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A Critical Performance Analysis of Priority Sector Lending Through Commercial Banks

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Abstract

Priority sector lending or PSL is an important role play in economic development of the country. As the name indicates Priority means preference over others the government have to give preference to some sectors in process to make the important of society. Financial help in form of relaxation of collateral and rate of interest and fixing certain percentage of overall credit are to be provided. In line with the objective, Reserve Bank of India (RBI) direct the other banks for providing a specified portion of the bank lending to selected specific sector. Priority Sector Lending is an important role given by the Reserve Bank of India (RBI) to the banks for providing a specified portion of the bank lending to few specific sectors like agriculture and agriculture related activities, micro and small enterprises, poor people for housing loans, education, export credit, social infrastructure, renewable energy and other weaker section PSL loans are relatively cheaper than market interest rate. RBI has modified Priority Sector Lending norms after the recommendations of the Internal Working Group in 2015. Changes in classification of the priority sectors and targets were also made as per the new norms. Previously, only public sector banks were ask to give loans to these sectors therefore, now even private sector banks and foreign banks have to give loan these sectors.

Keywords- *Pls, Commercial Banks, Credit, RBI Norms*

Introduction

According to RBI's Priority Sector Lending policy, scheduled commercial banks in India will have to lend certain fix percentage of their credit to priority sector as defined from time to time by RBI. It includes sectors like Agriculture, MSMEs, Weaker sections etc.

All scheduled commercial banks in India (including public sector, private sector and foreign banks) have to follow Priority sector lending norms of RBI.

Public sector banks as well as private sector banks need to lend 40 % while foreign banks need to lend 32 % to Priority sector.
There are sub-targets within these targets.

Under Reserve Bank of India norms, banks have to mandatorily lend 40% of their net bank credit to priority sector— agriculture, education, housing, small enterprises, etc. The dismal picture of lending, particularly to the rural population, is a reflection of rising inflation and just how badly the bad loan problem has affected banks. Even sector wise credit flow is unevenly distributed. Real credit growth in agriculture and other weaker sections has been lower than last year and is nowhere near what it was in 2014. For instance, real loan growth to agriculture stood at 5.8% in June 2017, down from 12 per cent in 2014. Real credit growth to the weaker sections was at 18.6% in June 2014 in contrast to 5.2% in June 2017.

Need of the study

Uttar Pradesh is a fourth largest state in term of area in country .77.73% of the population is living in rural areas in Uttar Pradesh. Agriculture is called the backbone of economy of Uttar Pradesh. Agriculture provides around 59% employment to the residents of the state. The total number of land holdings are 224.57 lakhs out of which 175.07 lakh (78.0%) are marginal farmers as holding less than 1hactare, 31.03 lakh (13.8%) small farmers and 18.47 lakh (8.22%) farmers hold land above 2hectare. GDP contribution of Uttar Pradesh state 15.80 lakh crore ($230billion) (2019-2020). 3rd rank holder of Uttar Pradesh as a GSDP. And GDP growth 7% its compare to year (2018-19). Rank of par capita as a GDP 32nd. GDP contribution of Uttar Pradesh is sector wise –

Agriculture 27%
Industry 26%
Services 47%

The Gross State Domestic Product (GSDP) of Uttar Pradesh for 2019-20 at current prices is estimated to be Rs. 15,79,807 crore, which is 7% higher than the revised estimate for 2018-19. Total expenditure for 2019-20 is estimated to be Rs. 4, 79,701 crore, a 6.7% increase over the revised estimate of 2018-19.

The par capita income is lowest to other states. The percentage of workers in the agriculture sector is more. Indicating the predominance of agriculture in the Uttar Pradesh. The up state is endowed with rich agriculture and mineral resources. The contribution of agriculture to net gsdp of the state is 27%.

Uttar Pradesh is the leading state in India, having the highest number of enterprises in the MSME sector. The state has over 44 lakh MSME units at present. Out of these 1.88 lakh units registered, while The State of Uttar Pradesh has a Literacy Rate: 67.68 percent and compromises 89 Lakhs MSME’s.

