

CHAPTER 2

REVIEW OF LITERATURE

The main purpose of literature review is to critically summarize the current knowledge in the area under investigation. The review helps in understand the historical background, recent development of the concept, performance in different areas in different time periods etc. It further helps in get acquainted with the advancement of work done in the subject area i.e., Priority sector lending in various dimensions. There are a large number of research works conducted by different scholars relating to various dimensions of priority sector lending. Some of are given below:

Rizvi (1973)¹ studied the role of State Bank of India in agricultural financing. The study found active involvement of State Bank of India in agricultural financing due to social control over banks. The study highlighted various problems faced by the banks due to direct rural financing such as management of banks in rural areas, distribution of loan to small farmers, realizing the loan from the borrower's etc. The reason for non-payment of loan amount by the borrowers was uncertainty of prices and yields.

Sheorey (1976)² studied the role of bank for the development of small industries by ensuring effective use of finance. He found that banks are not only release the fund but also they try to ensure the proper utilization of the fund by the borrowers. He found necessity of banks' active involvement from the preparatory stage for building up entrepreneur's confidence for launch the project to proper end use of funds.

Nayan (1982)³ analysed the performance of nationalised commercial banks and their different categories of branches. He observed that there was a structural change in the

¹ Rizvi, A. Z. (1973), *Role of State Bank of India in Financing Agriculture*, Ph.D Thesis, Aligarh Muslim University, Aligarh.

² Sheorey, M. N. (1976). *Effective Bank Finance to Small Industries: Ensuring End-Use and Safety*. *Prajnan*, V(1), 27-42.

³ Nayan, K. (1982). *Performance Evaluation of Commercial Banks*. Ph.D Thesis, Himachal Pradesh University, Shimla.

advance portfolio of the banks after nationalisation and its emphasis shifted from security based industrial advances to need based priority sector advances. As a result priority sector advances increased at a much faster rate than that of total advances. He further observed that recovery performance of urban branches were much better than semi-urban branches whereas recovery performance of rural branches remained the poorest.

Devi (1982)⁴ examined the changing scenario of commercial banks after nationalisation of banks. In spite of massive branch expansion by the commercial banks, population per branch was very high in some states like Assam and other North Eastern region, Orissa, Bihar etc due to lack of infrastructural facilities, wider dispersal of population and hilly terrain etc. She also observed that though priority sector advances by commercial banks was continuously increased after nationalisation but profitability of banks had come down seriously due to low rate of interest, large scale expansion of branches in rural and semi-urban areas, increase in cost of establishment, stationary etc. She found requirement of qualified and trained officers, technical officers, agriculturist and economists due to large scale geographical expansion and diversification of banking business.

Angadi (1983)⁵ observed the concentration of priority sector lending in general and agricultural credit in particular in a few states of India. The study revealed that the degree of concentration of both priority sector advances and agricultural advances has decreased in 1979 compared to 1969-70 in a few states. A number of socio-economic factors like extent of irrigated and dry farms, small, medium and large farms under high-yielding and low-yielding varieties, cash and non cash crops, mechanized and non-mechanized farms, use of chemicals and fertilizers etc. in addition to the unequal distribution of bank branches were responsible for unequal distribution of agricultural credit.

⁴ Devi, A.K.R.(1982). Changing Scenario over Decades. In Subrahmanya, K.N. (Ed.), Modern Banking in India (pp. 23-34), New Delhi: Deep & Deep Publications.

⁵ Angadi, V.B. (1983). Banks' Advances to Priority Sectors: An Enquiry into the Causes of Concentration. *Economic and Political Weekly*, 18(13), 503-510.

Gupta (1985)⁶ studied the performance of United Commercial Bank regarding priority sector lending in Shimla District. The study revealed that the percentage of priority sector advance to total advance was quite high in the district, which was almost double the target set by Reserve Bank of India. He further found that percentage of loan disbursed to agriculture sector has significantly decreased during the study period due to increase in the share of service sector. The percentage share of SSI credit slightly increased during the study period. She finally concluded that due to good returns and better control over the service sector advances, banks are very keen to finance service sector against agriculture and SSI sectors.

Chandrasekher (1986)⁷ evaluated the performance of commercial banks after nationalisation of banks and found that commercial banks made a significant progress in terms of branch expansion, deposit mobilization and credit to priority sector after nationalization. The lending strategy adopted by the banks aims at ensuring that bank credit to agriculture and other sectors is purposive, productive and income generating, thereby permitting the economic development of the country.

