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A Study of Priority Sector Lending with special reference to Selected Public Sector Banks in Shimoga District

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Abstract

A financial institution has a major role to play in the development of any district as they provide financial assistance to the people who take up income-generating activity.. The district is predominantly agriculture having 58% land id irrigated area and 42% rain-fed area. Efficient planning facilitates optimal and needs-based use of available resources for meeting the development needs of the region in an equitable and scientific manner. Priority sector lending is a scheme guided by the Government. As per RBI directive, commercial banks advised granting 40% of their total advances to borrowers in the priority sectors. Priority means to give preference and privilege. This paper provides a platform to understand priority sector lending by public sector banks with special reference to shivamogga district. The District credit plan of shivamogga district during the year 2019-2020 provides the information of outlay. An outlay of Rs.3395 crores has been provided for agriculture out a total priority outlay of RS.6262 crores. The study has used both primary and secondary data. The collected data are embodied by using tables, and analysis was done by using percentage analysis and a statistical tool like X2 test is also used.

Keywords: District credit plan, NABARD, Potential linked plan, Government, total outlay, Lead Bank, etc

Introduction

The priority sector lending plan of India is one of the longest portion directed lending program in the world. This scheme is intended to give loans to the essential sectors of the economy (agriculture, small scale industries, etc.) in such a way to ensure determined credit flow to the last man in the last village of their country through a strong banking network. The establishment of the priority sector lending program can be drawn back to the credit policy for 1967-68, when public sector banks were fixed to increase their involvement in financing of certain sectors well-known as priority sectors in line with the national economic policy, priority sector lending in its present form was introduces in 1880, when it was also made applicable to private a sector banks and sub-target was stipulated to the weaker sections of the society within the priority sector.

Review of Literature

Goyal and Aggarwal (2016), in their research paper topic entitled "A Study for identifying issues faced by bank officials in agriculture priority sector lending." They analyzed there are many problems being faced by bank official in agriculture loan.

The major problems in agriculture priority sector lending is that there is no motivation for increasing in lending. Bank employees performance not assessed, and no monetary incentive will be given. They suggested that recovery in the priority sector is very difficult because diversification of funds and government intervention, it can be stopped only when bank follows a tight monitoring system.

District Credit Plan of Shivamogga

This district is predominately agriculture having 58% of land is irrigated area and 42% rain-fed area. The development of agriculture farm sectoral with the non-farm sector is key for the overall development of the district. A district credit plan is prepared based on a potential linked plan prepared by NABARD.

Table 1 District credit plan for the year 2019-20

S. No	Sector	Amount (in crore)
1	Agriculture	3395
2	MSME	567
3	Other priority sector	2300
4	Total priority sector	6262
5	Non-priority sector	438
6	Total outlay	6700

Sources: Lead bank office

Total plan outlay of Rs. 6700 crores have been projected for the year 2019-2020. The amount earmarked for priority sector lending is Rs.6262 crores comprising 93.4% of the total plan outlay. Agriculture and allied activities account for the lion's share RS.3395 crore out of total priority credit of RS.6262 crores, followed by the tertiary sector of Rs.2300 crores and for MSME sector RS.567 crores.

The district credit plan prepared based on potential credit plan prepared by NABARD. The plan outlay under priority sector for the district that is 6262 crores is more than 77.7% of the projections made by the NABARD under PLP that is RS.8055 crores.

Table 2 Agency-wise share under district credit plan

Commercial Banks	Rs.5241 crores
Regional Rural Banks	Rs.418 crores
Co-operative Banks	Rs.578 crores
KSFC	Rs.25 crores
Total	RS.6262 crores

Statement of the Problem

One of the major objectives of bank nationalization was to bring about a radical change in the credit deployment of commercial banks in our country. Some sectors of the economy neglected before nationalization, such as agriculture, MSME, etc., were given importance only after nationalization. The system of targeting priority sector lending gets worse in the position of poorer states; huge NPA are the major problems in priority sector lending. The transaction cost is complex. Government interfering has caused a serious problem for the priority sector lending. The weight of non-performing assets of commercial banks has become a problem in this scheme. Here the study attempts to know the district credit plan and opinion of customer and bank official towards the priority sector.

Objectives of the Study

1. To analyse District credit plan and agency wise outlay of Shivamogga district.
2. To identify the problems and difficulties experienced by bank official in the implementation of a scheme.
3. To suggest based on findings to improve the performance of this scheme in the Shivamogga district.

Methodology

a) Sources of data

Primary data: The present study is an empirical survey. The study is carried out covering two types of bank officials of the public sector banks covered by the study. A personal interview was held with selected bank officials in this district. The information has been collected through structured questionnaires.

Secondary data: The secondary data have been collected from lead bank office Shivamogga.

