

PROBLEMS AND PROSPECTS OF PRIORITY SECTOR LENDING

Article Particulars

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Abstract

After the nationalization priority sector lending has become an important components of national agenda. As per RBI directive commercial banks advised to grant 40% of their total advances to borrowers in the priority sectors. Priority sector lending refers to those sectors of the economy which may not get in timely and adequate 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 Bhdhavathi. The study has used both primary and secondary data. The collected data are represented by using tables and analysis was done by using percentage analysis.

Keywords: *priority sector, target. Guidelines etc.*

Introduction

Priority sector lending scheme is a policy of providing a specified portion of bank lending to the important sectors of the economy. It includes agriculture, 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 implemented by the Reserve 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 fulfill the reserve bank of India guidelines on securitization.

Benchmark as per new priority sector Guidelines

| Sl.No. | Parameter | Benchmark |
|--------|---|--------------------------------|
| 01 | Total priority sector Advances | 40% of ANBC |
| 02 | Total Agriculture Small and marginal farmers | 18% of ANBC |
| 03 | Advances to weaker section | 10% of ANBC |
| 04. | Lending to women beneficiaries | 5% of ANBC |
| 05 | Lending to micro enterprise | 7.50% of ANBC |
| 06 | Lending to Minority communities | 15% of priority sector lending |

Review of Literature

R.K.Uppal, made a study on priority sector advances : trends, issues and strategies and this reveal that lending to priority sector creates many problems for the Indian banks like low profitability, high NPAs, transaction cost etc.

C.Bhujanga Rao, conducted a survey on appraisal of priority sector lending by commercial banks in India, study focused on the changing contours of reserve bank of India's policy on the priority sector advances and these was a burden of NPA of commercial in priority sector lending.

Kaustavsen and Tapopriya datta, made a study on priority sector lending an opportunity or a liability, the study focused on appointing of the local people to provide door to door services and made employees to come out of boundaries and to create a bond with the borrowers and the loans were lent to the poor people.

Statement of the Problem

The procedure of targeting priority sector lending worsened the position of poorer states, low profitability is the major problems in priority sector lending. The transaction cost is higher. government interference has caused a serious problem for the priority sector lending. the burden 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. Recollecting of amount is difficulty for the banks through provide factor lending. Here the study attempt to know PSL.

Objectives of the study

1. To study the impact of the priority sector lending on the income and employment level of the borrowers.
2. To understand the problems experienced by the borrowers in the implementation of the scheme.
3. To give a suggestion to improve the performance of this scheme

Methodology

a) Sources of data

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

Secondary data: the secondary data have been collected through books, articles, annual report etc.

b) Sampling unit/ size:

Sampling unit for the study is chosen in State Bank of India, Bhadravathi. 40 respondents have been chosen as sample size.

c) Tools and techniques:

Problems and prospects of priority sector lending is analyzed through the frequency table and percentage analysis

Scope of the Study

This study is confined to know and understand the problems and prospectus of priority sector lending. This 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 role it places in priority sector lending.

New guidelines towards PSL

- The Reserve Bank of India revised the priority sector lending target for regional rural banks (RRBs) to 75% of total outstanding loans from 60%. Earlier, effective January 2016.
- In a statement, the Central bank said that during the last decade, RRBs have undergone significant structural and operational changes, be it two-phased amalgamation, implementation of CBS plant from or recapitalisation.
- Categories of the priority sector include medium enterprises, social infrastructure and renewable energy, with a capital of 15% of total outstanding Agriculture should constitute 18% of total outstanding, target of 8% of total outstanding for small and marginal farmers within agriculture.
- Within agriculture, three categories are eligible for priority sector lending, Farm Credit comprises loans to individual farmers, and including self-help groups directly engaged in agriculture and allied activities. Agriculture infrastructure comprises loans for construction of storage facilities (warehouses, market yards, godowns and silos), including cold storage units designed to store agriculture produce among others.
- Micro, small and medium enterprises engaged in the manufacture or production of goods to any industry specified in the first schedule to the Industries Act 1951, and as notified by the government from time to time are eligible for priority sector loans.

- The Central bank said that data on priority sector advances has to be furnished by Regional Rural Banks to NABARD at quarterly and annual intervals. "For the purpose of calculation of priority sector lending targets, total outstanding will be calculated as on corresponding date of the previous year, it added.

Table 1: Socio-economic Profile and Opinion of Respondents

| Particular | No. of respondents | Percentage (%) |
|--------------------------------|--------------------|----------------|
| Age | | |
| Below 20 years | 5 | 12.5 |
| 21-35 | 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 | | |
| Up to SSLC | 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 start the activity | 10 | 25 |
| To expand the activity | 14 | 35 |
| To get subsidy | 10 | 25 |
| Other | 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 |
| Neighbors | 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 |
| Advices | 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 |

Sources: Survey data

The above table analyses 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 belongs to the age group of 21-35 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 difficulty 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 improved their standard of living in the economy.

Findings

1. SBI bank provides better services to its customers especially for the people who get the loan under priority sector lending.
2. Some respondents opine that their business is running under loss, due to the insufficient amount of loan provided by the bank.
3. The Non-performing assets are high in the banks.
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. The interest rates fixed for different types of loans by the banks are considered to be average and agreeable by the respondents.
8. Majority of the respondents come to know about this scheme through village extension officer

Suggestions

1. The loans have to be provided to the people in sufficient amount, so that industrialist of SSI can run their business profitably.
2. The burden of the non- performing assets of the commercial banks has to be minimized or 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 in order to achieve those targets along with developing the economy.
5. Low profitability position of the banks must be improved 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 increasing 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 started 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.

Books

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