectives, for matters connected therewith or incidental thereto."[24] The position of the fourteen nationalized banks as on 31 Dec, 1968 has been depicted in Table-1.2. These commercial banks were nationalised for attaining the undergoing objectives –

i) To mobilize deposits on a massive scale throughout the country and not only cities and large towns.
ii) To accelerate lending for productive purposes of diverse kinds irrespective of the size and social status of the borrower particularly in the neglected sectors such as agriculture, small industry and exports and promote the rapid growth thereof.
iii) To sustain and generate gainful employment in a direct and indirect manner on a much larger scale than before.
iv) To secure a more equitable distribution of credit throughout the country by having a balanced programme of branch expansion, particularly in the states and areas which had lagged behind or were unbanked or under banked.
v) To encourage new entrepreneurs and contribute to the development and growth of all backward areas.
vi) To provide improved and extended services to the general public.
vii) To achieve the organizational and functional reorientation of the banking system to facilitate growth.

[24] Dua, H.S. (1996). Op.cit. pp. 9.

Table1.2: Position of Nationalized Banks as on 31st December, 1968

Sl. No.	Name of the Bank	No of Offices	Deposits (Rs. in Crore)	Advances (Rs. in Crore)
1.	Central Bank of India	504	433	296
2.	Bank of India	250	395	253
3.	Punjab National Bank	544	356	209
4.	Bank of Baroda	333	314	196
5.	United Commercial Bank	323	241	144
6.	Canara Bank	296	146	97
7.	United Bank of India	185	144	100
8.	Dena Bank	214	122	74
9.	Union Bank of India	213	115	68
10.	Allahabad Bank	128	113	70
11.	Syndicate Bank	254	112	71
12.	Indian Overseas Bank	188	93	58
13.	Indian Bank	233	85	57
14.	Bank of Maharashtra	137	73	50
Total		3802	2742	1743

Sources: Trend and Progress of Banking in India 1980-81.

On April 15, 1980 the Government of India nationalized six more schedule commercial banks each with a deposit of Rs. 200 crores or above. With this, the public sector banks commanded more than 90 percent of the aggregate deposits, advances and investments of the Indian banking system.[25] In 1993, New Bank of India merged with Punjab National Bank. IDBI bank was converted into a public sector bank in October, 2004 and Bharatiya Mahila Bank Ltd set up in September, 2013. As a result the number of public sector banks other than SBI and its associates declined to twenty one. Table 1.3 depicts the position of those six nationalized banks on April, 1980.

[25] Chandrasekher, K. (1986). Op.cit. pp. 15.

Table1.3: Bank-wise data of the six banks, Nationalized in April 1980

Sl. No.	Name of the Bank	No of Offices	Deposits (Rs. in Crore)	Advances (Rs. in Crore)
1.	Andhra Bank	627	668	356
2.	Punjab and Sind Bank	536	626	389
3.	New Bank of India	423	503	257
4.	Vijay Bank	578	437	245
5.	Corporation Bank	323	308	161
6.	Oriental Bank of Commerce	327	315	168
Total		2814	2857	1576

Source: Trend and Progress of Banking in India 1980-81.

After nationalization, the role and function of banks underwent a great change. The commercial banks started financing hitherto neglected sectors of rural economy like agriculture and allied activities and they also shifted their emphasis from urban to rural sector.[26] The major responsibilities of nationalized banks are to mobilize the rural saving from the small pockets of the rural masses and to divert them into the productive outlets so that they may contribute towards the better progress and prosperity of rural sector.[27] Significant developments that are taking place in the Indian banking system after nationalization of banks are as follows:

Branch Expansion: Expansion of banking network with emphasis to cover rural and unbanked areas gained momentum after the nationalization of commercial banks in India. During the period of June 1969 to June 1981, 27,444 new bank offices of scheduled commercial banks were opened in India. With the rapid expansion of bank branches, particularly in rural areas, population served per branch progressively declined from 65,000 in 1969 to 17,000 in June 1980. As on March 31, 2013 total number of bank branches of commercial banks was 1,09,811 and population per branch was 12,000.[28]

---

[26] Ammanya, K.K. (1979). *Ten Years of Nationalization of Banks.* Calcutta: Eastern Economists.. Pp. 6.

[27] Pandey, K.L. (1988). *Development of Banking in India since 1949.* Calcutta: Scientific Book Company. pp. 80.

[28] RBI (2012-13). Statistical Tables relating to Banks in India. Mumbai, pp. 1-4.

Table 1.4: Bank Group-wise Branch Expansion in India

SI. No.	Bank Group	June 30, 1969	June 30, 1981	March 31, 2013
1.	State Bank Group	2462	8315	21315
2.	Nationalised Bank	4133	19611	54528
3.	Private Sector Banks	1667	4182	16008
4.	Regional Rural Bank	---	3598	17564
5.	Foreign Bank	---	---	334
6.	Local Area Bank	---	---	62
Total		8262	35706	109811

Source: 1) RBI, Report on Trend and Progress of Banking in India 1980-81, pp. 60.

2) RBI, Statistical Tables relating to Banks in India 2012-13, pp. 4.

The proportion of bank offices in rural areas to the total bank offices had significantly increased from 22.4 percent in June, 1969 to 49.4 percent in June, 1981 (Table1.5). Share of bank branches in semi-urban, urban and metropolitan areas to the total bank branches had decreased significantly during the period 1969-1981.

Table1.5: Population Group-wise Distribution of Bank Offices in India

Centre	June 30, 1969	June 30, 1981	March 31, 2013
Rural	1832 (22.4)	17652 (49.4)	39439 (35.9)
Semi-Urban	3322 (40.1)	8423 (23.6)	28691 (26.1)
Urban	1447 (17.5)	5126 (14.4)	21720 (19.8)
Metropolitan	1661 (20.0)	4505 (12.6)	19961 (18.2)
Total	8262 (100.0)	35706 (100.0)	109811 (100.0)

Notes:

1. Population groups are defined as follows: 'Rural' includes centres with population of less than 10,000, 'Semi-Urban' includes centres with population of 10,000 and above but less than of one lakh, 'Urban' includes centre with population of one lakh and above but less than of ten lakhs, and 'Metropolitan' includes centre with population over 10 lakhs.
2. Figure in brackets relate to percentage share in total.