Which is an approximate share of 14.20% of total MSME’s in the Country? The State being uniquely famous for product specific traditional industrial hubs across 75 districts viz. Varanasi (Banarasisilksari), Bhadohi (carpet), Lucknow (chikan) etc. Uttar Pradesh is the leading exporter of MSME Products. The Exports from the Uttar Pradesh Micro, Small and Medium Enterprises (MSME) sector have clocked almost 6% growth to touch Rs 890 billion during 2017-18.42.15 lakh units are unregistered. The MSME sector accounts for almost 60% of the total industrial output in Uttar Pradesh.

MSME in India has the potential to increase the share of contribution to GDP from the current 8 per cent to about 15 percent by the year 2020. In 2017-18, exports of major agriculture commodities from Uttar Pradesh stood at US$ 2.83 billion and Merchandise exports from Uttar Pradesh reached US$ 13.80 billion in 2017-18 and US$ 13.80 billion in April 2018-February 2019.

Significance of the study

India is the seventh largest country in the world, yet we have the second largest population. People getting educated in India are from poor background. As a large portion of population directly depends on agricultural sector. These people have great aspirations when they come from such a poor background. These people have great aspirations when they come from such a poor background. Increasing population- the population of India is increasing at a very fast rate and it is believed that it will cross the population of China by 2050.The per capita income is very low compared to other country and thus India is classified as an under developing economy at the time of independence.

A developing country also know-as a less-developed country and low living standard, under developed industries or production base, low HDI it comparatively to other country, low per capita income, heavy population, low quality of education and low of technology levels, Poor Manufacturing base, Societal pressure.

Implementation of five year plans or growth in the banking did not response in reduction of poverty and income inequalities distribution across the regions and various group of people .Our country we have many problems faced in PSLs sector mainly, therefore as marginal farmer, high growth population, low financial investment in MSMEs, agriculture related financial problems, export related problems for small industries, illiteracy position in our country, low living standard and poverty and unemployment etc.

Objectives

1. To examine the concept and evolution of priority sector lending in India
2. To assess the operational performance of commercial banks in general and India.
3. To identify the gaps and to suggest remedial measures to overcome them.

Hypothesis

H1: There is no significant difference between the target and achievement percentages in Crop Loans sector. **H2**: There is no significant difference between the performances of Pubulic sector bank and private sector bank.

Period of study

The study has been taken up for a period of 5 years commencing from April. 2016 to March 2020 for the purpose of collection of data.

Research Design & Methodology

Data is collected through Secondary data and it's collected through Annual Reports of the reserve bank of India (RBI). The study of data involves classifying the relations of calculated information to the research problem in hand. Here, the researcher makes use of different tools for analyzing data and starting association between the information gathered and the research problem and so other data resources like rating agency, finance ministry, news-paper, journals, magazines, activity, and Commercial banks.

Research tolls

To conduct the study secondary data has been used. And this research article is a based on the descriptive study

Data Collection Method

Primary data- interview, observation method use Secondary data-annual report of Reserve bank of India (RBI), annual budget, magazine, ns, MSME ministry report, rating agency, research agency.

Scope of the study

The present study is concerned with priority sector lending by commercial banks Of Uttar Pradesh state. The study covers the operational performance and comparative analysis of commercial. Banks in terms of deposit, credit deployment, credit deposit ratio and the priority sector lending of commercial banks and RRB banks in Uttar Pradesh. Loans made to weaker sections and differential Rate of Interest advances are also covered, as these advances are eligible for counting as priority sector advances. As a part of the study, recovery performance and non-performing assets of commercial banks are also taken up for study. Further, the scope of priority sector lending under district annual credit plans in Uttar Pradesh state covers only the following five groups.

- Crop loans,
-Agriculture term loans,
- Allied activities,
-Small scale industries loan
- Non-farm sector and
- Other priority sector.