Naidu (1986)⁸ examined the inter-states disparities in terms of branch expansion, deposit mobilization and credit-deposit ratio. The study found inter-state and inter-region disparities in terms of credit deposits ratio, priority sector lending etc due to outflow of deposits from certain less development states to other developed states or regions. The study advised commercial banks to give more focus on branch expansion and proper credit deployment for achieving balanced economic development.

⁶ Gupta, A. (1985). *Priority Sector Lending by Lead Banks: A Case Study of United Commercial Bank in Shimla District*, M.Phil Thesis, Himachal Pradesh University, Shimla.

⁷ Chandrasekher, K. (1986). History of Indian Banking. In Subrahmanya, S. (Ed.). *Trends and Progress of Banking in India* (pp. 11-19). New Delhi: Deep & Deep Publications.

⁸ Naidu, K.M.(1986). Growth of Banking since Nationalization: A Study of Inter-State Disparities. In Subrahmanya, S. (Ed.). *Trends and Progress of Banking in India* (pp. 31-37). New Delhi: Deep & Deep Publications.

Bhola (1986)⁹ evaluated the achievements of Indian banking system during the first thirteen years of nationalisation in terms of branch expansion and priority sector lending. There was an impressive growth of branch expansion in rural and semi-urban areas and priority sector lending after nationalization of banks. Though banks were failed to achieve the target of priority sector advances to total advances but percentage had significantly increased during the periods due to policy measures of Government and Reserve Bank of India.

Siddiqui (1987)¹⁰ examined the pattern of financing small and medium sized farms by nationalised banks and also identified the problems faced by small farmers in this regards in Uttar Pradesh during the period of 1969-1985. The study found significant improvement in deployment of agricultural credit by nationalised banks during the study period. There was significant improvement of agricultural production as well as income of borrowers specially large and medium farmers due to bank credit. But most of the poor and small farmers unable to afford costly inputs such as high yielding seeds, fertilizers, pesticides, irrigation facility etc due to inadequacy of credit, lack of security, cumbersome process of getting loan, difficulty in having records from government offices, non-cooperation of bank staff etc. Agricultural production in different areas and in different years was very low due to natural calamities like flood, droughts and epidemics which results in non recovery of credit.

Chawla (1987)¹¹ studied the progress of commercial banks in Punjab in terms to branch expansion and credit to priority sector lending after nationalisation of banks. The study revealed that there was a significant achievement in terms of branch expansion, population per branch, credit deposit ratio. Banks finance to neglected sectors like agriculture, SSI, export, retail trade were also increased during the study period. In spite

⁹ Bhola, R.K.(1986). Achievements of India's Banking System During First 13 Years of Nationalisation. In Subrahmanya, S. (Ed.). *Trends and Progress of Banking in India* (pp. 38-41). New Delhi: Deep & Deep Publications.

¹⁰ Siddiqui, R. H. (1987), *Financing Small and Medium Farms in Uttar Pradesh by Nationalised Banks Since 1970*, Ph.D Thesis, Aligarh Muslim University, Aligarh.

¹¹ Chawla, A.S. (1987). *Nationalisation and Growth of Indian Banking*. New Delhi: Deep and Deep Publication.

of above mentioned progress wide disparities among the districts and divisions in terms of credit deployment to priority sector was prevailed in the study area. The study also found that success of various programme for upliftment of weaker sections was limited only to achievement of targets, whereas the basic objective of socio-economic development of the weaker section had not been met.

Malhotra (1990)¹² examined the structural changes on credit pattern of commercial banks since nationalisation and also assessed the attitude of borrowers as well as lending agency towards rural development schemes. She found that institutional credit to agriculture and allied activities, weaker section, secondary and territory sector had increased significantly and achieved the target more than hundred percent during the period. She further found that limit of loan fixed by bank as well as time limit fixed for returning of loan was not sufficient. She observed that inadequacy of staff for office and field work was a critical problem faced by the banks. Another important finding of the study was that though fifteen days were required for sanctioning the loan according to bank authorities, but in views of the beneficiaries the time taken was between two to six months.

Naidu (1990)¹³ studied the issues and problems of small industries finance in Kurnool district. Lack of adequate and timely finance, marketing facility and managerial ability in administrative, fiscal and technical activities were the main problems faced by entrepreneurs. He also observed that the commercial banks managers were not cooperating or encouraging prospective entrepreneurs by providing timely financial as well as non-financial help.

¹² Malhotra, N. (1990). *Role of Commercial Banks in Rural development in Himachal Pradesh with Special Reference to District of Hamirpur*, M.Phil Thesis, Himachal Pradesh University, Shimla.