Source: 1) RBI, Report on Trend and Progress of Banking in India 1980-81, pp. 62.

2) RBI, Statistical Tables relating to Banks in India 2012-13, pp. 4.

Expansion of Bank Deposits and Credit

Deposit mobilization by commercial banks has increased significantly after nationalization of banks due to development of banking habit among people through sustained publicity, extensive branch banking and relatively prompt service to the customers. The trend of increase in deposits and credit of schedule commercial banks is given in table 1.6.

Table 1.6: Deposits and Credit of All Scheduled Commercial Banks

Year	Number of Banks	Bank Deposits (Rs. in crore)	Bank Credit (Rs. in crore)
1950-51	430	820	580
1960-61	330	1,745	1,320
1970-71	73	5,910	4,690
1980-81	165	37,990	25,270
1990-91	271	1,92,540	1,16,300
2000-01	297	9,62,620	5,11,430
2012-13	151	67,50,500	52,60,500

Source: 1) RBI, Report on Currency and Finance, 1983-84 and 1991-92.

2) RBI, Statistical Tables relating to Banks in India 2012-13.

Aggregate deposits of commercial banks has increased from Rs. 820 crore in 1950-51 to Rs 67,50,500 crore in 2012-13 with a compound growth rate of 15.93 percent. During the period of 1950-51 to 2012-2013 (62 years), growth of deposits by commercial banks was increased by 82 times. Credit deployment by commercial banks also significantly increased from Rs 580 crore in 1950-51 to Rs. 52,60,500 crore in 2012-13 with a compound growth rate of 16.11 percent.

1.2.9. Priority Sector Lending

The concept of priority sector lending (PSL) is adopted in late sixties to ensure adequate financial assistance from the banking system to those sectors of the economy which has not received financial support of earlier. Shri. Morarji Desai, the then Deputy Prime Minister and Minister of Finance, Government of India made a statement in the Lok Sabha on December 14, 1967 that there has been a public concern that several ‘priority sectors’ such as agriculture, small-scale industries and exports are not receiving their due share of bank credit. With the introduction of Banking Laws (Amendment) Bill 1967 in the Lok Sabha on December 23, 1967 the policy of ‘social control’ on banks was instituted. In order to ensure banking facility to all, fourteen commercial banks were nationalized in 19th July, 1969 by Mrs. Indira Gandhi, the then Prime Minister of India. The meaning of the priority sectors was elaborated at the conference of custodians of nationalized banks held in New Delhi in July 1970, by the then Finance Minister in the following words:

“When we talk of priority sectors, the emphasis is on the needs of the common man, the man who is engaged or is willing to engage in a productive endeavour, which is socially useful and economically viable but is handicapped for lack of finance on reasonable terms. It is also an emphasis on the needs of the backward regions which are stagnating for lack of enterprise and finance. It also bring into focus the needs, often inarticulate of share cropper in agriculture, of adivasis in hills and forest and those communities spread all over the country which have suffered long from the injustices of a caste-ridden society.”[29]

However it was the workings group on the Priority Sector Lending and the 20-point Economic Programme chaired by Dr. K.S. Krishnaswami which clearly spelt out the concepts.

“The concept of priority sector lending is mainly intended to ensure that assistance from the banking sector flows in an increasing manner to those sector of the economy which, though accounting for a significant proportion of the National product, have not received adequate support of Institutional finance in the Past”. [30]

The term ‘priority sector’ indicates those activities which have national importance and have been assigned priority for development. Hence, the adoption of priority

---

[29] Agrawal, H.N. (1979). *A Portrait of Nationalised Banks: A Study with Reference to Their Social Obligation.* Delhi: Inter-India Publications, pp. 186.

[30] Datt, R. and Sundharam. K.P.M. (2009), *Indian Economy*. New Delhi: S Chand & Company Ltd. Pp. 836.

sector concept for the purpose of bank lending reflects the effort to synchronize the lending activities of each bank with the national priorities. These sectors, in particular agriculture, small industries and other small business were the neglected sectors and for the purpose of bank credit, they have been categorized as priority sector.[31]

Thus, priority sectors include those areas of economic activities which are socially desirable but have earlier either been inadequately financed or been wholly neglected by the commercial banks.

1.2.10. Policy measure by RBI for Priority Sector lending

In October 1968, the Study Group on the Organisational Framework for the Implementation of Social Objectives under the Chairmanship of Prof. D. R. Gadgil appointed by the National Credit Council and the Committee of Bankers appointed by RBI under the Chairmanship of Shri. F. K. F. Nariman recommended that commercial banks should increasingly forward to finance activities in rural areas and suggested earmarking of districts to banks so that they could take a lead role in the districts allotted in providing integrated banking facilities. On the recommendations of these Groups, RBI introduced the '**Lead Bank Scheme'** in December 1969 to ensure co-ordination among various banks and Governmental agencies for developmental efforts requiring bank credit.[32]

The description of the priority sectors was later formalised 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 the Reserve Bank in May 1971. In the light of this report, certain guidelines were issued, indicating the scope of the items to be included under the various categories of the priority sector. According to this guidelines, advances under priority sector included advances to agriculture, small scale industries, industrial estate, road and water transport operators, professional and self

[31] Uppal, R. K. (2009). Priority Sector Advances: Trends, Issues and Strategies. *Journal of Accounting and Taxation*. 1 (5), 79-89.

[32] Vimala, P. (2002). *A Study on the Priority Sector Lending by Commercial Banks in Kerela*, Ph.D Thesis, Mahatma Gandhi University, pp. 68-69.

employed persons, education and pre-shipment and post shipment facilities to export.[33]

These hitherto neglected sectors have been given due priority not only because of their tremendous potential for employment generation and various other benefits they confer on the weaker sections of the society, but also because of their significant contribution to the national income.

