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CONTENTS

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REVIEW OF LITERATURE

NEED/IMPORTANCE OF THE STUDY

STATEMENT OF THE PROBLEM

OBJECTIVES

HYPOTHESIS (ES)

RESEARCH METHODOLOGY

RESULTS & DISCUSSION

FINDINGS

RECOMMENDATIONS/SUGGESTIONS

CONCLUSIONS

LIMITATIONS

SCOPE FOR FURTHER RESEARCH

REFERENCES

APPENDIX/ANNEXURE

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PRIORITY SECTOR LENDING BY COMMERCIAL BANKS IN RAJASTHAN

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ABSTRACT

Institutional financing refers to credit or loans provided by financial institutions (in contract to credit or loans given by private individuals like money lenders, whole sellers and retail merchant, landlords and relatives etc.) like co-operative agencies, Commercial Banks (CBs) and Regional Rural Banks (RRBs). The present study is confined only to those institutions which are fundamentally financial in character and provide financial assistance for rural development. In recent years' Indian agriculture has undoubtedly witnessed a major technological breakthrough and a progressive commercialization which has mainly ushered in what has come to be known as the 'Green Revolution' with these technological changes the importance of capital in agriculture production in India rising remarkably. The main objective of the proposed study is to find out various ways and means as to how the facility institutional finance may be increased from the existing sources and also as to what could be the other perspectives sources of rural finance to meet the increasing requirement for the rural development of Rajasthan. The main objective of the proposed study is to find out various ways and means as to how the facility institutional finance may be increased from the existing sources and also as to what could be the other perspectives sources of rural finance to meet the increasing requirement for the rural development. The primary data have been collected with the help of two types of structured questionnaires meant for the bankers and the recipients of the loans. Proper and effective supply of institutional finance helps to improve the working efficiency and level of rural development. The performance of institutional financing agencies not only at the state level, but also at the district level could be made effective by systematic and efficient financial and credit planning, making policies and proper monitoring of the schemes.

KEYWORDS

Rajasthan, commercial banks.

LIST OF ABBREVIATIONS

CBs	:	Commercial Banks
GDP	:	Gross Domestic Product
PSL	:	Priority Sector Lending
RRBs	:	Regional Rural Banks
SLBC	:	State Level Bankers' Committee

INTRODUCTION

In recent years Indian agriculture has undoubtedly witnessed a major technological breakthrough and a progressive commercialization which has mainly ushered in what has come to be known as the 'Green Revolution' with these technological changes, the importance of capital in agriculture production in India rising remarkably.

To tackle the problems of rural credit in an effective manner, the government has assigned the task to three main agencies, namely, co-operative banks including land development banks, commercial banks and regional rural banks.

The Commercial Banks (CBs) provide multi-purpose and multi-term credit to all categories of borrowers engaged in agriculture and other economic activities. The RRBs, however, serve a restricted clientele as a matter of policy.

REVIEW OF LITERATURE

The review of literature is likely to provide a bird's eye view of the studies conducted on the subject matter. A number of studies have been conducted on the role of organized financial institutions in providing Agricultural finance, but a few are on the role played by the un-organized sector of finance in Rural Sector. The studies have been conducted both of macro and micro levels.

IMPORTANCE

The very initial interest in the proposed study is generated following spectacular success achieved by the financial institutions in the rural development during recent years. With the increased involvement of multi-credit agencies, bank credit has become indispensable for the development of the rural economy. Besides the increase in the quantum of credit, institutional credit has become more diversified and spread over a number of rural economic activities. The financial strategies of the banks are directed more towards productive purposes and the generation of additional income in the agricultural sector.

RESEARCH METHODOLOGY

The study has two main facts, namely the supply side related to the banks and the demand side pertaining to the borrowers. Further, the supply aspect has been studied at the macro as well as micro-level and the demand aspect at the micro-level.

The macro level investigations are based on secondary data which have been collected from the records of banks, annual reports, various statistical abstracts, journals, newspapers and such other sources. These investigations and an analysis provide necessary insight into various related issues like coverage of rural areas by institutional financial agencies, terms and conditions of loans, quantum of advances made, and deposits mobilized from the rural sector.

An attempt has been made to assess the impact and to examine the problems at the micro-level through the use of primary data. The primary data have been collected with the help of two types of structured questionnaires meant for the bankers and the recipients of the loans. To measure the impact of institutional finance at the grass-root level several indicators such as increase in area under crops, irrigation, modern farm practices, sales value of output, and the use of the luxury items is used to find out whether the borrowers derived any significant gains or not, the comparisons is made of the sample farmers, farm activities relating to two points of time, namely, the pre-bank loan period and the post-bank loan period.

