

A STUDY ON THE IMPACT OF PRIORITY SECTOR LENDING ON RURAL AREAS: A SPECIAL REFERENCE TO HAZARIBAG DISTRICT

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ABSTRACT

Priority Lending is essential to India's inclusive prosperity. In order to ensure that economic development is consistent and filters down to all levels of the economy, credit allocation to priority industries is essential. The Scheduled Commercial Banks (SCB) in India are required by RBI to supply credit to priority sectors that have been defined as critical. All banks must meet the goals and subgoals for lending to priority sectors as a minimum percentage of Adjusted Net Bank Credit (ANBC) or Off-Balance Sheet Exposure (OBE), whichever is higher. This paper aims to understand how credit is delivered to the priority sector by public sector banks (PSBs) and private sector banks (PrSBs), analyze the ability of the banks to meet the targets and subtargets as Agriculture Advances, Micro, Small and Medium Enterprises Advances, and Weaker Sections Advances, and determine whether these banks are following the RBI's recommendations in providing credit to various sub segments of the priority sector, in particular, Agriculture, MSMEs, and Weaker Sections. Ratios were computed to determine the percentage of priority in the ANBC and the proportion of these priority advances in the overall advances.

KEYWORDS : Priority Sector, Public Sector Bank, Private Sector Bank, Adjusted Net Bank Credit, Off Balance Sheet Exposure, Total Advances, Agriculture, Micro, Small and Medium Enterprises, and Weaker Sections.

INTRODUCTION

Priority Sector Lending was developed as a result of banks' "Direct Lending" to a select few underserved industries. The RBI, India's central bank, and Indian banks all held the view that lending to some sectors and controlling the essential ones might lead to balanced growth and stability in the economy. Sectors of national importance that were previously ignored or undervalued by banks in order to increase loan availability are now seen as priority sectors for credit provision since they represent the foundation for the nation's real growth.

HISTORY OF PRIORITY SECTOR LENDING :

1. July 1966, All India Rural Credit Review Committee

Recommendations for enhancing agricultural lending by cooperating with cooperative banks and institutions and performing a complementary role.

2. Bank Social Control Measure, 1967

This idea is based on the socialist ideal, and each and every bank is required to match its activities with the national goal.

3. The National Credit Council in 1968

It is advised to estimate the demand for bank loan from various industries. Co-operative and commercial banks should work together to do this in order to maximize resource usage and protect clients from predatory lenders. 1968's Banking Laws Amendment Act became effective in 1969. With the use of this law, the government is able to monitor and manage all bank operations while maintaining a focus on national goals.

4. Bank nationalization, 1969

14 large banks were nationalized in order to ensure that ignored industries received loans rather than focusing more on economic might.

5. Informal Study Group on Statistics 1974

Priority sectors were formally established in accordance with the committee's suggestions. RBI advice from that year. According to the RBI, banks should increase their percentage of the designated targeted industries to 33.3 percent by March 1979 in consideration of the committee's recommendations, and private sector banks should achieve a level of not less than one-third of their total outstanding at par by March 1980.

6. Working Group on the Modalities of PSL, 1980, under the direction of Dr. K.S. Krishnaswamy

All commercial banks were advised to reach the PSL objective of 40% of bank loans by 1985 and were also given specific subtargets for priority sector lending.

Priority sector's aims and sub-targets In order to promote lending to the priority sectors, the RBI gave SCBs in India specific goals and sub-targets.

The following objectives and sub-targets are listed in RBI Master Direction Priority Sector Lending objectives and Classification, RBI/FIDD/2016-17/33, for all SCBs operating in India. Scheduled commercial banks operating in the United States and international banks with 20 branches or more:

Total Priority Sector: 40% of ANBC, or the amount of Off-Balance Sheet Exposure comparable in Credit, whichever is larger.

Agriculture: 18% of ANBC or the greater of the credit equivalent amount of off-balance sheet exposure. For small and marginal farmers, a target of 8% of ANBC or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is larger, is specified within the 18% objective for agriculture.

Micro, Small, and Medium Businesses: 7.5% of ANBC or the greater of the Credit Equivalent Amount of Off-Balance Sheet Exposure.

Advances to Weaker Sections: 10% of ANBC or the greater of the Credit Equivalent Amount of Off-Balance Sheet Exposure. Domestic banks are also instructed to make sure that the total amount of loans made to individual farmers does not go below the system-wide average of the previous three years' performance. The beneficiaries who formerly made up the direct agriculture sector should continue to get direct loans at a rate of 13.5%.