¹³ Naidu, M.(1990). *Financing of Small Scale Industries in Kurnool District- Issues and Problems: An Analysis*. In Reddy, K.C. (Ed.), *Financing of Small Scale Industries in India*, New Delhi: Himalaya Publishing House.

Srinivasan (1991)¹⁴ evaluated the impact on profitability of commercial banks due to priority lending. He observed that the sectoral distribution of credit has undergone a significant transformation in favour of priority and weaker sections on the eve of bank nationalization. He found that RBI directive results in quantitative expansion of credit to priority sector but the quantity of credit portfolio suffered largely. He finally observed that inspite of meeting the social banking obligations banks were able to make profits. He indicated that there are other factors which influencing profitability of banks such as cost of providing the various banking facilities, low recoveries etc.

Bhuleshkar (1991)¹⁵ analyzed the status of agricultural financing by different institutions. He observed that the flow of institutional credit to agriculture in the rural sector has been emphasized on time. He found that commercial banks as well as RRBs have more or less catered satisfactorily to the credit needs of the rural sector. He pointed out that there was an imbalance in the disbursement of credit regionally, district-wise, and pocket-wise. He has suggested a greater integrated approach of all agencies involved in the dispensation of rural credit.

Vashisht (1991)¹⁶ assessed the performance of public sector banks in India in the light of objectives of bank nationalization. The study found remarkable progress in branch expansion, deposit mobilization and advances to priority sector after 1969. Most of the public sector banks had advanced more than forty percent of total advances to the priority sector. The study also found enhancement of share of agricultural credit, credit to small scale industry and road and transport operators in the total priority sector. The study revealed problem of declining profit of public sector banks due to establishment expenses, directed credit to priority sector, poor recovery etc.

¹⁴ Srinivasan, R. (1991), Evaluation of Priority Sector Lending –Impact of Profitability of Commercial Banks, In Ghonaghi,B.D and Anagol,M.(Ed.),*Financial System of India*, Bombay: Himalaya Publishing House.

¹⁵ Bhuleshkar,A.V. (1991). Status of Financing Agriculture Sector, In Ghonaghi,B.D and Anagol,M.(Ed.), *Financial System of India*. Bombay: Himalaya Publishing House.

¹⁶ Vashisht, A.K. (1991). *Public Sector Banks in India*. Delhi: I.K. Publishers and Distributors.

Kaushik (1995)¹⁷ studied the impact of social banking and other factors on profitability of the banks, and compared the profitability of public sector and private sector banks during the period of 1972-73 to 1990-91. He found that directed credit to priority sector by public sector banks had increased significantly during the period, which adversely affects the profitability of the banks. Massive geographical expansion of bank branch over the country including rural, unbanked areas has resulted in an increase in cost, and reduction of income also affected the profitability of banking institutions. He also found significant decline in productivity and profitability of public sector banks as compared to private sector banks during the study periods. He revealed that the lack of proper cost control methods in Public Sector banks is another factor adversely affecting their profitability.

Patel (1996)¹⁸ observed the role of Commercial Banks to Priority sector in Gujarat. He found that agriculture loan was more than that of term loan during the study period and beneficiaries avoided to repay their crop loan and farm loan in time. He observed that the SSI and other priority sector advances were not adequate and they did not have their advances according to their need. He also found that in respect of weaker section advances, banks was lagging behind to achieve the set target.

Sandhu (1996)¹⁹ studied the role of banks in rural development in general and State Bank of Patiala in particular in financing rural people in the two district of Punjab namely Patiala and Sangrue for the period of 1981-82 to 1992-93. The study found that though banks were opened its branches in rural and unbanked areas to provide credit but they failed to cater the credit needs of the IRDP beneficiaries, agriculturists and rural entrepreneurs. The study observed procedural delays, harassment and arbitrariness in disbursement of subsidy and amount of loans. Beneficiaries suffer procedural difficulties

¹⁷ Kaushik, K. (1995), *Social Objectives and Profitability of Indian Banks*, Ph.D Thesis, Panjab University, Chandigarh.

¹⁸ Patel, S.G. (1996). Role of Commercial Banks Lending to Priority Sector in Gujrat-An Evaluation, *Finance India*, X (2), 389-393.

¹⁹ Sandhu, B.S. (1996). *Banking and Rural Development: Promises and Performance*. New Delhi: Deep & Deep Publications.

due to illiteracy, lack of knowledge of banking rules and regulations etc. The study suggested simplification of banking procedures, appointment of skilled and trained bank officials with rural background, supervision and control over utilization of financial assistance given by the bank, people participation and the cooperative attitude of the rural people and bank officials for rural development.