Target Oriented Priority Sector Lending: Recommendation of Different Committee

Till October 1974, there were no specific targets for priority sector lending. In November 1974, to attain equitable distribution of bank advances, not only among different sections within the respective sectors but also among different sectors among the priority sectors, public sector banks were advised that their priority sector lending should reach a level of not less than one-third of the outstanding credit by March 1979. In November 1978, the private sector banks were advised to lend a minimum of 33 1/3 per cent of their total advances to the priority sectors by the end of March 1980.

After nationalization of fourteen major commercial banks, the share of priority sector advances rose moderately from 15 percent in 1969 to 25 percent in 1979 as against the stipulated target of 33.3 per cent. However, as at the end of December 1980, the share of priority sector advances in the total advances of public sector banks showed a sharp increase by about 10 percentage points from 25 per cent to 35 percent due to nationalization of another six commercial banks.[34]

In 1980, Reserve Bank set up a Working Group on Priority Sector Lending and 20-Point

Economic Programme under the Chairmanship of Dr. K. S. Krishnaswamy, the then Deputy Governor, RBI to work out the modalities and guidelines for implementation of two decisions taken in March 1980 by the Government of India, viz., that banks

[33] Chawla, A.S. (1987). Op.cit. pp. 216.

[34] Angadi, V.B. (1983). Banks' Advances to Priority Sectors: An Enquiry into the Causes of Concentration. *Economic and Political Weekly*, 18(13), 503.

should aim at raising the proportion of their advances to the priority sector from 33.33 percent to 40 per cent by 1985, and that the banks should actively promote the implementation of the 20-Point Programme which aimed at improving the lot of the weaker sections of the population. The Group identified the categories of beneficiaries requiring assistance from the banking system in pursuance of the 20-Point Programme and spelt out the manner in which assistance could be rendered.

As most of the beneficiaries under the Programme belonged to the relatively under-privileged group within the priority sector, the Group suggested certain changes in the approach to priority sector lending. In particular, it introduced the concept of 'weaker sections' within the priority sector and recommended separate sub-targets for lending to the weaker sections in the two main categories of the priority sector, namely, agriculture and SSI, within the overall enhanced target of 40 per cent for lending to the priority sector.[35]

On the basis of the various recommendations given by Working Group, RBI issued following instructions on October 29, 1980 for implementation.

1) Advances to priority sector by banks should constitute 40 percent of aggregate bank credit by 1985.
2) Forty percent of priority sector advances i.e., 16 percent of total advances should be disbursed to agriculture and allied activities by 1985.
3) Banks should disburse at least 50 percent of direct agriculture credit to the weaker sections of agriculture and allied activities (i.e., small, marginal and landless laboures) by 1983.
4) Bank finance to rural artisans, village craftsmen and cottage industries should constitute 12.5 percent of total advances to SSI by 1985.

The Working Group also recommended following categories for inclusion in priority sector:

1) Housing loans upto Rs 5,000 for construction of houses for SC/ST and weaker sections, assistance to any governmental agency for construction of houses for

[35] Reserve Bank of India, (2005). *The Draft Technical Paper on Review of Priority Sector Lending.* Mumbai: Government of India. pp.16-17.

SC/ST and low-income groups (where loan component does not exceed Rs 5000 per unit) and pure consumption loans granted to the weaker sections under the Consumption Credit Scheme were recommended for inclusion in priority sector.

In March 1982, the RBI constituted a 'Working Group on the Role of Banks in Implementation of New 20-Point Programme' under the chairmanship of Shri A. Ghosh for classification of the various segments that comprise the priority sector. The Working Group has reviewed the present definition of weaker sections in the priority sector and the sub-targets fixed for advances to such sections and suggested certain changes. It also redefined the existing definition of some of the components of priority sectors with a view to ensure that the thrust is towards financing the really needy.[36] This group recommended comprehensive redefinition of the weaker sections and suggested a targetof either 10 per cent of net credit, or 25 per cent of total priority sector lending to weaker sections to be reached by March 1985. These measures would ensure that the beneficiaries under this programme obtain adequate financial support from banks to a large extent, under the concept of priority sector lending.

The recommendations made by the working group under the chairmanship of Shri A. Ghosh were accepted by the Government of India and Reserve Bank of India (with modifications) and instructions were issued to banks in February 1983. The various segments which were classified by the above Group's report under priority sector were Agriculture (both direct and indirect finance), SSI, Small Road and Water Transport Operators, Retail Trade, Small Business, Professional and Self Employed Persons, State sponsored schemes for Scheduled Castes/Scheduled Tribes, Education, Housing and Consumption.[37]

Targets and sub-targets under the different priority sectors for different categories of banks have been reviewed and revised periodically. The sub-target for agriculture and allied activities (which was set at 15 per cent of Net Bank Credit (NBC) to be achieved by March 1985) was subsequently raised to 16 per cent by March 1987, 17 per cent by March 1989 and 18 per cent by March 1990. This sub-target was further

---

[36] Silony. (2011). *Priority Sector Lending- A Study of Commercial Banks in Punjab since 1991*. Ph.D Thesis. Punjabi University, Patiala, pp.4.

[37] https://www.rbi.org.in/commonman/English/Scripts/Notification.aspx?Id=322

bifurcated in October 1993 to a minimum of 13.5 per cent for direct agriculture loans and a maximum of 4.5 per cent for indirect agriculture loans.[38]

In the pre-reform period agricultural credit was earmarked directly for farmers, some of whom were big farmers, but majority of whom were small and marginal farmers. Agricultural credit was mainly for agricultural (including allied activities) purposes, production, storage and transportation of agricultural or allied products. Within agriculture food crops were emphasised. Assistance for traditional plantation was confined to marginal farmers with less than five acres of land. Only non-traditional plantation finance under priority sector was available for all types of farmers.[39]

In 1991, RBI suggested foreign banks operating in India to progressively increase their advances to the priority sector categories of borrowers and such advances were to reach a level of 15 percent of their NBC by the end of March 1992. In April 1993, this ratio was further raised to 32 percent of NBC to be achieved by March 1994 out of which 10 per cent in respect of SSI and 12 per cent for exports were fixed.