For the purpose of calculating success under priority sector lending, the relevant system wide average number as applicable to domestic banks and made applicable for foreign banks with 20 branches and above from FY 2019–20 shall be communicated annually.

Total Priority Sector: 40% of ANBC or the credit equivalent amount of Off-balance sheet exposure, whichever is larger, to be realized gradually by 2020 as follows: 32% in 2015–16, 34% in 2016–17, 36% in 2017–18, 38% in 2018–19, and 40% in 2019–20. Lending to industries other than exports is required to meet the extra priority sector lending objective of 2% of ANBC every year from 2016–17 to 2019–20.

Adjusted Net Bank Credit (ANBC): Reserve Bank of India Priority Sector Lending -Targets and Classification) Directions, 2016, ANBC can be calculated by calculating the Net Bank Credit (NBC), and this NBC can be calculated by subtracting the Bills Rediscounted with RBI and other approved Financial institutions from Bank Credit in India, to this NBC Investments in Non-SLR categories under HTM category and other investments eligible to be treated as treatable debt from the NBC

Off-Balance-Sheet Exposure (OBE) : By combining present and potential future credit exposure to various contracts, the credit equivalent value of a market-related off-balance sheet transaction is determined using the current exposure approach.

REVIEW OF LITERATURE

- According to Patidar (2002)** : the RBI requires all Indian banks, regardless of where they are from, to engage in a specific style of lending. The NPA in Priority Sector Lending is examined in his article, and a comparative analysis is banks in both the public and private sectors.
- According to Prashanth (2002)** : the liberalization of interest rates, the elimination of reserve requirements, the removal of entry obstacles, the adoption of prudential standards, and risk-based supervision have all seen quick advancements in India's financial sector reform. In dealing with NPAs, several Asian nations' experiences are discussed in this essay. It also examines how much NPAs have increased as a result of the changes, and by using lessons learned from other nations, it offers ways to deal with the issue.
- Non-Performing Assets, according to Swarnalatha (2005)** : the main obstacle that has a significant negative impact on the banking industry's profitability. To address this issue, several Acts and changes have been put into place. His research effort examined how NPA changed over time for various banking sectors and offered solutions. The project tracks the progression of improvements over a three-year period, and an analysis is done in comparison.

- 4. The concerns pertaining to the necessity of PSL were identified in the RBI (2005) :** draft technical document of the internal working group. The working committee advised the necessity of PSL prescriptions, the composition of the priority sector, which comprises agricultural, SSI, small road and water transport operators, small businesses, professional those who work for themselves, education, housing, etc.
- 5. Bhati (2006) :** It investigated the lending environment for banks in developing nations like India. According to the study, banks in India take on a lot more risk when making loans as a result of government policy. This study concentrated on a single element of the connection between the branch manager and loan officer at bank branches in India, and it suggested that social risk assessment is a more acceptable method for risk assessment and mitigation by Indian banks.
- 6. The Ghosh and Ghosh (2011) :** study places a strong emphasis on the management of non-performing assets in India's public sector banks under stringent asset classification standards, usage of the most up-to-date technical platform, recovery methods, and other bank specific Reserve Bank of India indicators. In the study of a bank's financial performance, non-performing assets play a key role. Various banks from various categories collectively offer advances to various sectors, including SSI, agriculture, strategic industries, public sector, and other sectors. Pre-sanctioning appraisal and post-disbursement supervision are necessary for these advances in order to keep rising non-performing assets in the Indian banking sector under control. For banks to become more profitable, non-performing assets must be decreased.
- 7. The agricultural credit situation in India was discussed by Ranjan (2011) :** The Department of Finance, Seemanta Engineering College, in Odisha, with a focus on institutional finance for the agricultural sector. He provided a comparison of the loan flows to agriculture from Commercial Banks, Cooperative Banks, and Regional Rural Banks and suggested that linkages between these agencies at all levels are necessary to improve credit flows to agriculture.
- 8. According to Venugopal (2014) :** It essay, commercial banks are trained to give at least 40% of their total lending to priority sectors. For 11 years, from 2003 to 2014, he investigated how financial institutions in the Coimbatore District lent to priority sectors. He has come to the conclusion that there is no distinction between leading the agriculture sector and the small-scale industries sector, but the loan service industry has a sizable market.
- 9. Coordinated financing is needed for India's priority sector development, according to Muneeshkumar, Neetika Batra, and Florent Deisting (2016) :** Consistent and sufficient loans ought to be given to the priority sector. Offerings for loans For the growth of small-scale industry and agriculture, my country. They have identified the priority sectors (areas of need) and support improving the sufficiency of the loan program for the needy.

