

A Study of Priority Sector Lending by State Bank of India

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Abstract

Priority sector lending is a scheme directed s per Government of India. As per RBI directive, commercial banks advised to granting 40% of their total advances to borrowers in the priority sectors. Priority means to give preference and privilege. Priority sector lending refers to those sectors of the economy which may not grow in prudent and satisfactory crediting in absence of this special dispensation. Typically, these are small value loans to farmers for agriculture and allied activities, micro and small enterprises, poor people for education and other low- income groups and weaker section. This paper provides a platform to understand the problems and prospects of priority sector lending in state bank of India in Bhadravathi. The study has used both primary and secondary data. The data collected is embodied by using tables and analysis was done by using percentage analysis and statistical tool like X2 test is also used.

Keywords: Government, Agriculture, Non-Performing Assets etc.

Introduction

It is a scheme shown by Government and RBI to commercial banks about thenecessary deployment of credit to preferred and desires sector and sections of Economy. Priority sector lending scheme is a policy of providing a specified portion of bank lending to the important sectors of the economy such asagriculture, housing, education small scale industries, cottage sector, tiny sector, export sector and other firms or business. The Reserve bank of India was first to initiate priority sector lending scheme in India. The priority sector lending program has been introduced by the Government of India andReserve bank of India since 1947, when banks were advised to raise credit to priority sectors to the level of 33.33% by March 1979. Today this number stands at 40% out of which direct agriculture lending has to be 18%. Areas under priority sector are agriculture sector, indirect agricultural loans, small scale industrial loans, professional and self-employed, educational loan, housing loan etc. There are certain guidelines which are to be followed by banks during priority sector lending, they are: investments by banks in securitized assets of other banks and financial institutions, representing loans to various categories of priority sector, providing original loans fulfil the reserve bank of India guidelines on securitization.

Review of Literature

Dr.Jasmindeep Kaur and Siliny (2011), in their research paper entitled "Performance review of Commercial Banks in India with Special reference to Priority Sector lending - A Study of Post Reform Era".

The Study has undertaken to examine the component-wise lending and evaluate the performance of Commercial banks with regards to priority sector lending in India. The study was conducted for a period of 1991-2007. The study found that performance of private sector banks in respect of all parameters was better than that of public sector banks. During the study period they observed that public sector banks concentrated more on agriculture sector than other sector of the economy. They also explicated total priority sector NPAs of Public sector banks increased and that of private sector banks decreased. They suggested that both public and private banks should achieve the target of agriculture sector and give a proper awareness to beneficiaries about priority sector lending scheme.

B.Selvarajan and Dr.G.Vadivalagan (2013), conducted a study on “**A Study of Management of NPAs in Priority sector reference to Indian Banks and Public Sector Banks**”. The study has been used descriptive research to find out NPAs of Priority sector lending in India compared with public sector banks. The study has undertaken from the period of 2001-11 by considering the statistics of agriculture advances & SSI. The study has observed that the growth of Indian bank’s lending to priority sector is more than that of public sector banks as a full. The study recommends that Indian bank pay a distinct attention towards the management of NPA and take proper steps to arrest the formation of new NPAs besides making recoveries in the existing NPAs.

Statement of the Problem

The social objective of nationalization of commercial bank was to focus more attention on the remote backward areas. The system of targeting priority sector lending gets poorer the position of poorer states; low profitability is the major problems in priority sector lending. The transaction cost is very complex. government interfering has caused a serious problem for the priority sector lending. the weight of non-performing assets of commercial banks have become problem in this scheme. The imbalances in outstanding amount to weaker sections, penalty based system is in existence. Recalling of amount is difficulty for the banks through provide factor lending. Here the study attempt to know PSL.

Objectives of the Study

1. To analyses the satisfaction level of respondents towards priority sector lending.
2. To analyze the problems faced by the borrowers in this scheme.
3. To offer a suggestions to progress the performance of this scheme

Methodology

Primary Data: For the present study primary data have been collected through well-structured questionnaire and personal interview completed to gather more in-depth information

Secondary Data: The secondary data during the study period have been collected through books, articles, annual report, RBI Bulletin etc.

Sampling Unit/Size

Sampling unit for the study is chosen in State Bank of India, Bhadravathi. Presently 40 respondents are selected for the present study.

Tools and Techniques

In order to analyses and interpret the result statistical tool such as X² test, frequency and percentage tools are used.

Scope of the Study

This study is narrowed to know and study the priority sector lending by bank. The present study is undertaken in Bhadravathi (Shimoga district), as it is the rural area and it makes the study easier regarding the rural bank and what part it places in priority sector lending.