In 1991, the Committee on Financial System (Narasimham Committee) observed that directed credit programmes have played a useful purpose of extending the reach of the banking system to cover sectors, which were neglected hitherto. Despite of commendable progress in branch expansion, directed credit programmes to priority sector, serious problems have emerged, which reflected in a decline in productivity and efficiency, and erosion of the profitability of the banking sector. However the committee observed that the pursuit of such objectives should use the instruments of the fiscal rather than the credit system. The Committee recommended that directed credit programmes should be phased out. Te committee proposes that the priority sector should be redefined to comprise the small and marginal farmer, the tiny sector of industry, small business and transport operators, village and cottage industries, rural artisans and other weaker sections. The credit target for the redefined priority sector should henceforth be fixed at 10 percent of aggregate credit.[40] But the

[38] Reserve Bank of India, (2005). Op. cit., pp. 18.

[39] Dasgupta, R. (2002). Priority Sector Lending: Yesterday, Today and Tomorrow. *Economic and Political Weekly,* 37 (41), 4239-4245.

[40] Sharma, K.C. (2007). Modern Banking in India. Deer & Deep Publication, New Delhi, pp. 90-91.

government was not accepted the recommendation and directed to public sector bans to maintain 40 percent coverage for the priority sector.

The Committee on Banking Sector Reforms (Narasimham Committee-II) (1998) again gave careful consideration to the issue of directed credit and noted the reasons why the Government could not accept the earlier recommendation. The Committee observed that directed credit had led to an increase in non-performing loans and had adversely affected the efficiency and viability of banks with 47 per cent of all Non Performing Assets (NPAs) emanating from the priority sector. The Committee recognized that the small and marginal farmers and the tiny sector of industry and small businesses have problems with regard to obtaining credit and some earmarking may be necessary for this sector. Under the present dispensation, within the priority sector, 10 per cent of NBC is earmarked for lending to weaker sections. The Committee recommended that given the special needs of this sector, the current practice may continue.[41]

The Committee also noted the changes in the scope of beneficiaries under the priority sector since its earlier report and proposed that given the importance and needs of employment oriented sectors (like food processing and related service activities in agriculture, fisheries, poultry and dairying), these sectors should also be covered under the scope of priority sector lending. The Committee observed that a sudden reduction of priority sector targets could have the danger of a disruption in the flow of credit. It recommended for the removal of concessional rates of interest on loans up to Rs 2 lakh and a phased move away from overall priority sector targets and sub-sector targets. The committee also recognized that enhancement of credit to these sectors is critically dependent on the availability of adequate infrastructure in these areas.

Debt securitization concept was suggested within the priority sector. This would enable banks, which are not able to reach the priority sector target, to purchase the debt from other institutions.[42]

---

[41] Reserve Bank of India, (2005). Op. cit., pp. 51-52.
[42] Government of India. (**1998).** *Report of the Committee on Financial System, Ministry of Finance*. (Narasimham Committee-II), Mumbai.

In 1999, on the basis of the recommendation given by the committee, RBI was further enlarged the scope of priority sector with activities like food processing, related service activities in agriculture, fisheries, poultry and dairying. It was decided that rates of interest on loans up to Rs 2 lakh should not exceed the Prime Lending Rate (PLR) of the bank. Banks were given freedom to decide their PLR subject to approval of their Boards.

A Technical Group on Computation of Priority Sector Lending Targets (Chairman: Shri B.R.Verma) was set up by RBI in 2000 to examine the priority sector targets. The committees recommend that the priority sector lending targets could be linked to the previous year's NBC and upscale by the estimated growth in credit during the year. The Group also recommended withdrawal in a phased manner of the facility of exclusion of Foreign Currency Non-Resident Deposits (FCNR(B)/ Non Resident Non-Repatriable (NRNR) deposits from NBC for computation of priority sector lending targets. In view of the concerns shown by the Standing Committee on Finance on performance of banks in lending to priority sector, the issue was dropped. The recommendations of the Group were again examined afresh in 2004 and it was decided that the present definition of NBC may not be changed.

In 2001, RBI set up Expert Committee on Rural Credit (Vyas Committee), which recommended that the mandated rates of 18 per cent of credit outstanding for agricultural loans and 40 per cent for priority sector loans should be reviewed after five years. It also recommended a substantial reduction in Rural Infrastructure Development (RIDF) interest rates to levels just enough to cover the interest cost of deposits. The committee suggested retaining the upper limit of 4.5 per cent on indirect credit while reckoning the achievement of 18 per cent target for agricultural lending. Although Reserve Bank has not formally reviewed agriculture credit targets in the intervening period; it has regularly advised banks to take steps to achieve the level of 18 per cent in a time-bound manner. RIDF interest rates have been restructured and a system of graded rates, with lesser interest rate payable to banks having higher shortfall, has been introduced. RBI 2005

In 2004, Advisory Committee on Flow of Credit to Agriculture and Related Activities from the Banking System (Vyas Committee) recommended that all public and private sector banks should increase their direct lending to agriculture to 12 per cent of NBC in the next two years and to 13.5 per cent in the two years thereafter. Banks that have already reached this level may at least continue to maintain the position; it would be best if they would further improve their direct lending. Indirect lending to agriculture may be the extent to 6 per cent in the first two years for assessing banks' performance thereafter the ceiling of 4.5 per cent should apply against the target of 18 per cent.