10. Kanagaraju and Jayasedan (2016) : - The performance of lead bank schemes of banks in Tamil Nadu was studied with special reference to the Thanjavur district, in their study they found that lead bank scheme provides priority sector advances and government-sponsored scheme loans in Thanjavur district. Regarding deposit and advances, priority sector advances and collection performance of banks' performance of lead bank scheme were analyzed and compared, and found that lead has improved the performance of the bank's plans.

11. Sharifio & Akhterj (2016) : -This study studies the impact of CDR on the profitability of banks, taking data from 26 public sector banks and covering the period from 2008 to 2015, the study found that public sector banks CDR has a positive impact on financial performance.

12. Dave (2016) : - The researcher has analyzed the priority sector loans for public sector banks in India. He has used the statistical tool Anova to find the priority sector of selected banks like SBI, PNB, BOB, and BOI. They have found that the credit activity for the priority sector by the total selected banks is following the priority sector parameters which is close to a quarter of the average of their total advance during the research period.

13. Sharma and Rathore (2016) : It used panel data from Indian scheduled commercial banks for ten years to study the impact of NPA on profits, Return on assets, return on equity, and net interest margin are used to assess profitability, whereas Gross NPA to Gross advances ratio and Net NPA to Net advances ratio are used to measure NPA. A regression model is used to examine the data. NPA has a negative and significant impact on Return on Assets and Return on Equity, according to the study, but NPA has a negative but small impact on Net Interest Margin.

14. Solanki (2016) : -The researchers analyzed the priority sector lending by the commercial bank in India. They examined the past and present status of priority sector lending and used the statistical instrument ENOVA test and took a convenient sample size and concluded that there is no significant difference in priority sector lending between the selected banks.

15. Das Abhiman, Ghosh Saibal (2016) : -The researcher found in his study that a large proportion of Indian banks go into the priority sector which has a low-interest rate, which reduces the profitability of banks. The researcher has used DEA Analysis.

16. Mishra (2016) : -looked at data from public sector banks over ten years and found that the contribution of priority sector lending to total NPA is decreasing in relative terms but increasing in absolute terms, whereas non-priority sector lending is increasing in both relative and absolute terms.

17. Santosh Kumar Panda, Ganesh Prasad Panda, and Dr. Anil Kumar Swain (2017) : have investigated the priority sector loans made by banks in an effort to pinpoint the factors that affect the success of these loans. They came to the conclusion that projects are what determine whether or not lending to priority sectors will succeed. Evaluation, loan volume, loan target, loan target's timeframe, segmentation of the loan, and elimination of loan sanctioning challenges.

18. GOI Budget (2017-2018) :- the agricultural credit flow has increased consistently over the years exceeding the target set for each fiscal for instance credit worth Rs.11.68 lakh crore was given to farmers this year.

19. Panda, Panda, & Swain (2017) : Studied the determinants of PSL of public sector banks in India. They analyzed data from 10 years (2006-07 to 2015-16) using a multiple regression model and concluded that factors like Performance, Bank Size, and Efficient Lending are major factors affecting PSL. The study also reveals that private-sector banks are better in terms of achieving overall PSL targets

20. Dey (2018): -In a recent research paper that looked at aspects of recovery of bad loans of Indian commercial banks, the author explains the role of DRIs better than making recovery through lok adalat and the SARFAES Act.

21. GOI Budget (2019) : - The government has been increasing the credit target for the farm sector every year the time too, the target is likely to be increased by around 10 % or Rs.1 lakh crore of Rs.12 lakh crore for this F.Y.

RESEARCH GAP

A careful examination of the 68 studies cited above made it abundantly evident that, as of this writing, no study had been conducted to determine how well public sector banks performed in Hazaribag district in terms of lending to priority industries. The researcher has made an effort to pinpoint the contributions that commercial banks have made to the district of Hazaribag's key industries. This study will be a ground-breaking endeavor.