Thomas (1996)²⁰ studied that performance effectiveness of nationalized bank in India with special reference to Syndicate Bank. The study reveals the better performance of all the nationalized banks in India than that of Syndicate Bank in the various parameters. Except the two parameters 'growth' and 'productivity' the bank's performance in all the other parameters was uncomfortable. Fourteen banks fared better in overall performance as indicated by their Composite Performance Score (CPS) than that of Syndicate Bank.

Sharma (1998)²¹ analysed the growth and structure of priority sector advances and also find out the extent of inter-district functional and sectoral disparities in commercial banking in Himachal Pradesh. He found that due to great importance attached to rural areas in general and agriculture in particular, credit deployment in rural areas increased more than that of urban and semi-urban areas during the study period. He further found that percentage share of credit deployed to weaker section, Differential Rate of Interest (DRI) and credit to SC/ST by commercial banks continued to be more than the stipulated targets. He also observed that banks were confronted with a number of problems in respect to credit deployment to priority sector due to poor recovery rate and huge overdues. Concessional interest rate and high administrative cost in priority sector advances had adverse affects in profitability and efficiency of banks.

²⁰ Thomas, Z. (1996), *Performance Effectiveness of Nationalized Banks-A Case Study of Syndicate Bank*. Ph.D Theses, Cochin University of Science and Technology, Kerala.

²¹ Sharma, H. L. (1998), *An Appraisal of Commercial Banking in Himachal Pradesh: An Inter-Temporal and Inter-District Analysis*, Ph.D Thesis, Himachal Pradesh University, Shimla

Rao and Rao (1998)²² discussed about role of banks in economic development. They observed that banking system adopted various schemes for weaker section of society, such as Development Programme and the special schemes for relatively isolated segment of society like tribal have had considerable impact in changing the shapes of rural economy in India. They found that the banks adopted different schemes relating to small-scale industries such as credit to SSI, financing the establishment of small-scale units by technician entrepreneurs financing and development of Khadi and Village Industries, finance to tiny sector of SSI etc. They also observed that banks are not just financing capital requirements of the industry, priority sector, but stimulating developing new skills and creating the much needed entrepreneurial awareness.

Majumdar (1998)²³ studied the macro perspective priority sector lending in Ninth and Tenth Plan. He strongly advocate that since priority sector are critical to high and sustained growth of GDP, public sector banks to support these sectors irrespective of whether there are credit targets or not. Neglect of priority sector at the macro level was exacerbated at the micro level by the emergence of the new banking culture after 1991.

Kaur (1999)²⁴ observed the growth and performance of commercial, co-operative and Regional Rural bank in rural financing for the period 1986-87 to 1995-96 and also highlighted the problems involved in rural financing by taking interview of bank officers. She found that priority sector advances remained higher than national target for all categories of banks, but the growth rate of RRB was the highest followed by co-operative and commercial banks. Commercial banks and RRB also achieved the target for agriculture as well as SSI credit during the study period. The guidance assistance by

²² Rao, V.S. & Rao, K.S. (1998). *Role of Commercial Banks in Economic Development*, Rao, J.V.P.(ed), Entrepreneurship and Economic Development, Kaniska Publishers Distributors,1998.

²³ Majumdar, N.A.(1998). Credit Support to Priority Sectors: A Macro Perspective. *Economic and Political Weekly*, 33(4), 147-150.

²⁴ Kour, P.(1999). *Growth and Performance of Rural Banking in Punjab- A Comparative Study of Commercial, Co-Operative and Regional Rural Banks*, Ph.D Thesis, Punjabi University, Patiala.

controlling offices, appraisal system for granting credit, observance of prescribed safeguards, amount of credit, training, inputs and marketing facilities, post disbursed follow up, frequency of supervision were found satisfactory in case of all the banks. She further found that inadequate income, return of old debt, supply of defective assets, amount spends in marriage and other social ceremonies of family were the factors for low recovery of loans.

Siddiqui (2001)²⁵ studied the role of State Bank of India in development of priority sector and also highlighted the problems in extending credit to priority sector during the period of 1969-2000. She observed that the involvement of SBI in social banking and priority sector lending during the study period has achieved commendable and better than other commercial banks with respect to achieving the target laid down by the RBI. She further observed that there were several deficiencies in the sphere of credit delivery in the forms of lack of proper attention, inadequate income generation by the assisted projects, defaults, timely non-availability of credit, cumbersome nature of procedural formalities, delay in credit disbursement, lack of adequate trained staff etc. She finally concluded that the concern of achieving quantitative targets at the macro level has caused an erosion of the qualitative aspects in terms of productivity and profitability of banks.