An Internal Working Group was set up by Reserve Bank of India under the chairmanship of Shri C. S. Murthy in September 2005 to examine the need for continuation of PSL, existing policy on priority sector lending and review the segments of priority sector, targets, sub-targets etc. The committee observed that certain important sectors in the economy continue to suffer from inadequate credit flow. Agriculture sector continues to be the single largest occupation which provides livelihood to about two-thirds of the population. Moreover, the production base continues to comprise predominantly small and marginal farmers. Similarly, the SSI sector occupies a unique position in the Indian economy in terms of employment generation and export earnings. The committee highly recommended for existence of PSL for achieving the multiple objectives of employment generation, regional dispersal of industries and a seedbed for entrepreneurship. The broad categories of priority sector for all domestic banks as also for foreign banks may comprise agriculture, small-scale industries, small business and educational loans. The committee also recommended to include only those sectors as part of the priority sector, that impact large sections of the population, the weaker sections and the sectors which are employment-intensive such as agriculture, and tiny and small enterprises.[43]

On the basis of the recommendations made in September 2005 by the Internal Working Group (Chairman: Shri C. S. Murthy), the guideline for priority sector lending were revised in April 30th ,2007 and overall target was fixed at forty percent net bank credit (NBC) for domestic banks (Public sector) banks and private banks) and 32 percent for foreign banks. The target for agricultural advances fixed at 18 percent for domestic banks and the target in case of small enterprise was fixed at 10

[43] Reserve Bank of India. (2005). Op. cit..

percent for foreign banks.[44] The target for weaker section for public sector banks was fixed at 10 percent of ANBC and the target in case of export credit was fixed at 12 percent for foreign banks. These guidelines take into account the revised definition of small and micro enterprises as per the Micro, Small and Medium Enterprises Development Act, 2006. Accordingly the broad categories of priority sector for all scheduled commercial banks will be as under:

Agriculture (Direct and Indirect finance)

This sector includes short , medium and long term agriculture and allied activities loan directly to individual farmer, self-help group (SHGs) or joint liability groups (JLGs) of individual farmers without limit and its others (Such as corporate partnership firms and institution) up to 20lakhs for taking up agriculture and allied activities. Indirect finance to agriculture includes loans given for agriculture and allied and allied activities.

Small Enterprises (Direct and Indirect Finance)

Direct finance to small enterprises includes loans to small and micro enterprises of both manufacturing and service enterprises. The maximum credit under this category is given below:

a) For small (manufacturing) enterprise- Rs. 5 crore.
b) For Micro (manufacturing) enterprise- Rs. 25 lakhs
c) For Small (service) enterprise- Rs. 2 crore.
d) For Micro (service) enterprise- Rs. 10 lakhs.

Indirect finance to small enterprises include providing finance for inputs or marketing the output of artisans, village and cottage industries, handlooms and to cooperatives of producers in this sector.

Retail Trade

This sector include retail traders/private retail traders dealing in essential commodities (fair price shops), and consumer co-operative stores.

Micro Credit

These sector include Provision of credit and other financial services of amounts not exceeding Rs. 50,000 per borrower, either directly or indirectly through a SHG/JLG

[44] Ahmed, J.U. (2010). Priority Sector Lending by Commercial Banks in India: A Case Study of Barak Valley. *Asian Journal of Finance and Accounting*, 2(1:E5), 92-110.

mechanism or any intermediary (including NBFC/NGO/MFI), or to an NBFC/NGO engaged in provision of credit to the poor up to Rs. 50,000 per borrower.

Education loans

Educational loan up to Rs. 10 lakh for studies in India and Rs. 20 lakh for studies abroad is included in education loan under the purview of priority sector.

Housing loans

Housing loan include Loan amount not exceeding Rs. 15 lakh per family, for construction of houses by individuals, and loans given for repairs to the damaged houses of individuals up to Rs. 1 lakh in rural and semi-urban areas and up to Rs. 2 lakh in urban areas.[45]

On August 25, 2011, the Reserve Bank of India has constituted a committee under the chairmanship of M.V.Nair to re-examine the existing classification and suggest revised guidelines with regard to Priority Sector lending classification and related issues. The committee submitted its report in February 2012, with some major recommendation which were given below:

I. The Overall Priority Sector Lending target is retained at 40 percent of ANBC for domestic banks. Agriculture, MSE, Micro credit, Education, Housing, Off-grid Energy Solutions for households and exports (for foreign banks only) form part of priority sector.

II. Target for Agriculture and allied activities credit will be retained as 18 per cent of ANBC without any distinction between Direct & Indirect Agriculture.
A sub-target of 9 per cent of ANBC is fixed for loans to small and marginal farmers, to be achieved in stages latest by 2015-16.

III. Micro and Small Enterprise (MSE) may continue to be under priority sector under which a sub target for micro enterprise is recommended equivalent to 7 % of ANBC or Credit equivalent of off-balance sheet exposure whichever is higher.

IV. Differential Rate of Interest (DRI) scheme may be discontinued as other Government Sponsored schemes target the similar beneficiaries with better features.

V. For foreign banks, target is fixed at 40 per cent for total priority sector, 15 per cent targets each for MSE and export credit. Export credit up to a limit of Rs. 10

---

[45] Reserve Bank of India.(2007). *Guidelines on Lending to Priority Sector- Revised.* Mumbai: Government of India.

crore will only qualify for the purpose of reckoning under priority sector. Additionally, a Focused Priority Sector target is recommended for Micro Enterprises, equivalent to 7 per cent of ANBC.

VI. For considering the diverse activities under priority sector and its sub-sectors, the committee recommended that such eligible loan limits may be revised every 3 years considering the price index, cost of inputs, relevance in value chain, etc.[46]

The recommendations of the Committee have been examined by RBI after inviting views from various stakeholders like Government of India, banks, financial institutions, Non-Banking Financial Companies, Associations of industries, public and Indian Banks' Association; and revised the guidelines and issued a new one on July 20, 2012. The main categories under priority sector as per the new guideline are given below:

1) Agriculture (Direct and Indirect)
2) Micro and Small Enterprise
3) Education
4) Housing
5) Export Credit
6) Others

According to the new guideline for priority sector lending published in July 20, 2012, overall target was fixed at forty percent of Adjusted Net Bank Credit (ANBC) for domestic commercial banks and foreign banks with twenty and above branches and 32 percent for foreign banks with less than twenty branches. For domestic commercial banks and foreign banks with twenty and above branches, the target for agricultural advances was fixed at 18 percent and 10 percent for weaker section.