Table Socio-Economic Profile and Opinion of Respondents

| Particulars | No. of respondents | (%) |
|----------------|--------------------|------------|
| Age | | |
| Below 25 years | 5 | 12.5 |
| 25-35 | 26 | 65.0 |
| 36-45 | 5 | 12.5 |
| 46-55 | 4 | 10 |
| Total | 40 | 100 |
| Gender | | |
| Male | 28 | 70 |
| Female | 12 | 30 |
| Total | 40 | 100 |

| Education Qualification | | |
|-------------------------|-----------|------------|
| Illiterate | 06 | 15.0 |
| PUC | 07 | 17.5 |
| Graduate | 17 | 42.5 |
| Post graduate | 10 | 25 |
| Total | 40 | 100 |
| Occupation | | |
| Agriculture | 18 | 45.0 |
| SSI | 14 | 35.0 |
| Business | 05 | 16.67 |
| Profession | 03 | 10 |
| Total | 40 | 100 |
| Types of Account | | |
| Saving Account | 35 | 87.5 |
| Current Account | 05 | 12.5 |
| Total | 40 | 100 |
| Type of Loan Availed | | |
| Agricultural Loan | 18 | 45.0 |
| SSI Loan | 14 | 35.0 |
| Education Loan | 02 | 6.67 |
| Housing Loan | 04 | 10 |
| Total | 40 | 100 |
| Nature of Loan | | |
| Term loan | 17 | 42.5 |
| Cash credit | 13 | 32.5 |
| Advanced against bills | 06 | 15 |
| Other | 04 | 10 |
| Total | 40 | 100 |
| Amount of Loan Taken | | |
| Less than Rs.100000 | 19 | 47.5 |
| Rs 100000 to 300000 | 14 | 35 |
| Rs.300000 to 500000 | 05 | 12.5 |
| Above Rs.500000 | 02 | 05 |
| Total | 40 | 100 |
| Repayment Schedule | | |
| Monthly | 16 | 40 |
| Quarterly | 11 | 27.5 |
| Semi- annually | 08 | 20 |
| Annually | 05 | 12.5 |
| Total | 40 | 100 |

| Opinion on Interest Rate Charged | | |
|---------------------------------------------------|-----------|------------|
| Highly Satisfied | 12 | 30 |
| Satisfied | 14 | 35 |
| Neutral | 08 | 20 |
| Dissatisfied | 06 | 15 |
| Total | 40 | 100 |
| Reasons for Availing Loan | | |
| To reduce tax liability | 10 | 25 |
| To start up activity | 14 | 35 |
| To get subsidy | 10 | 25 |
| Purchase of land | 05 | 12.5 |
| Total | 40 | 100 |
| Reasons for Selecting Bank to Avail Loans | | |
| Easy Accessibility | 13 | 32.5 |
| Cheap Credit | 12 | 30 |
| Quick Sanction and Disbursement | 9 | 22.5 |
| Easy Terms and Condition | 06 | 15 |
| Total | 40 | 100 |
| Problems and Difficulty Faced | | |
| High Rate of Interest | 13 | 32.5 |
| High Security Requirement | 15 | 37.5 |
| Insufficient Sanctioning of Loans | 07 | 17.5 |
| Any Other Problem | 05 | 12.5 |
| Total | 40 | 100 |
| Sources of Knowing Priority Sector Lending Scheme | | |
| Village Extension Officer | 16 | 40 |
| Bank Staff | 15 | 37.5 |
| Media | 4 | 10 |
| Neighbours | 5 | 12.5 |
| Total | 40 | 100 |
| Rating Services | | |
| Excellent | 12 | 30 |
| Good | 15 | 37.5 |
| Better | 07 | 17.5 |
| Poor | 03 | 7.5 |
| Total | 40 | 100 |

| Opinion on Any Other Assistance | | |
|---------------------------------|-----------|------------|
| Training | 5 | 12.5 |
| Input Supply | 7 | 17.5 |
| Advice | 25 | 62.5 |
| Marketing | 12 | 30 |
| Total | 40 | 100 |
| Status After Availing Loan | | |
| Raised | 27 | 67.5 |
| Lower | 10 | 25 |
| No change | 3 | 7.5 |
| Total | 40 | 100 |
| PSL Target | | |
| Reduced to | 5 | 12.5 |
| Increased to | 25 | 62.5 |
| Maintain at Present Level | 12 | 30 |
| Stopped Step by Step | 7 | 17.5 |
| Total | 40 | 100 |
| Applied Loan | | |
| Fully Received | 30 | 75 |
| Partly Received | 10 | 25 |
| Total | 40 | 100 |
| Did you get the loan | | |
| Faster than Expected | 15 | 37.5 |
| On the Time as you Expected | 20 | 50 |
| Later than Expected | 05 | 12.5 |
| Total | 40 | 100 |
| Behaviour of the Staff | | |
| Courteous and Friendly | 26 | 65 |
| Business Like | 04 | 10 |
| Not Very Helpful | 06 | 15 |
| Indifferent | 04 | 10 |
| Total | 40 | 100 |