The scope of the study on financial inclusion is limited to review the priority Sector lending in the context of financial inclusion programmes. It is intended to know the number of accounts opened by banks from the year 2015 to 2020 and population group-wise deposits and advances made by commercial banks in the state during the above period. The study should also cover the functions of Business Correspondents. The need and functions of Financial Literacy and Credit Counselling centers should also be covered. Self Help Group lending is an important activity which promotes greater financial inclusion and hence progress of SHG lending should be taken up for study.

RBI has divided the priority sector into following

1-Agriculuture sector or farming sector.
2-Small scale industrial loans.
3-Export credit.
4-Education loans.
5-Housing loans.
6-State–sponsored corporations for SC/ST.
7-Retail trade loan.
8-renewable energy
9-Other sectors.

RBI norms for Priority as below:

1.Targets for Priority Sector Lending for Domestic and Foreign banks in India CATEGORY DOMESTIC COMMERCIAL BANKS AND FOREIGN BANKS WITH >= 20 branches foreign with < 20 BRANCHES Total priority sector target 40% of ANBC OR Credit equivalent amount of Off-Balance Sheet exposure # (Whichever is higher) 32% of ANBC OR Credit equivalent amount of Off-Balance Sheet exposure # (Whichever is higher).

2.Targets for Priority Sector Lending for Domestic and Foreign banks in India CATEGORY DOMESTIC COMMERCIAL BANKS AND FOREIGN BANKS WITH >= 20 BRANCHES FOREIGN BRANCHES WITH< 20 BRANCHES Total

Agriculture sector target 18% of ANBC OR Credit equivalent amount of Off-Balance Sheet exposure (Whichever is higher)

No specific target– forms part of total priority sector target Notes:

1. Indirect lending in excess of 4.5% of ANBC or credit equivalent amount of Off-Balance Sheet Exposure, whichever is higher, will not be reckoned for computing achievement under 18 % target .
2. However, all agricultural loans under the categories 'direct' and 'indirect' will be reckoned in computing achievement under the overall priority sector target of 40 %.
3. Targets for Priority Sector Lending for Domestic and Foreign banks in India CATEGORY DOMESTIC COMMERCIAL BANKS AND FOREIGN BANKS WITH>= 20 BRANCHES FOREIGN BRANCHES WITH<20 BRANCHES Micro & Small Enterprises All lending included in overall PSL target of 40% No specific target – forms part of total priority sector target 40% of advance to this category to go to following:

- Micro (Mfg) Enterprises with investment in P&M Upto 10 Lacs.
- Micro (service) enterprises having investment in equipment up to Rs. 4 lakh 20% of advance to this category to go to following.
- Micro (Mfg) enterprises with investment in P&M above Rs.10 lakh and up to Rs.25 lakh • Micro (service) enterprises with investment in equipment above Rs.4 lakh and up to Rs.10 lakh –ANBC

4. Targets for Priority Sector Lending for Domestic and Foreign banks in India CATEGORY DOMESTIC COMMERCIAL BANKS AND FOREIGN BANKS WITH >= 20 BRANCHES FOREIGN BRANCHES WITH< 20 BRANCHES Export Credit Export credit is not a separate category. Export credit to eligible activities under agriculture and MSE will be reckoned for priority sector lending under respective categories. No specific target – forms part of total priority sector target

1. Targets for Priority Sector Lending for Domestic and Foreign banks in India CATEGORY DOMESTIC COMMERCIAL BANKS AND FOREIGN BANKS WITH>= 20 BRANCHES FOREIGN BRANCHES WITH<20 BRANCHES Advances to weaker sections 10 % of ANBC Or Credit equivalent amount of Off-Balance Sheet Exposure, whichever is higher. No specific target.
2. Targets for Priority Sector Lending for Foreign banks in India with > = 20 For foreign banks with > = 20 branches, Priority Sector Targets and sub-targets have to be achieved 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 as approved by RBI. Any subsequent reference to these banks in the circular will be in accordance to the approved plans.