Foreign banks with twenty and above branches were given a maximum period of five years ending on March 31, 2018 by which they were directed to achieve priority sector targets and sub-targets.[47]

1.2.11. Recent Initiative of RBI regarding priority sector lending

---

[46] Rerserve Bank of India.(2012). *Report of the Committee to Re-Examine the Existing Classification and Suggest Revised Guidelines with Regard to Priority Sector Lending Classification and Related Issues (Nair Committee).* Mumbai: Government of India.

[47] Reserve Bank of India.(2012). *Revised Guidelines on Priority Sector Lending-Targets and Classification.* Mumbai: Government of India. pp. 3-4.

Reserve Bank of India was set up an Internal Working Group (IWG) under the chairmanship of Lily Vadera (Chief General Manager, Department of Banking Regulation) in July 2014 to revisit the existing priority sector lending guidelines. The committee submitted their report on 1st March, 2015 with some major recommendations which were given below:

1) **Categories of Priority Sector:** In addition to the existing categories of priority sector lending, committee recommended for inclusion of Medium Enterprises, social infrastructure and renewable energy under the priority sector.
2) **Overall Priority sector target:** The target for lending to the redefined priority sector will be retained as 40 per cent of Adjusted Net Bank Credit (ANBC) or Credit Equivalent of Off-Balance Sheet Exposure (CEOBE), whichever is higher, for all scheduled commercial banks and foreign banks. However, foreign banks may be given some time in order to implement the guidelines. It is recommended that the foreign banks with twenty and more branches have to comply the recommendation within March 2018 and in case of foreign banks with less than twenty branches within March 2020.
3) **Agriculture:** Target of 18 per cent of ANBC retained. A sub-target of 8 per cent of ANBC has been recommended for small and marginal farmers to be achieved in a phased manner. More flexibility has been recommended for banks to lend the remaining 10 per cent of the overall agriculture loan target to other farmers, agricultural infrastructure and ancillary activities.
4) **MSME:** In addition to micro and small enterprises, medium enterprises should be included within the purview of priority sector lending. For encouraging micro enterprises, a sub-target of 7.5 per cent for micro enterprises has been recommended, which is to be achieved in a phased manner.
5) **Weaker Sections:** The working group recommend for continuation of existing target for weaker sections (10 percent of ANBC).
6) **Other sectors:** In addition, loans to sanitation, health care and drinking water facilities and renewable energy will come under the priority sector.
7) **Priority sector lending certificates:** The Working Group recommends introduction of priority sector lending certificates (PSLCs) which will enable

banks to meet their PSL requirements even while leveraging their comparative advantage in lending.[48]

The RBI invites opinion of the various stakeholders on the recommendations of the IWG and thereafter RBI issued revised guidelines on priority sector lending on 23rd April, 2015. In this guidelines two new subsectors namely social infrastructure and Renewable energy and medium enterprises were clubbed with micro and small enterprise. The eight categories of priority sector are given below:

Categories under priority sector under latest guideline

i) Agriculture
ii) Micro, Small and Medium Enterprises (MSMEs)
iii) Export Credit
iv) Education
v) Housing
vi) Social Infrastructure
vii) Renewable Energy and
viii) Others.

Targets /Sub-targets for Priority sector according to RBI latest guideline 2015

Total Priority Sector: The recommendation of Internal Working group relating to the target for total priority sector was accepted by RBI.

Agriculture: The distinction between direct and indirect agriculture is removed and target is same as earlier i.e., 18 percent of ANBC. In case of domestic scheduled commercial banks, target for small and marginal farmers under agriculture was fixed at 8 percent of ANBC or Credit Equivalent Amount of off Balance Sheet Exposure, whichever is higher, to be achieved in phased manner within 2017. Foreign banks with 20 and above branches have to achieve agriculture target within 5 years starting from April 1, 2013 and ending on March 31, 2018 as per the action plans submitted by them and approved by RBI.

Micro Enterprise: A target of 7.5 percent of ANBC or Credit equivalent amount of off-Balance Sheet Exposure, whichever is higher to be achieved by domestic scheduled commercial banks in a phased manner i.e. 7 per cent by March 2016 and

[48] Reserve Bank of India. (2015). Report of the Internal Working Group to Revisit the Existing Priority Sector Lending Guidelines. Mumbai.

7.5 per cent by March 2017. The sub-target for Micro Enterprises for foreign banks with 20 branches and above would be made applicable post 2018 after a review in 2017.

Advances to Weaker section: Target of weaker section advances is remained same as earlier guideline i.e., 10 percent of ANBC in case of domestic commercial banks. In case of foreign banks with 20 and above branches have to achieve the weaker sections target within a maximum period of five years ended on 31st March, 2018.[49]

Trend of Priority Sector Lending in India

The foremost achievement of nationalization lies in the flow of massive credit to the priority sectors which comprised agriculture, SSI, road and water transport operators, retail trade and small business, professional and self-employed persons and education.[50] The total credit extended to priority sector lending has increased due to 'Target oriented approach' of the Government. The progressive increase in credit deployment to the priority sectors of the economy in the post nationalized period shown in the table 1.7.

Table 1.7: Public Sector Bank's Advances to Priority Sector in India

(Rs. in Crores)

Sl. No.	Priority Sector	June 1969	June 1971	September 1987	March 1991	March 2001	March 2011
1.	Agriculture	160	340	10933	16871	53685	414991
2.	Small Scale Industry	260	440	9391	16756	48445	376625
3.	Other Priority Sector	20	130	5546	8649	40395	236999
4.	Total Priority Sector Advances	440	910	25870	42276	146546	1028615

49 Reserve Bank of India. (2015). *Priority Sector Lending-Targets and Classification.* Mumbai: Government of India.

50 Bhola, R.K. (1986). Achievements of India's Banking System During First 13 Years of Nationalization, In Subrahmanya, S. (Ed.), *Trends and Progress of Banking in India* (pp. 40). New Delhi: Deep & Deep Publication.

5.	Total Bank Credit	3020	4080	57108	121678	405430	3056317
6.	Percentage of PSL to Aggregate Credit/ANBC	12	25	45.3	34.74	36.15	41.30

Source: 1) RBI, Report on Currency and Finance, 1983-84 and 1991-92.