Sampling unit/size: Sampling unit for the study is chosen selected public sector banks in Shivamogga district 30 bank officials selected to gather the opinion.

b) Tools and Techniques

To analyse and interpret the result, statistical tools such as χ^2 test, frequency, and percentage tools are used.

Scope of the Study

This study is narrowed to know and study the priority sector lending by public sector banks. This study is undertaken in the Shimoga district. As it is the rural area and it makes the study easier regarding the rural bank and what role it places in priority sector lending. It covers bank officials and borrowers opinion for effective results.

Table 3 Socio Economic Profile and Opinion of Bank official

Particulars	No. of Respondents	Percentage
Age (years)		
25-35	14	46.66
36-45	10	33.33
46-55	06	20
Total	30	100
Gender		
Male	26	86.67
Female	04	13.33
Total	30	100
Education Qualification		
Graduate	24	80
Post graduate	06	20
Total	15	100
Assesment of Repayment Capacity		
Yes	30	100
No	0	-
Total	30	100
Interset of Subsidy		
Yes	14	46.67
No	16	53.33
Total	30	100
Time Taken		
Oneweek	06	20
Two weeks	08	26.67
One month	10	33.33
More than one month	04	13.33
Total	30	100
Pre Sanction Measures		
Always	26	86.67
Frequently	04	13.33
Occasionally	00	-
Total	30	100

Post Sanxion Measures		
Never	00	-
Frequently	28	93.33
Occasionally	02	6.67
Total	30	100
Priority Sector		
Profit	02	6067
Loss	28	93.33
Total	30	100
Nonperformig Assets in Banks		
Priority sector	26	86.67
Non-priority sector	04	13.33
Total	30	100

Sources: Field survey

The above table analyzes the socio-economic and opinion of bank employees towards priority sector lending. Out of 30 bank official in shivamogga district who are working in various public sector banks, 46.66% of the respondents come under the age of 25 to 35 years, 86.67% are male who is working in banks, 80% of the respondents completed graduates, all official will assess the repayment capacity of the borrowers at the time of sanctioning of loans which reduces the future default, 53.33% are opined that no subsidy is given on interest loan, 33.33% opined that time taken to release the loan is above one month, majority 86.67% always taken measures at the time pre sanctioning of loan and, 93.33% says that past section of loan action is taken frequently which enables for recovery, 93.33% opined that lending to priority sector is a loss to banks because more provisions is to make against NPA and 86.67% says that Nonperforming assets are more when bank lending to priority sector.

Testing of Hypothesis

H_0 : There is no positive opinion of priority sector lending increases nonperforming assets

H_1 : There is a positive opinion of priority sector lending increases nonperforming assets

Table 4 The Opinion of Respondents towards Bank Employes at the Time of Availing of the Loan in Priority Sector Lending

Opinion	No. of Respondents	Percentage
Priority sector	26	86.66
Non-priority sector	04	13.33
Total	30	100

Table 5 Showing Chi-square (χ^2) value

Scale	Observed frequency	Expected frequency	Residual	(Of-Ef) ² /Ef
Strongly satisfied	26	5	16	51.2
Satisfied	04	5	-1	02
(Of-Ef) ² /Ef				53.2

Degree of freedom= $n-1=2-1=1$

Interpretation

The table value of χ^2 for the degree of freedom at a 5% level of the significance is 3.841. The calculated value of χ^2 is much higher than the table value, and hence the result of the experiments does not support the hypothesis. Thus we can say that there is a positive opinion of respondents towards lending to priority sector increase nonperforming assets in banks. The null hypothesis is rejected.

Findings

1. The bank employees opined that lending to priority sector increases nonperforming assets
2. Lending to the priority sector will bring as the loss to the bank.
3. Majority 86.67% of the bank official is male
4. The majority of the respondents opined that frequently they follow up the borrowers.

Suggestions

1. The bank has to employ more female employees.
2. The bank should take less time to sanction a loan, which enables them to start up their activity very fast.
3. The burden of the non- performing assets of the commercial banks has to be minimized or reduced.

4. The bank official should arrange an awareness program at the block level about types of loan, the interest rate charged, the procedure of loan, and documents to be submitted. Many procedures, while availing loans from the bank, have to be reduced to facilitate the customers.
5. The bank officials must take certain measures to check eligibility criteria for granting the loan to the borrows under priority sector lending.
6. The borrowers should improve their knowledge towards rules and regulation of RBI

Conclusion

Public sector banks have a major role to play in the development of any district as they provide financial assistance to the people who take up income-generating activity. Shivamogga district is predominately agriculture oriented as such as majority of the population in the district is dependent on agriculture for livelihood. the banks in the shivamogga district should come up with the immediate and quick measures to prompt delivery of the loan takes place the borrowers should avot the diversification of loan then one it is possible to reduce NPA in banks.

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