Varshney (2002)²⁶ examine the role of SBI in priority sector lending and also highlighted the problems faced by banks and borrowers in this regard in Aligarh district. He found that share of priority sector lending to total bank credit declined significantly due to declining of credit-deposit ratio and high NPA. In agricultural lending only six blocks out of seventeen blocks has shown satisfactory and in other blocks either the amount was not finance or if it was finance, the amount was very small. He observed that incomes of the borrowers had increased after investing the loan. He also highlighted

²⁵ Siddiqui, B. (2001). *Emerging Trends in Commercial Banks lending to Priority Sector- A Case Study of State Bank of India*, Ph.D Thesis, Aligarh Muslim University, Aligarh.

²⁶ Varshney, C. (2002). *Role of State Bank of India in Financing the Priority Sector: A Study of Aligarh District*, Ph.D Thesis, Aligarh Muslim University, Aligarh.

the problems of borrowers like inadequacy of loan, lengthy loan procedure and high rate of interest, and problems of banks like inadequacy of staff, low profitability due to high overdue in priority sector.

Kunjukunju (2002)²⁷ studied the role of financial institutions in rural development, problems of rural financing and impact of institutional credit on borrowers in Kerala. Though the study found massive growth in branch expansion and rural credit disbursement after nationalisation of banks but financial institutions were failed to meet the credit needs of the rural poor. The study also revealed various problems faced by the borrowers such as untimely and inadequacy of loan amount, high interest rate, security, misutilisation of funds etc. Untimely credit, credit used for social ceremony or family consumption, lack of supervision were the major reason for fund diversion. The study also found positive impact on employment, income generation, assets holding and standard of living of the borrowers after availing the loan.

Ahmed (2003)²⁸ examined the impact of financial sector reform on the priority sector lending. He observed that the amount of priority sector advances to total advances had increased but average annual growth rate of priority sector lending to total advances had declined in the districts under study both pre and post reform era. The recovery position of the banks in the pre-reform era was very much poor in almost all sector viz. agriculture, SSI, trade, and services than that of post reform era. The main reason for poor loan recovery was constant failure of monsoon, natural calamities like flood particular, willful default, deficiencies in lending policy etc. A significant feature of bank lending is that agriculture and allied sectors have enjoyed relatively major portion of bank credit. The agriculturist and poor people of the area could not repay the loans because they spent their loans on personal consumption rather than productive purposes.

²⁷ Kunjukunju, B.(2002). *Institutional Finance and Rural Development*. New Delhi: New Century Publication.

²⁸ Ahmed, J.U. (2003). *Impact of Financial Sector Reform on the Working of Public Sector Banks-An Empirical Study in Barak Valley*. Ph.D Thesis, Assam University, Silchar.

Mahapatra (2005)²⁹ observed that commercial banks were fulfilled largely the credit requirements of the borrowers especially in agriculture and small scale industry during the pre-reforms period. He suggested that timeliness and adequacy of credit, cost of availing the credit, prevailing rate of interest and cost effective lending procedures have some of the issues that commercial banks need to be improved. He found that due to the absence of requisite support to the agriculture and allied sectors, the economy have hardly sustained higher growth, eradicate poverty through improvement in growth of employment.

Sahu and Rajasekhar (2005)³⁰ analyzed the trends in credit flow to agriculture by scheduled commercial banks. They observed that the share of credit to agriculture in total bank credit for all the bank groups declined significantly, especially after banking sector reforms in spite of many efforts. It revealed that bank credit was diverted to other priority sector. They analysed that scheduled commercial banks provided large quantum of funds to better-off farmers. They recognized that increasing lending rate reduced the credit disbursed to agriculture by scheduled commercial banks and affected the average quality of their loan portfolio. They suggested for improvement of quality of credit delivery system and ensuring prompt repayment of loans for supporting the agriculture sector.

Prasad (2006)³¹ after analyzing different issues of MSME financing suggested proper mix of policy support for lower segment and demand- supply based credit policy for improvement of MSME sector. He further suggested diversification of loan portfolio of banks from existing production loan to technology loan, marketing loan and cluster development loan.

²⁹ Mahapatra, M. KJ.(2005), Societal goals of Commercial Banks in india : Promise and Reality, *Centre for Multi-Disciplinary Development Research*, Series No. 49

³⁰ Sahu, G.B. and Rajasekhar, d. (2005), Banking Sector Reforms and Credit Flow to Indian Agriculture. *Economic and Political Weekly*. XL(53), 55-59.