1) RBI, Report on Trend and Progress of Banking in India 1990-91, 2001-02.

During the first two years after nationalization (1969-1971), priority sector lending by public sector banks was become double and in absolute figure it increased from Rs.440 crore to Rs. 910 crore. Total priority sector lending by public sector banks has significantly increased from Rs. 910 crore in 1971 to Rs. 3056317 crore in 2011. Bank credit to agriculture, small scale industries and other priority sectors has also increased manifold during the period.

Lead Bank Scheme

Lead Bank Scheme was introduced to achieve Social Banking objectives viz. narrowing inter-regional disparities and promote even distribution of institutional finance facilities.[51] In August 1969, Reserve Bank of India, appointed a Committee of Banking with F.K.O. Nariman as its chairman to evolve a coordinated programme for ensuring the setting up of adequate banking facilities in the unbanked districts of the country. The Nariman Committee recommended that the ‘ bankers’ should be allotted specific districts where they would take lead in surveying the potential of banking development in extending branch expansion and expanding credit facilities.[52] On the basis of the recommendation of Nariman Committee RBI evoked ‘Lead Bank Scheme’ on December 1969, throughout the country except Bombay, Calcutta, Madras and Union Territory of Delhi, Chandigarh and Goa.[53]

Under the Lead Bank Scheme, the public sector banks and few private sector banks were allotted certain district where they are asked to take up a leadership role in promoting banking activities and also in accelerating the tempo of economic development in the lead district, by identifying bankable schemes covering priority

[51] Rao, K.D.(1982). Lead Bank Scheme: Retrospect and Prospects. *Pranjan,* XI (4). 257.

[52] Mamoria, C.B.(1982). *Rural Credit in India,* Allahabad: Kitab Mahal. pp. 275.

[53] Sandhu, B.S.(1996). Op.cit. pp. 43.

sectors within a timeframe in collaboration with other financial institutions in these districts.[54]

District Credit Plan

The concept of District Credit Plan was evolved to implement the Lead Bank Scheme effectively and efficiently. Concept of District credit plan start in 1975 under which lead bank of a district prepared credit plan which contained economically viable and technically feasible schemes covering agriculture, small scale industries and other welfare measures. Since 1980, the district credit plans have been prepared on a uniform pattern as per the RBI's guidelines and are split up into annual action plans and block/branch-wise plans. Annual action plans are prepared on the completion of the previous action plan so that the achievements under the previous action plan, from the basis of the plan for the next period. Credit plan spell out targets, scheme-wise, sector-wise and block-wise and also determine bank-wise participation in these programme.[55]

Differential Rate of Interest (DIR)

The scheme of Differential Rate of Interest (DRI) was introduced in April 1972, with a view to providing loans at a concessional rate of 4 percent to the weaker section of society who have no tangible security to offer but who can improve their economic condition through financial assistance from public sector banks. Performance of public sector banks under this scheme showed a marked increased in number of accounts and outstanding advances during the period of 1981 to 1990. During this period, number of accounts was increased from 26.68 lakhs to 43 lakhs and outstanding advances were also increased from Rs. 225 corores to 710 crores. After that, the number of accounts (3.68 Lakhs) and amount outstanding (Rs. 315 crore) was declined in 2004 due to carefulness of banks to select the really deserving ones.[56]

---

[54] Devi, A.K.R.(1986). Changing Scenario over Decades. In Subrahmanya, S. (Ed.). *Trends and Progress of Banking in India* (pp. 62). New Delhi: Deep & Deep Publications, pp. 62.

[55] Dua, H.S. (1996). Op.cit. pp. 41-42.

[56] Datt, G., & Mahajan, A.(2014). *Indian Economy.* S, Chand & Company Pvt. Ltd. New Delhi. pp. 887.

1.3. Objectives of the Study

The main 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.

1.4. Hypotheses of the Study

The following are the Hypotheses:

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.

1.5. Relevance of the Study

Financing to priority sector is one of the major objectives of commercial banks after nationalization of banks. As a major lending institution, public sector banks have the major responsibility 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 rural and backward area. Accordingly Government of India and Reserve Bank of India adopted various schemes and policies for development of the priority sector for overall development of the economy. After nationalization of banks, commercial bank lending to priority sector has been increasing substantially to achieve the quantitative targets of RBI. The present study is carried out to assess the performance of public sector banks in priority sector lending Golaghat district of Assam. A comparative analysis also done to know the performance of public sector banks of Golaghat district with state level and national level in terms of targets-sub targets and achievement under priority sector, compound growth rate of priority sector lending etc. The study also explores the problems faced by borrowers which help banking institutions to take necessary action for further improvement of the priority sector.

1.6. Research Methodology

1.6.1. Sources of Data

The present study is based on both primary and secondary data. First two objectives of the study based on secondary data collected from following secondary sources:

- Statistical Tables relating to Banks in India published by RBI
- Report on Trend and Progress of Banking in India published by RBI
- Economic Survey of Assam published by Government of Assam
- Reports of State Level Bankers Committee (Assam) published by State Bank of India
- Statistical Handbook of Assam published by Directorate of Economics and Statistics, Government of Assam
- Lead Bank Statement of Golaghat District published by United Bank of India
- District Credit Plan of Golaghat District published by United Bank of India

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

1.6.2. Sampling Procedure and Sample Size

For purpose of examining various problems of priority sector lending multi stage sampling technique was used for selection of borrowers. There are eight development blocks in Golaghat district of Assam. For the first stage, four blocks out of eight blocks were selected at random. It may be mentioned here that only two public sector commercial banks namely United Bank of India (UBI) and State Bank of India (SBI) have branches in all block of Golaghat district and these two banks made advances to more than 80 percent borrowers of priority sector. So these two banks were selected for the present study in second stage. The total number of priority sector borrower of these two banks were 5353 consisting of 2140 from UBI and 3213 from SBI respectively during the year 2011. From the total number of borrowers 360 borrowers was selected by using online sample calculator at 95 percent confidence level (http://www.nss.gov.au/nss/home.nsf/). The number of sample borrowers of SBI and

UBI were selected proportionately from their respective total borrowers. Bank wise total numbers of sample borrowers were equally divided among the four selected blocks in next stage. Thus from each selected block of Golaghat District 36 borrowers of UBI and 54 borrowers from SBI were selected in the sample.

