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An Empirical Study of Priority Sector Lending for Selected Public Sector Banks of India

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Abstract: *One of the primary job of banking institution is to lend money to the borrower (here priority sector) and earn interest on them. The needs of the priority sector (Agriculture, Housing, Export credit ,Small Scale Enterprises,e.t.c), mainly rely on the public sector banks for their financial needs. Since one of the objective of public sector banks is to lend money to the priority sector which are instrumental and contributing significantly to the GDP of the country. So, the share of priority sector in total Advances of the public sector banks should be substantial. So this paper focuses on the relationship between Priority Sector landing and total Advances with the application of tools and techniques of statistics*

***Keywords**:-* *Priority Sector Lending, Advances, Public Sector Banks*

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I. Introduction

Some of the vital sectors of the economy like agriculture, Education,) and other allied sector are the back of the economy. These sector should be given timely loans and financial assistance to fulfill their needs since it is difficult for the public sector banks to cater to financial requirements of these sectors by growing to the grass root level. So it finances to Non banking financial companies (NBFCs) to go to the grass root level and address their financial needs. In the recent past, It has been observed that the banking sector failed to meet the priority sector lending target overall according to the data released by Reserve Bank of India. The government is achieving social and economic objectives by allowing public sector banks to lend priority sector. However Banks are required to keep certain amount with itself to maintain statutory liquidity ratio, and from the remaining amount is assigned to priority sector.

II. Literature review

V.V. Bhatt (1970) Proposed guideline to lead banks for providing consultation and finance to Agri-people and Industrialist respectively .

P.N Joshi (1972) suggested to the RBI and taken an effort to define the different t component of priority sector. It helped Reserve Bank of India to frame the guidelines to make it easier and faster way of lending farmer s on right line.

M.C. Purohit(1973) conducted a survey in jaipur and found that the average amount per Artisan from public sector bank was quite low as compared to the non financial institution, and high rate of interest charged by non- institutional sources.

N.K Thingalaya (1974) conducted a study in Karnataka and found that Artisans were receiving a very meager percentage of their total requirement of credit from bank hence they have to depend on money lender and rural sector up to 18% of their total lending to take care of the needs of these sector.

Uppal and Kaur (2007) analyzed the priority sector advances by public sector banks and found that the improvement in the financial health of the bank is related to reduction of Non- Performing Asset (NPA) from total advances. It creates a favorable effect by achievement of minimum capital adequacy norm and non interest income. However NPAs are increasing consistently which brings us to the gate of third banking sector reform in India.

Banerjee and Dufflo (2004,2014) conducted a study and analyze that the public sector banks are less inclined to lend to small and new institution because they are not sure about them for decisions and action taken against its performance as compared to the established and well known institutions.

Goyal and Agrawal Conducted study and analyse that the lending to priority sector by public sector bank is a major contributor to their growing Non-Performing Asset.

Objective of the study

1) To find out the relationship to between total Advances and Priority sector lending.
2) To find out the utilization of priority sector by the beneficiaries.

Research Methodology

The data regarding priority sector lending and advances were taken from official web site of selected public sector bank from their Annual Reports. Many websites have also been referred for collecting important information. Various article and research papers from internet have also been used. Period of study cover five years from 2014-15 to 2017-18. One Way ANOVA and F- test was used to test the hypothesis. Five selected public sector banks are State Bank of India (SBI), Dena Bank, Syndicate Bank , Indian Overseas Bank(IOB) and United commercial Bank(UCO).

Priority Sector Lending

A silent revolution started in 1969 when government carried out an important banking sector reform of nationalization of bank and empowered it to lend loan to vital component of the Indian economy like agriculture, Small Scale Industries education, education, export with funds to take care of their financial need. This is what is termed as priority sector lending because it directly contribute to the development of the economy and hence effects the health of the economy immensely. The availability of credit is essential to their growing financial needs. Basically priority sector lending is small value loan to take care of financial need of agriculture and allied activity, MSMEs , eduction, housing , export credit, social infrastructure.

Categories under priority sector

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

Table-1: Targets and Sub-targets for Priority sectors

Categories	**Domestic scheduled commercial banks and Foreign banks with 20 branches and above**	**Foreign banks with less than 20 branches**
Total Priority Sector	40 percent of Adjusted Net Bank Credit [ANBC defined in sub paragraph (iii)] or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher. Foreign banks with 20 branches and above have to achieve the Total Priority Sector Target within a maximum period of five years starting from April 1, 2013 and ending on March 31, 2018 as per the action plans submitted by them and approved by RBI.	40 percent of Adjusted Net Bank Credit [ANBC defined in sub paragraph(iii)] or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher; to be achieved in a phased manner by 2020.
Agriculture	18 percent of ANBC or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher. Within the 18 percent target for agriculture, a target of 8 percent of ANBC or Credit Equivalent Amount of Off- Balance Sheet Exposure, whichever is higher is prescribed for Small and Marginal Farmers, to be achieved in a phased manner *i.e.,* **7 per cent by March 2016 and 8 per cent by March 2017.** Foreign banks with 20 branches and above have to achieve the Agriculture Target within a maximum period of five years starting from April 1, 2013 and ending on March 31, 2018 as per the action plans submitted by them and approved by RBI. The sub-target for Small and Marginal farmers would be made applicable post 2018 after a review in 2017.	Not applicable
Micro Enterprises	7.5 percent of ANBC or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher to be achieved in a phased manner i.e. **7 per cent by March 2016 and 7.5 per cent by March 2017.**	Not applicable

Advances to Weaker Sections	10 % of ANBC or Credit Equivalent amount of Off-Balance Sheet Exposure, whichever is higher. Foreign banks with 20 branches and above have to achieve the Weaker Sections Target within a maximum period of five years starting from April 1, 2013 and ending on March 31, 2018 as per the action plans submitted by them and approved by RBI.	Not Applicable

Source: www.iibf.org .in

Advances

Total Advances is the sum of credit to the priority sector and non priority sector together both these sectors are important and contribute in its own way to the development and nurturing of economy. Total advances depend on overall financial health of the bank and governed by Reserve bank of India regulations. The component of the total advances can be divided into three categories. The first one consist of Bills Purchase and discounted, cash credit, overdrafts, loan repayable on demand and term loans. The second category consist of secured by tangible asset, covered by bank/government guarantees and unsecured loan. The third category is having two components the first one includes priority sector, public sector, bank and others (Advances in India). The second components consist of Advances outside India and it encompasses due from banks, due from others (Bill purchase and discounted, syndicated loan and other.