The banking sectorfailed to meet the priority-sector lending (PSL) targets overall, revealed data released by the Reserve Bank of India (RBI). The banks also failed to meet targets of specific sectors such as agriculture and micro, small and medium enterprises (MSMEs).

While PSBs met their PSL target for agriculture of 18 per cent, private banks and foreign banks failed to meet the targets at 16.2 per cent and 16.7 “Bank credit to agriculture decelerated during 2017-18, partly reflecting the pervasive risk aversion and debt waivers by various state governments, which may have disincentivised lending to the sector,” said the RBI. The year-on-year growth in agricultural lending stood at 3.8 per cent during 2017-18, against 12.4 percent during 2016-17. The total number of operating kisan percent, respectively. Credit cards also fell marginally during the year.

The gross non performing asset ratio

PRIORITY SECTOR LENDING BY BANKS (in%)

Segment	Target	Public sector	Private	Foreign
Agriculture	18.0	18.0	16.2	16.7
Micro enterprises	7.5	6.4	7.9	4.2
Weaker sections	10.0	11.5	9.5	7.1
Total	**40.0**	**39.9**	**40.8**	**38.3**

Source: RBI

(GNPA) for the agriculture sector went up in financial year 2018-19, possibly reflecting debt waivers by several states.

The asset quality for agricultural loans worsened during half of 2018-19. The GNPA ratios are expected to widen with more farm loans waivers. The share of priority sector NPAs in of the total declined marginally during 2017-18 but it still constituted a fifth of the total NPA. Agricultural NPA and MSME.

NPAs comprise 8.6 per cent and 9.5 percent of the total NPAs in the bankingsector, respectively, as on March 2018. While lending to agriculture and MSMEs comprised 13 per cent and six percent respectively of the total bank credit outstanding at the end of March 2018.Priority sector credit growth, however, recovered in 2017-18, largely driven by a recovery in credit to MSME, and said the central bank.

The first half of 2018-19 saw public sector banks (PSBs) and private banks meeting the overall priority sector lending target. However, shortfalls were observed in certain sectors and sub-sectors in the case of both PSBs (micro enterprises) and private banks (total agriculture, small and marginal farmers; non-corporate individual farmers; and weaker sections).

As banks struggle to meet PSL targets, priority sector lending certificates (PSLCs), which allows sale of PSL obligation, have gained traction. According to central bank data, PSLCs trading volume increased by 270 per cent to Rs 1.8 trillion in 2017-18, up from Rs 49,800 crore in the previous year.

The salient features

A Commercial bank is a financial institution that provides various financial services, such as accepting deposits and issuing loans. Commercial bank customers can take advantage of a range of investment products that commercial banks offer like savings accounts and certificates of deposit. The loans a commercial bank issues can vary from business loans and auto loans to mortgages. Commercial banks offer their customers investment products such as savings accounts, checking accounts and certificates of deposit. Bank customers like such products because in the United States, they are secured by a government agency, the Federal Deposit Insurance Corporation (FDIC). In exchange for their money, commercial banks offer their customers interest on their deposits. The way commercial banks make money is by using their customers' deposits for loans with interest rates above the rates they pay to depositors. The spread between what the banks pays out in interest and what it takes in in interest is the bank's net interest income. The types of loan a commercial bank can issue vary and a commercial bank may specialize in just one or a few types of loans. Commercial banks can offer mortgages, which help borrowers buy homes with the homes as the collateral backing the loans. They can also issue car loans with automobiles as collateral. Commercial banks also can engage in issuing personal loans, lines of credit or credit cards. In addition to the interest it earns on its loan book, a commercial bank can generate revenue by charging its customers fees for mortgages and other banking services. To take deposits and secure your money, as a primary function, then to lend out money using various types of loans— that's the high level function from a client perspective which is probably the most important. Internally there are many functions to support this: Risk management including credit risk, Fraud Channels, such as branch, ATM, Cash management Cheque sorting, Finance, Product specialists, Call-centers, Marketing Sales, Relationship management teams, Compliance, Etc.