The reviews of previous studies have briefly looked at priority sector lending & lead bank schemes separately. Various studies were conducted about the unbanked & the lead bank scheme. Banks mostly face problems while the distribution of funds towards priority sector lending. However various banks are trying to fulfil the guidelines issued by RBI.

OBJECTIVES OF THE RESEARCH

1. To find out improvement in the general awareness of the bank schemes.
2. To find out the income and employment in rural areas through MSME.
3. To assessment of medical facilities in rural areas.
4. To evaluate of enrolment of children in rural areas.
5. To evaluate the standard of living of rural people.

HYPOTHESIS FORMULATION

H0 : There has been no improvement in the general awareness of the bank scheme.

H1 : There has been improvement in the general awareness of the bank scheme.

H0 : There is no increase in employment in rural sector from MSME.

H1 : There has been a tremendous increase in employment.

H0 : Medical facilities are not good in rural areas.

H1 : Medical facilities are very good in rural areas.

H0 : The enrolment ratio of children in rural area has increased in school.

H1 : The enrolment ratio of children in rural area has decreased in school.

H0 : There is no improvement in the standard of living of the people of the rural areas.

H1 : The standard of living of the people in rural areas has improved tremendously.

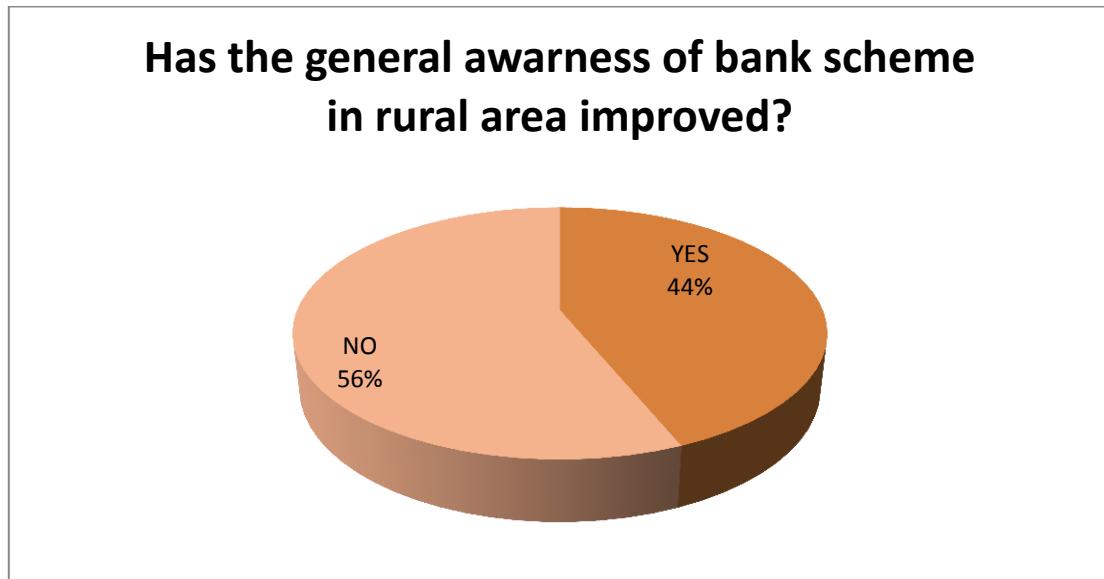
RESEARCH METHODOLOGY

The Methodology section answers two main questions: How was the data collected or generated? How it analysed?

1. **RESEARCH DESIGN:** Research design means research strategy. it is the blue print of the any research. The preparation that is done before data collection is called research design.
2. **RESEARCH METHODS :** It is the part of research design. We used quantitative data in our research.
3. **SAMPLE SIZE:** The sample size of our research is 80.
4. **SAMPLING TECHNIQU:** We used convenience sampling method in our research.
5. **DATA COLLECTION: Our** whole research is based on primary data. We have done our data collection through observation method.