Table 1.8: Selection procedure of Sample Borrowers

Name of the Bank	UBI	SBI	Total
Total No Borrowers	2140	3213	5353
Sample Borrowers	=(359/5353)*2140=143.52 =144	=(359/5353)*3213=215.48 = 216	360
Sample borrower per Block	144/4=36	216/4=54	90

Effort was made so that the borrowers of three sub categories i.e., agriculture, micro and small enterprise and other priority sector are represented in the sample. Bank wise and sector wise sample borrowers is shown below:

Table 1.9: Bank-wise and Sector-wise Priority Sector Borrowers

Banks	Agriculture		MSE		OPS		Total
	No.	Percent	No.	Percent	No.	Percent	
SBI	115	53.24	44	20.37	57	26.39	216
UBI	77	53.47	32	22.22	35	24.31	144
Total	192	53.33	76	21.11	92	25.56	360

Primary data also have been collected from all bank branch managers by administering schedule to examine the problems of public sector banks regarding priority sector lending. There were eight branches of SBI and ten branches of UBI in Golaghat district at that time. These 18 bank managers were selected for the present study.

1.6.3. Analysis of Data

In order to answer first two objectives, secondary data were compiled and tabulated bank-wise, sector wise etc. The growth of public sector banks in priority sector lending in Golaghat district was examined in terms of following parameters:

- Deposit mobilization by Public Sector Banks
- Deployment of Credit
- Credit-Deposit Ratio
- Priority Sector Advances
- Bank Wise Priority Sector Advances in Golaghat District
- Share of priority sector advances to aggregate net bank credit (ANBC)
- Agriculture Advances by Public Sector Banks
- Bank Wise Agriculture Advances in Golaghat District
- Share of Agriculture Advances to aggregate net bank credit (ANBC)
- Advances to MSME
- Bank Wise MSME Advances in Golaghat District

Statistical Tools and techniques used for analysis of secondary data

- Percentage
- Annual growth rate (AGR)

  AGR can be calculated by using following formula:

  $$AGR=\frac{(P1-Po)}{Po}$$

  P_1= Value of Present year

  Po= Value of last year
- Compound annual growth rate (CAGR)

  Compound growth rate is used to know the growth rate for over a period of time based on the data for study period. The formula of CAGR is given below:

  $$CAGR= (A_n / A_0)^{1/n-1} - 1$$

  A_n= Amount/ number for the end year

  A_0= Amount/ number for the base year

  n= number of years

- Mann-Whitney test

It is a non-parametric test used to test the null hypothesis that there is any significant difference between the growth rates of deposits, advances, priority sector lending, agriculture lending and MSME lending of public sector commercial banks at the district and state levels. To test the hypotheses, U values were calculated and compared with tabulated value. if the calculated value of U is more than tabulated value than null hypothesis is accepted.

$$U = NM + \frac{N(N+1)}{2} - \sum_{x_i} Rank(x_i)$$

U= Mann-Whitney U test

N = sample size one

M= Sample size two

Xi = Rank of the sample size

After tabulation, various statistical tools like percentage, graph, and diagram have been used for meaningful conclusions.

1.7.Scope of the Study

The present study examines the performance of public sector banks in priority sector lending in national level, state level and district level. The study has highlighted the problems of borrowers and bankers regarding priority sector lending in Golaghat district of Assam. The proposed study period is 2007-2014. The justification of selecting the time period is that the revised guidelines on Lending to priority sector came into effect from April, 2007. Agriculture, small enterprises, micro credit, retail trade, education loans, and housing loans up to 20 lakh are the broad categories included in the priority sector.[57]

[57] Uppal, R. K. (2009). Op.cit. 79-83.

1.8. Limitation

Though the present study is well designed by take into consideration the objectives and hypotheses of the study but it has its own limitations.

1) The present study confined to public sector banks operating in Golaghat District of Assam. The results of the study may not be generalized with other District and for the country as a whole.
2) As separate data relating to direct agricultural advances and indirect agricultural advances of public sector banks in Assam as well as Golaghat District for seven years were not available. Hence present analysis has been done on the basis of total agricultural advances.
3) The secondary data was collected from more than one source and gaps in one source were filled by referring to other sources. There may be some discrepancies if the data are not correctly reported by the referred sources.
4) The primary data collected from the sample borrowers may not be exact. This is because borrowers are not maintaining proper records. They provide information by rough estimation and from their memory. However, sufficient care has been taken by incorporating adequate crosscheck in the interview schedule to ensure the reliability of the information obtained.

1.9. Chapter Scheme of the Study

There are seven chapters in the present study. These are:

Chapter 1: **Introduction**

This chapter includes statement of the problem, conceptual framework, objectives of the study, hypotheses of the study, relevance of the study, research methodology, scope and limitation of the study.

Chapter 2: Review of Literature

This chapter covers available literature on priority sector lending and problems of rural credit in India.

Chapter 3: **Profile of Golaghat district**

This chapter gives a brief overview of historical background of the district, administrative set up, geographical features, tourist places, demographic profile and socio economic indicators of the district.

Chapter 4: **Priority Sector Lending by Public Sector Banks in India and Assam**

This chapter includes the performance of public sector commercial banks in terms of growth and pattern of priority sector lending in India and Assam.

Chapter 5: Performance of Public Sector Banks in Golaghat District

This chapter covers the performance of public sector commercial banks in terms of growth and pattern of priority sector lending in Golaghat District of Assam.

Chapter 6: **Problems of Borrowers and Bankers Regarding Priority Sector Lending**

This chapter highlights the problems of borrowers as well as bankers of the public sector banks in Golaghat district of Assam regarding priority sector lending.

Chapter 7: **Summary of Findings, Conclusion and Suggestion**

This chapter includes summary of findings followed by conclusion and suggestions of the study.