³¹ Prasad, C.S.(2006). Micro, Small and Medium Enterprises Financing in India- Issues and Concerns. *CAB CALLING*, 35-40.

Vallabh and Chatrath (2006)³² studied the role of banks in agriculture and rural development. They found that total agricultural lending by commercial banks was lower than credit to personal loans. They observed that large farmers and agri-businesses seem to obtain financial services from modern financial institutions but small and marginal farmers continue to depend largely on indigenous money-lender. They suggested proper credit delivery system to focus on people of rural India.

Golait (2007)³³ analyzed the different issues relating to agricultural credit in India. His analysis revealed that the credit delivery to the agriculture sector continues to be inadequate. It has appeared that the banking system was hesitated on various grounds to purvey credit to small and marginal farmers. The situation has call for continuous efforts to augment the flow of credit to agriculture, alongside exploring innovations in product design and methods of delivery, through better use of technology and related processes. He suggested that agricultural sector needs more attention from union government and also they should watch how their policies are being implemented by banks.

Singh (2007)³⁴ highlighted the importance of rural credit in the economy. He observed that for improvement in the GDP of agriculture sector, this sector needs more funds with their associated activities such as warehouse, cold storage, rural transportation etc. He found that the share of commercial banks in total agriculture credit has increased while the share of co-operative in total disbursement dropped. He suggested the banking system has to explore ways and means of achieving efficient credit delivery system for priority sector.

³² Vallabh, G., and Chatrath, S. (2006). Role of Banks in Agriculture & Rural Development. *The Chartered Accountant*, 1122-1130.

³³ Golait, R. (2007). Current Issues in Agriculture Credit in India. *Reserve Bank of India Occasional paper*, 28(1), 79-99.

³⁴ Singh, G. (2007), Importance of Rural Credit in Indian Agriculture. *Kurukshetra*, 55(9).

Sharma (2008)³⁵ evaluated the performance of Public Sector and private sector banks in priority sector lending and also highlighted the problems faced by the borrowers of priority sector lending. She observed that Public sector banks advances to priority sector had increased two times whereas private sector banks lending to priority sector was increase three times during the study periods. Public Sector banks advances to agriculture, weaker section and other priority sectors become almost double during the study period. He also identified various problems faced by borrowers such as fill up loan application, time taken for sanctioning as well as disbursement of loan, repayment schedule etc. Further some part of the loan amount utilised by borrowers in unproductive purposes etc. He finally concluded that priority sector advance scheme had a significant impact on increasing borrower's income.

Namasivayam and Ganesan (2008)³⁶ analysed the performance of financing small scale industries by commercial banks in Madurai District, Tamilnadu. He found that State Bank groups and nationalized commercial banks have exceeded its target of lending during the study period. He examined the poor performance of private sector banks during the study period. He observed that there is no significant difference in the performance of commercial banks of different classifications operating in Madurai District in lending to small-scale industries.

Uppal (2009)³⁷ in his research paper, evaluated the performance of public, private and foreign banks in India to priority sector lending and also highlighted the problems or issues, which arise due to priority sector lending during 2006-2007. He found that public sector banks as a group, continued to meet the target till 2005-2006 but unable to achieve the target in 2006-2007, while private sector bank achieve the target. He

³⁵ Sharma , P. (2008). *Priority Sector Advance- A Comparative Study of Public Sector and Private Sector banks*, Ph.D Thesis, Panjab University, Chandigarh.

³⁶ Namasivayan, N. and Ganesan,s.(2008), Analysis of Financing SSI by Commercial Banks in Madurai District, Tamilnadu Using Friedmen's Test. *Finance India*. XXII(3), 957-964.

³⁷ Uppal, R. K. (2009), Priority Sector Advances: Trends, Issues and Strategies. *Journal of Accounting and Taxation*. 1 (5), 79-89.

observed that foreign banks could achieve the targets for priority sector (i.e target 32%). He further found that NPA of public sector banks was highest followed by private sector and foreign banks. Main reason for more NPAs in the public and private sector banks was found to be more NPA in agriculture sector.

Subramaniam (2009)³⁸ studied the role of banks in agriculture in India. He emphasized the need for bank credit to boost up the economy irrespective of sectors, if banks have partial views on farmers and industrial persons, the views might be hindering the growth of the banking sector at large too. India, today on contrary struggling to achieve food sufficiency due to lack of proper planning and lack of capital. Farmer's accessibility towards capital is only through bank credits. If banking sector considers development to Indian sub continent, it will be great to implement their plans, policies, and guidelines properly without any considerations and help the growth of agricultural sector in India.