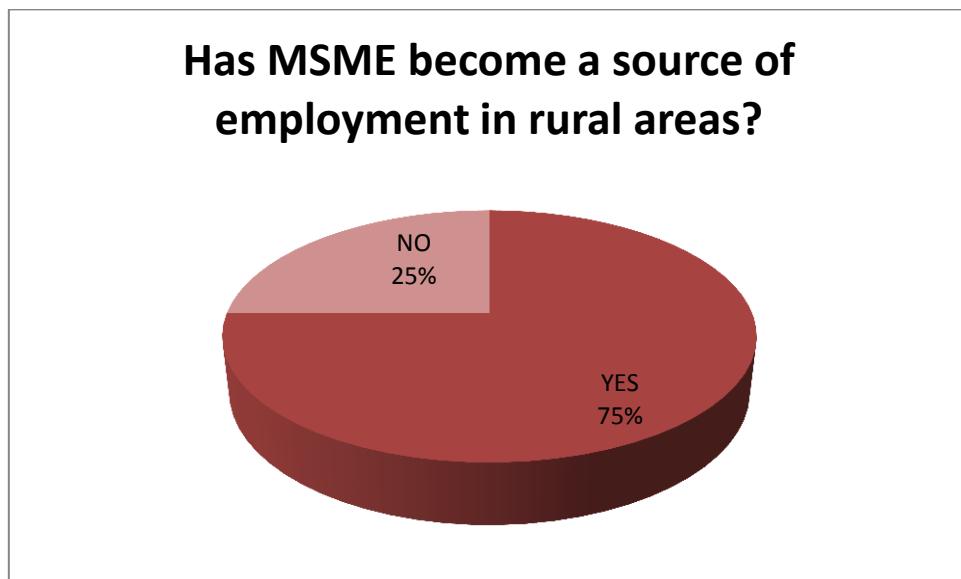
a. **DATA ANALYSIS:** We have shown the response given by the respondent through pie chart. We have used the best statistical method SPSS SOFTWARE for our data analysis. We have shown data analysis by SPSS immediately after the analysis of pie chart.

PIE CHART 1



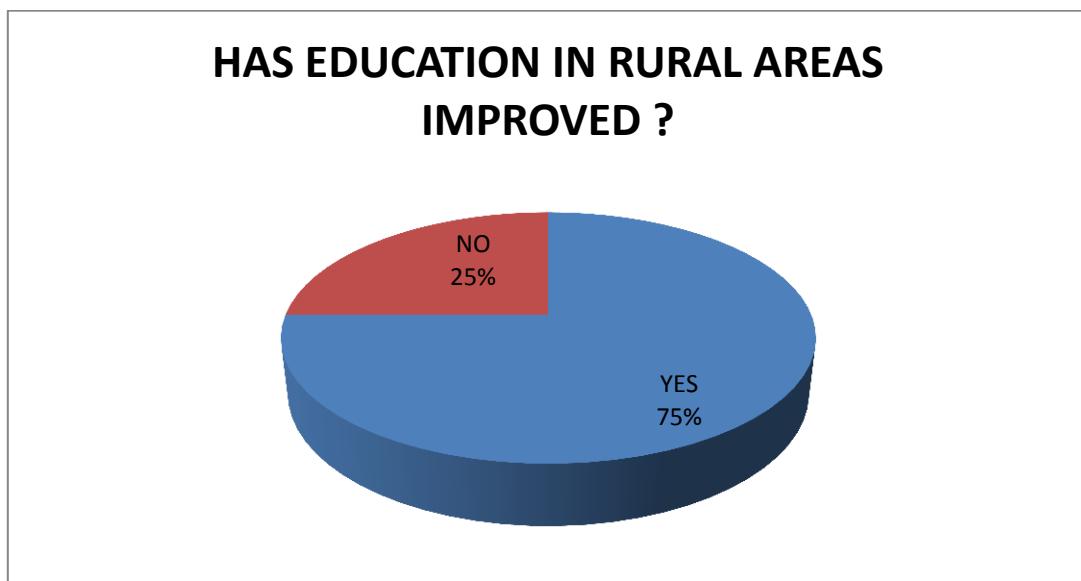
DATA INTERPRETE: It can be seen from the above pie chart that 44% of the respondents who are 35 in number believe that the general awareness of the bank scheme has improved in rural areas. While 56% of whom 45 have believed that there has been no improvement in the general awareness of any banking scheme in rural areas.