Sources: Survey data

The above analysis table reveals the social, economic profile and opinion of respondents towards

the priority sector lending issues in State bank of India. Out of 40% respondents, 65% of respondents belong to the age group of 25-35 years, 70% are male respondents in this banks, Graduates are 42.5% respondents, majority 45% of the respondent occupation is agriculture, 87.5% of respondent opened saving account, majority have taken agriculture loan, 42.5% of respondents have taken term loan, 47.5% have taken the loan amount less than Rs 100000, 40% of respondents paid their loan installment monthly, 35% are satisfied about interest rate charged, majority 35% taken loan under this scheme for expansion activity, 37.5% opinioned that high security requirement is the struggle faced, 40% of respondents come to know the priority sector lending through village extension officer, other than services 62.5% opined that bank give advices to them, 67.5% says this scheme enhanced their normal of living in the economy. 62.5% of respondents opinioned that target of priority sector should be increased. 75% of the respondents fully received the loan amount, 50% of the respondents received the amount on time and majority of the respondents opined that behavior of the staff are courteous and friendly in bhadravathi branch.

Testing of Hypothesis

H₀: There is no positive opinion of customer about priority sector lending

H₁: There is a positive opinion of customer about priority sector lending

Table The Opinion of Respondents of Priority Sector Lending

| Satisfaction Level | No. of Respondents | % |
|-----------------------|--------------------|------------|
| Strongly Satisfied | 11 | 36.67 |
| Satisfied | 09 | 30 |
| Moderate | 02 | 06.67 |
| Dissatisfied | 02 | 06.67 |
| Strongly Dissatisfied | 06 | 26.66 |
| Total | 30 | 100 |

Table Showing Chi-square (χ^2) Value

| Scale | Observed Frequency | Expected Frequency | Residual | (Of-Ef) ² /Ef |
|-------------------------------|--------------------|--------------------|----------|--------------------------|
| Strongly Satisfied | 11 | 5 | 6 | 7.2 |
| Satisfied | 09 | 5 | 4 | 3.2 |
| Moderate | 02 | 5 | -3 | 1.8 |
| Dissatisfied | 02 | 5 | -3 | 1.8 |
| Strongly Dissatisfied | 06 | 5 | 1 | 0.2 |
| (Of-Ef)²/Ef | | | | 14.2 |

Degree of freedom = $n-1 = 5-1 = 4$

Interpretation

The table value of χ^2 for the degree of freedom at 5% level of the significance is 9. 488. 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 priority sector lending. The null hypothesis is rejected.

Findings

1. The customer has a optimistic opinion on priority sector lending
2. The borrowed amount increases the standard of living
3. Bank provides enhanced services to its customers particularly for the people who get the loan under priority sector lending.
4. Apart from providing/granting of financial help to the customers. The bank under priority sector lending are providing other assistances to its customer such as advice, input supply etc.
5. Almost all the sectors like - Agriculture, Industry and service sectors have been given equal priority under this scheme.
6. Many of the respondents are the middle age group people, most of the customers to SBI bank are young people.
7. Majority of the respondents come to see about this scheme through village extension officer

Suggestions

1. The bank has to provide sufficient amount, so that industrialist of SSI can run their business successfully.
2. The burden of the non- performing assets of the commercial banks has to be reduced.
3. The employees should come out of bank in order

- to create a bond with the borrowers of the bank.
4. Qualitative targets have to be forced by the RBI in order to achieve those targets along with developing the economy.
5. Low profitability situation of the banks must be better and government interference into priority sector lending must be avoided / reduced.
6. Many procedures while availing loan from the bank have to be reduced in order to facilitate the customers.
7. As the banking is providing various assistance to its customers it must also guide them in order to utilize the borrowed loan in efficient manner.
8. The bank has to give awareness about priority sector lending scheme through media such as newspaper, electronic channels etc.

Conclusion

Priority sector lending has been growing day by day in the commercial banks. As the priority sector advances will be helpful in reducing the poverty level of the country, they advances must be proper distributed among the various sectors. Priority sector lending is ongoing up with the main intention of helping the agriculturalists and also the rural industries. There must be proper balance in the lending to all the sectors. Majority of the people are taking the loan assistance from the commercial bank under the priority sector lending. The difficult task for the banks is recovering of the loan amount given the customer.

Proper the amount and the target fixed by the RBI must be achieved so that, it can help the rural and weaker sections of the society, the profitability of the banks have to be increased cost and also by reducing the burden of non-performing assets in the commercial banks penalty based system as to be

removed and RBI should bring out incentive based system.

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