Ahmed (2010)³⁹ highlighted the various lacunas of priority sector lending by commercial bank in Barak valley. He found that priority sector advances of banks in this region are much higher than the national level. He also observed that the recovery position of bank is quite unsatisfactory. He suggested that proper loan recovery mechanism must be developed to restore the performance of commercial banks in the area otherwise, banks would face liquidity crisis for recycling the fund.

Maulick (2010)⁴⁰ evaluated the role of commercial banks in economic development. He observed that banking system provides more importance in social banking concept in the current economy. He observed that commercial banks provided more than 65% of total agriculture sector lending provided by different banks i.e. Co-operative, RRB. He also

³⁸ Subramaniam, R. and Subramaniam. (2009). Role of Banks in Agricultural Lending-India, Retrieve from <http://ssrn.com/abstract=1483243>

³⁹ 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.

⁴⁰ Maulick, B. (2010), The Crucial Role of Banks in India's Economic Development. *Yojana*, 54.

observed that lending to priority, micro and small enterprise and weaker sections are an increasing trend. He suggested banking industry to follow qualitative approach rather than quantitative approach.

Khangta (2011)⁴¹ analysed the credit structure of banks and financial institutions and also examined the perceptions of people regarding rural credit disparities in Himachal Pradesh. He found that State Bank Group mainly the State bank of India is playing a key role in providing credits in the entire region followed by the other nationalised banks except the district of Chamba. He concluded that the services of banks are normal in the state as the attributes like bank institution serving, adequacy of credit money, convenience of credit, convenience of interest on credit, credit repayment period and conditions of credit was calculated to be normal in the state with exceptions in district Chamba. Credit repayment period in Kangra district and convenience of credit in Kullu district was found to be poor.

Kaur and Silony (2011)⁴² observed the performance of commercial banks to priority sector lending after post reform era. They found that public sector banks in India have achieved the target of 40% of net bank credit set by RBI for priority sector advances during 2000-2001 and 2007-08 except 2006-07 (39.7%). However, they found that both public and private sector banks were not able to achieve the target for agriculture sector during the 2000-01 and 2007-08. The total priority sector NPA of Public sector banks has increased and that of private sector banks decreased during the study period.

⁴¹ Khangta, M. (2011). *Rural Credit Disparities in Himachal Pradesh*, Ph.D Thesis, Himachal Pradesh University, Shimla.

⁴² Kaur, J. and Silony.(2011). Performance Review of Commercial Banks in India with Special Reference to Priority Sector Lending- A Study of Post Reform Era. *International Journal of Multidisciplinary Research*. 1(1), 47-61.

Tiwari and Das (2011)⁴³ examine the progress of formal financial system in priority sector lending in Assam. They found that percentage of priority sector lending to total advances in Assam has grown significantly during the study period and also above the RBI prescribed rate. They suggested effective mechanism to bring the marginalized section of society into formal financial system.

Raman and Thangavel (2011)⁴⁴ assessed the performance of commercial banks in terms of priority sector lending. They found that banks were successful largely to achieved the targets and standards established by the Government of India right from the inception of concept priority sector lending in the banking sector. They observed that there was a constant increase in the disbursement of loans from all the scheduled commercial banks to agricultural sector, small and medium enterprises and weaker section of the society.

Prasad & Veena (2011)⁴⁵ described strategies for NPA reduction. He observed that increased of NPA is the serious problem facing by the banking sector. He found Public Sector Banks have faced more problems than the private sector banks and foreign banks. He observed that directed loan system in priority sector i.e 40% of the net bank credit according to the RBI norms is the main cause of increasing NPAs. He also observed that loan supplied to the 'micro sector' was problematic of recoveries especially when some of units become sick or weak. He has found that huge amount of loan granted under poverty elevation programmes were very unrecoverable by banks due to political manipulation, misuse of funds and non-reliability of target audience.

⁴³ Tiwari, R. K. and Das, D. (2011). Making Finance Accessible Through Financial Inclusion: Evidences From Assam. *International Journal of Research in Commerce & Management*, 2(6), 138-150.

⁴⁴ Thangavel, N. and Raman, P.(2011). Social Banking in India: Priority Sector Lending and its Developments -A Study. *JM International Journal of HR Review*. 1(1), 61-69.

⁴⁵ Prasad, G.V.B., and Veena, d.(2011). NPA Reduction Strategies for Commercial Banks in India. *International Journal of Management & Business Studies*. 1(3), 47-53.