PIE CHART 2



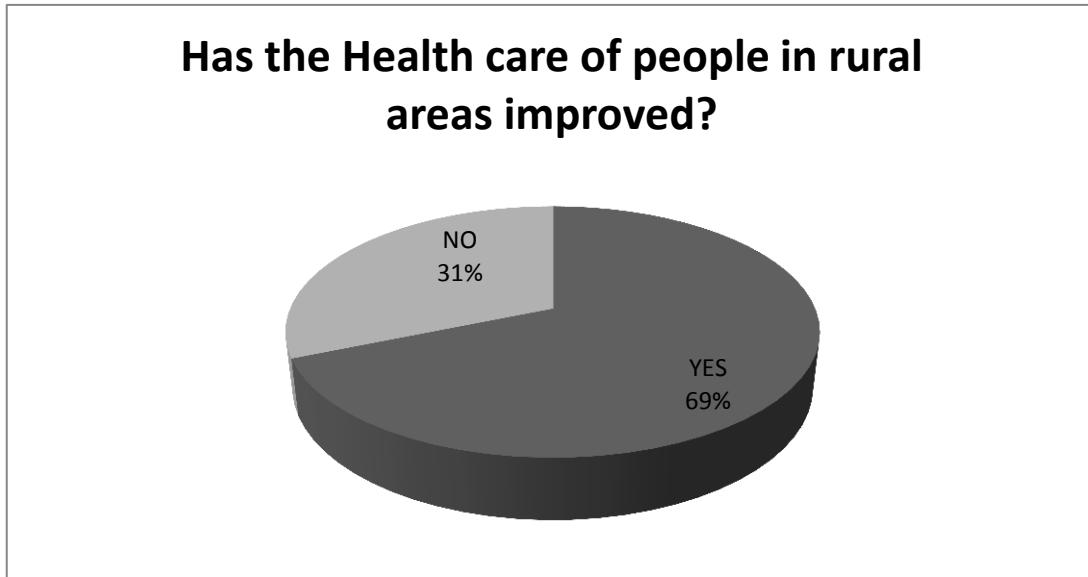
DATA INTERPRETE: It is clear from the above pie chart that 75% people whose number is 50 believed that MSME is promoting employment in rural areas. While 25% of the people whose number is 30 gave the opposite answer saying that MSME's have not boosted employment.

PIE CHART 3



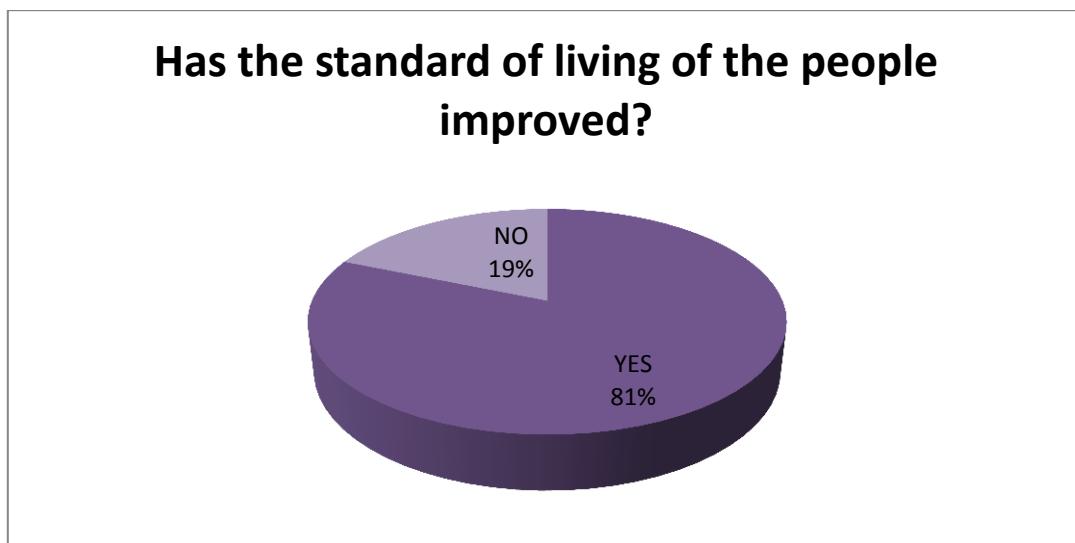
DATA INTERPRETE: From the above pie chart we can see that 75% people who are 60 believed that the enrolment ratio of children in rural areas has increased in schools. While 25%, whose number is 20, have agreed that the enrolment of children in schools in rural areas has not increased.

PIE CHART 4



DATA INTERPRETE: It is clear from the above pie chart that 50% of the respondents whose number is 55 believed that people are getting better medical facilities in rural areas. While on the contrary 31% whose number is 25 believed that there has been no improvement in medical facilities in rural areas.