Commercial banks are of various types which are explained as under:

Scheduled Bank: Scheduled Banks in India constitute those banks which have been included in the Second Schedule of Reserve Bank of India (RBI) Act, 1934. RBI in turn includes only those banks in this schedule which satisfy the criteria laid down vide section 42 (6) (a) of the Act.

The banks included in this schedule list should fulfil two conditions. -

1. The paid capital and collected funds of bank should not be less than Rs. 5lakhs.

2. Any activity of the bank will not adversely affect the interests of depositors.

Every Scheduled bank enjoys the following facilities. -

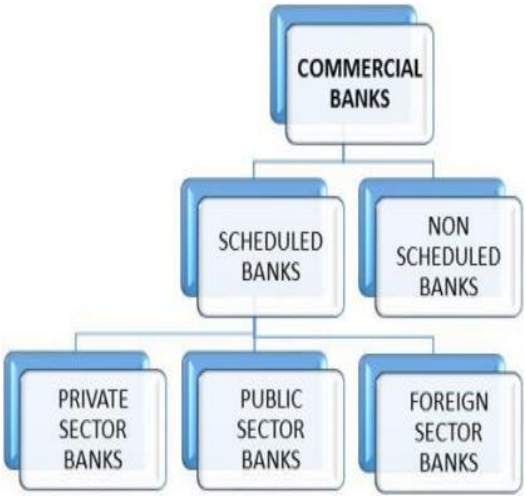
1. Such bank becomes eligible for debts/loans on bank rate from the RBI

2. Such bank automatically acquired the membership of clearing house.

The following are the Scheduled Banks in India (Public Sector):

State Bank of India, State Bank of Bikaner and Jaipur, State Bank of Hyderabad

State Bank of Indore, State Bank of Mysore, State Bank of Saurashtra, State Bank of Travancore, Andhra Bank, Allahabad Bank, Bank of Baroda, Bank of India, Canara Bank, Bank of Maharashtra, Central Bank of India, Corporation Bank , Dena Bank ,Indian Overseas Bank ,Indian Bank ,Oriental Bank of Commerce ,Punjab National Bank ,Punjab and Sind Bank , Syndicate Bank , Union Bank of India , United Bank of India, UCO Bank , Vijaya Bank .



The following are the Scheduled Banks in India (Private Sector): -

ING Vysya Bank Ltd, Axis Bank Ltd, Indusind Bank Ltd, ICICI Bank Ltd, South Indian Bank, HDFC Bank Ltd, Centurion Bank Ltd, Bank of Punjab Ltd, IDBI Bank Ltd

The following are the Scheduled Foreign Banks in India:

American Express Bank Ltd, ANZ Gridlays Bank Plc, Bank of America NT & SA, Bank of Tokyo Ltd, Banquc Nationale de Paris, Barclays Bank Plc, Citi Bank N.C., Deutsche Bank A.G., Hongkong and Shanghai Banking Corporation, Standard Chartered Bank, The Chase Manhattan Bank Ltd, Dresdner Bank AG.etc.

Non-Scheduled Bank:

Banks not under 2nd Schedule of the Reserve Bank of India Act, 1934 are called non-scheduled banks. Non-scheduled banks are also subject to the statutory cash reserve requirement. But they are not required to keep them with the RBI; they may keep these balances with themselves. They are not entitled to borrow from the RBI for normal banking purposes, though they may approach the RBI for accommodation under abnormal circumstances.

Priority sector lending certificates volume crosses Rs 3-trillion mark. PSLCs relating to the small and marginal farmers segment continued to be in most demand, according to rating agency CRISIL

It will get a loan under priority sector lending scheme. The priority sector lending certificate volume rocketed to Rs 3.3 trillion in FY19, up from Rs 1.9 trillion in FY 18 and in the last financial year and 50,000 crors in FY 17.

PSLCs relating to the small and marginal farmers segment continued to be in most demand, according to rating agency graph.

Following financial years of the total priority sector as:

FY2015-16 32%

FY2016-17 34%

FY2017-18 36%

FY2018-19 38%

FY2019-20 40%

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