Uma (2011)⁴⁶ studied the problems and prospectus of priority sector lending by commercial banks in Bangalore district. He found that priority sector lending as a whole and small-scale sector loans in particular has declined after the implementation of new economic policy and there was variations in the industry wise as well as unite wise profitability of both rural and urban units of SSI. Shortage of working capital, diversion of funds, non-availability and high price of raw materials, under utilization of the productive capacity, competition, delayed payments were some of the problems responsible for low profitability of the units.

Kataria (2012)⁴⁷ analyzed the NPA of priority sector in public banks. He observed that contribution of priority sector advances to total advances increased during the period of 1999-2008 in both public and private sector banks. However, there was a significant decrease in the contribution of commercial banks in deployment of credit to SSI sector. He further observed that priority sector lending has significant impact on total NPA in Public Sector banks.

Kaur (2012)⁴⁸ studied the performance of public sector, private sector and foreign bank groups in priority sector lending. He found that public and private sector banks have achieved the overall target and sub target of priority sector lending laid by RBI but not as much as foreign banks. He further found that priority sector lending creates many problems for the Indian Banks like low profitability, high NPA, transaction cost etc. He suggested to finding out solution for these problems for the progress of Indian Banks.

⁴⁶ Uma, S.(2011). *Problems and Prospects Priority Sector Lending by Commercial Banks (A Case Study of Small Scale Industries in Bangalore District)*. Ph.D Thesis, Institute of Social & Economic Change, Bangalore.

⁴⁷ Kataria, A, (2012). Analysis of NPA in Priority Sector Lending – A Comparative Study Between Public Sector Banks and Private Sector Banks of India. *Bauddhik*, 3(1), 54- 69.

⁴⁸ Kaur, S. (2012). Priority Sector Lending by Commercial Banks in India. *International Journal of Marketing, Financial Services & Management Research*, 1(7), 147-153.

Saikia & Goswami (2014)⁴⁹ conducted a study to compare the performance of Assam cooperative apex bank with commercial banks in Assam. The study concluded that priority sector advances by cooperative bank in Assam is not satisfactory during the study period. Credit deposit ratio of the cooperative bank has significantly decreased during the period and remained below the national average. Though priority sector advances by cooperative bank had slightly increased during the study period in absolute figure but it lags far behind the commercial banks. Compound annual growth rate of priority sector advances by cooperative bank is much lower than commercial banks during the study periods. Both agriculture and other priority sector advances by cooperative banks has increased in absolute figure but percentage share of agriculture advances to total advances has decreased during the study periods.

Saikia and Goswami (2015)⁵⁰ analyzed the performance of commercial banks in priority sector lending. The study found that commercial banks, RRBs and co-operative banks have achieved the target of forty percent advances to priority sector as prescribed by RBI. Agriculture and SME sector credit also increased during the study periods for improving agriculture and industrial productivity. Credit deposit ratio of commercial banks in Assam is very low and below the national average during the study periods. The study suggested for adopting of proper monitoring and credit delivery mechanism for proper utilisation of fund in the state which finally enhance the productivity of the sector.

From the above review of literature it is revealed that the commercial banks play an important role for promoting economic development in the country. Public sector banks involvement in priority sector lending has significantly increased after nationalization of banks which resulted in increased production, gainful employment opportunities especially in rural India. Massive geographical expansion of bank branch over the country including

⁴⁹ Saikia, P.J.& Goswami, P.J.(2014). Priority Sector Lending by Assam Cooperative Bank in Assam. *Samabayika*. 5 (1). 9-17.

⁵⁰ Saikia, P.J. & Goswami, P.J.(2015). Op.cit. pp. 85-98.

rural, unbanked areas, lending to priority sector, and low rate of interest has resulted in an increase in cost, non performing assets and reduction of income also affected the profitability of banking institutions.

Most of the earlier studies conducted with regard to priority sector lending by public sector banks in special focused on state level, inter-region and inter-state analysis. There had been very few studies conducted with special reference to a district. Hence the present study has conducted on public sector banks regarding priority sector lending in Golaghat district of Assam.

Only a few studies were also conducted to know the problems of borrowers such as the credit gap, cost of borrowings, timeliness and adequacy of loan, proper utilisation of credit, repayment performance, overdues position and impact of credit on borrowers' economic condition. Hence in this study is conducted to explore the problems faced by the borrowers from filling up of application to repayment of loan. The study also covers problems of bankers for implementation of priority sector lending scheme.