PIE CHART 5



DATA INTERPRETE: It is clear from the above pie chart that 81% people whose number is 65 believed that the standard of living of people in rural area has improved. On the contrary, 19% people believed that the standard of living of the people of the area is the same as before.

DATA ANALYSIS

Z TEST : ONE SAMPLE FOE MEAN	
z-Test: Two Sample for Means	
	AGE
Mean	37.49382716
Known Variance	25
Observations	81
Hypothesized Mean Difference	23
z	26.08846626
P(Z<=z) one-tail	0
z Critical one-tail	1.281551566
P(Z<=z) two-tail	0
z Critical two-tail	1.644853627

DATA INTERPRETATION

We used z test in our research. Z test is used when the sample size is more than 30. And our research is based on parametric test. Parametric test is a type of hypothesis test. The critical one tail of Z is 1.28 and the critical two tail of Z is 1.644. CALCULATED VALUE OF TEST STATISTICS < CRITICAL VALUE. WE CAN REJECT THE NULL HYPOTHESIS.

HYPOTHESIS TESTING RESULT

H0 (Null)	Ha (Alternative)	Reject/ Accept
There Has Been No Improvement In The General Awareness Of The Bank Scheme.	There Has Been Improvement In The General Awareness Of The Bank Scheme.	H0 Reject
There Is No Increase In Employment In Rural Sector From Msme.	There Has Been A Tremendous Increase In Employment.	H0 Reject
Medical Facilities Are Not Good In Rural Areas.	Medical Facilities Are Very Good In Rural Areas.	H0 Reject
The Enrolment Ratio Of Children In Rural Area Has Increased In School.	The Enrolment Ratio Of Children In Rural Area Has Decreased In School.	H0 Reject
There Is No Improvement In The Standard Of Living Of The People Of The Rural Areas.	The Standard Of Living Of The People In Rural Areas Has Improved Tremendously.	H0 Reject

CONCLUSION

Priority sector lending is a crucial and essential services of all the commercial banks to promote and develop the priority sectors who are basically the weaker sectors in the society due to lack of financial support and credit facilities. Reserve bank of India being the apex bank analyses the norms framed related to the priority sectors periodically and by the recommendations of the working groups setup for the purpose to examine the negative and positive aspects of the norms and the problems, issues and challenges that sprout to reduce the target rates of these sectors, RBI revises the target and sub targets accordingly. Banking sector plays a major role towards the contribution in the country's gross development product. The banks when provide loans to these priority sectors eventually their contribution in the country's GDP increases. The priority sectors after the implementation these loans, credit facilities and schemes have been largely benefitted and have witnessed immense growth in their sectors but recently their contribution in the GDPs have declined and as well as the bank's credit growth on these sectors. Banking sector is just a small part in the priority sectors decreasing contribution in the country's GDPs there are various other reasons. The priority sectors scenario has become very pathetic as they have no proper supports form all aspect.

Our Research Based On	Parametric Test
Assumption	Yes
Mean Value	Central Tendency Value
Person	Correlation
Normal	Probabilistic Distribution
Requires	Population Knowledge
Interval Data	Used For
Variables	Applicability
Economic Impact	Income Generation, Employment Generation, Utilization Of Income And Assets Creation
Social Impact	Improvement In Health Care For Self & Family, Improvement In Giving Better Education To Children, Improvement In The Standard Of Living, Improvement In The Awarness Of The Priority Sector Sechemes And Improvement In The General Awarness Of Bank Schemes.
Level Of Significance (Alpha)	5% ,11%
Level Of Confidence (C)	95% , 99%

SUGGESTIONS

1. There is need to fulfil the achievements as per the targets under the priority sector lending. Many times the banks are only tries to complete the total priority sector lending. There is need of strict supervision on the banks whether the banks are completing the targets according to the category or not as every sector requires finance. Similarly if the targets are not fulfilled in the current year the next year that category can be marked with the aggregate targets.

2. The trends are always changing & it is positive in nature that the banks are revising the targets according the requirement of the priority sector lending categories. However the banks can maintain the increasing trends in terms of percentage growth.
3. The Central Bank of India should increase their contribution under the total priority sector lending as it is one of the important lead banks in Jharkhand state.
4. The lead district managers in the rural area can create awareness among the people about the various schemes designed by the government so that maximum targets can be achieved under the different categories of the sector.
5. The Agriculture & crop loans plan can be prepared separately by the banks instead of mixing them with different categories of priority sector.

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