Priority Sector advances to Total Advances

Name of Bank	Table-2 Ratio of Priority Sector advances to Total Advances					
	Year					
	2014	2015	2016	2017	2018	Average
SBI	25.77	25.15	25.40	24.83	22.87	24.80
Dena Bank	29.46	35.07	34.81	38.93	39.65	35.58
Syndicate Bank	29.16	27.67	31.06	33.68	34.75	31.26
Indian Overseas Bank(IOB)	32.04	34.93	37.06	40.89	45.20	38.02
UCO Bank	31.09	32.53	35.76	33.49	39.16	34.40
Formula:- (Priority Sector advances / Total Advances)*100						
Source :- rbi.gov.in						

Analysis for calculated ratio for selected public sector banks for India

From the above table it is quite evident that selected public sector bank is providing their advances to priority sector average 24.80% to 38%during the research period that depicts that banks are following the norms for advances to priority sector.

Statistical Analysis:-

H_{0}:- There is no significant different in the norms with respect to priority sector advances Lending to Total advances in all the selected public sector banks

H_1:- There is significant different in the norms with respect to priority sector advances / total advances in all the selected public sector banks

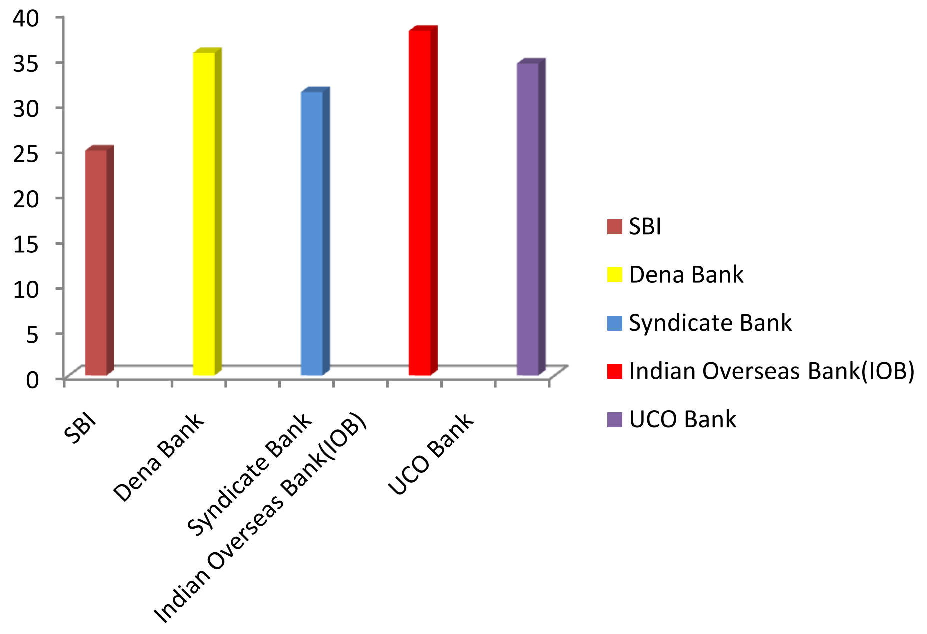
	Table-3 "F" – Test One Way ANOVA for Ratio of Priority Sector Advances to Total Advances for Selected Public Sector Banks of India				
Source of Variation	Sum of Square	Degree of Freedom	Mean Sum of Square	F_c	F_t
B.S.S.	174.36	k-1 5-1=4	43.59	1.36	$F_{(4,20)}$=2.87
W.S.S.	637.4375	n-k 25-5=20	31.87		
T.S.S.	811.7975	24			

From the One Way ANOVA Table as calculated and depicted in the above table critical value of **F** ratio is 1.36 and Tabular value of **F** ratio is 2.87. It is quite clear that critical value of $\mathbf{F_c}$ is less than tabular value of $\mathbf{F_t}$.

$$\mathbf{F_c < F_t}$$

Hence, Null hypothesis is accepted and Alternate hypothesis is rejected that all the public sector banks have equal norms with respect To Priority Sector Advances to Total Advances.

Chart-1 Average Ratio of Priority Sector Advances to Total Advances



By looking at the graph of selected Public Sector Bank of India it shows overall fluctuation of Average Ratio of Priority Sector Advances to Total Advances from 24.80 % to 38.02% for the research period 2014 to 2018.

III. Conclusion

The Analysis of the research reveals that the lending activity towards priority sector by the five selected public sector banks are following a norms of priority sector varies from one- fourth to two- fifth of their total advances during the period of study. Although the figure seems to be promising as far as the selected five Public Sector Bank are concerned and their effort towards priority sector lending needs to be appreciated when we compare it with previous research studies conducted by various researcher in the recent past for different set of banks. This reflects the growing awareness, sincerity and commitment of the banks to play a vital role in the development and growth of the economy by lending substantial part of total advances to priority sector.

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