Role of financial institutions is crucial in the development of any sector and agriculture is no exception to it. Rather, the development of agriculture sector is more dependent on banking sector because about 80 percent of farmers are small and marginal, who are unable to save and invest due to their low levels of income. Further, about 70 percent of the population of India lives in rural areas contributing about 22.2 per cent to Gross Domestic Product (GDP) and forms the largest consuming market leading to income and employment generation through multiplier effects. Banking sector helps in the monetization of the economy. Agriculture is the most crucial sector of the country because the main policies of output growth, poverty alleviation, social justice and equity are best served in this sector. Thus there is a need to increase the credit flow to agriculture, raise productive capacity of land and enhance the potential of water resources as well as its use efficiency for agricultural production.

When the country faced the problem of food shortages in the early sixties, agricultural public policy aimed at increasing productivity and production of food grains to meet this challenge. The cultivation of wheat and rice varieties which were highly responsive to purchased inputs like fertilizers, agro-chemicals and irrigation required capital at the farm level. Agricultural credit scenario was largely dominated by private informal sources of credit i.e. professional money lenders and traders. The participation of commercial banks was negligible in agricultural loans. Farmers' level of income was low and they were hesitant to use modern technology. Therefore, agricultural credit policy aimed at increasing the flow of institutional credit at reasonable rates of interest to agriculture sector. The cooperative credit structure was strengthened by reorganizing and merging weak societies with strong societies.

TYPES OF RURAL CREDIT

Three types of loans are provided to Indian farmers to meet their financial requirements-

(i) Short term loans,
(ii) Medium term loans and
(iii) Long term loans

Short term loans are provided for a period of less than 15 months to meet out expenses of routine farming and domestic consumptions. This type of loans is demanded by farmers for purchasing seeds, fertilizers and for meeting out family requirements. Medium term loans are provided for a period of 15 months to 5 years to purchase agricultural equipment's, animals and for land improvements. Long term loans are provided for a period of more than 5 years. This type of loan is taken by the farmers to purchase land and expensive agricultural equipment's and for repayment of old loans.

SOURCES OF RURAL CREDIT

The sources of rural finance are broadly classified into two categories: (A) Non-institutional Credit Agencies or informal sources, and (B) Institutional Credit Agencies or Formal Sources.

PRIORITY SECTOR LENDING BY CBS

It is worthwhile to examine the pattern to bank credit prior to nationalization during 1951-1968 in view of the following sector classification:

(i) Agriculture;
(ii) Industry;
(iii) Trade;
(iv) Personal; and
(v) Others

Table 1 shows the sector wise distribution of banking credit during 1951-1968.

TABLE 1: SECTOR WISE DISTRIBUTION OF CREDIT BY SCHEDULED COMMERCIAL BANKS (Percentage to total bank credit)

S. No.	Sector	1951 (%)	1968(%)
1	Agriculture	2.1	2.2
2	Industry	34.0	67.5
3	Trade	36.0	19.2
4	Personal	6.8	3.7
5	Others	21.1	7.4
	Total	**100.0**	**100.0**

Source: RBI Report of the Trend and Progress of Banking in India 1968-69

CHART 1: SECTOR WISE DISTRIBUTION OF CREDIT BY SCHEDULED COMMERCIAL BANKS (Percentage to total bank credit)

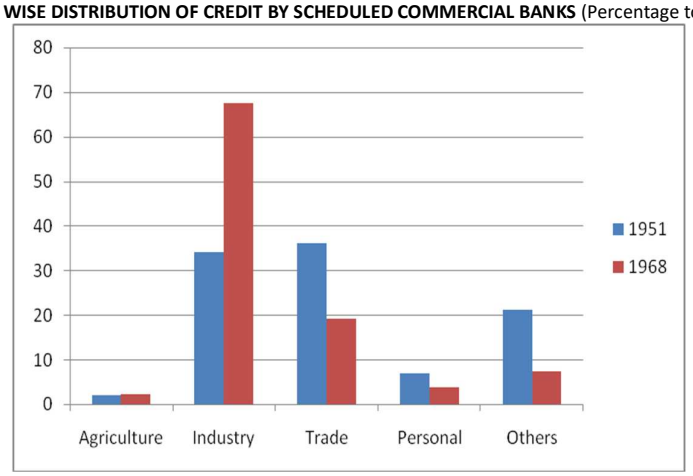

Table 1 shows that agriculture received a very meagre share of 2.1 per cent in the total bank advances in 1951 in India. It remained almost the same (2.2 per cent) even after 17 years of planning which assigned top priority to agricultural development in 1968. The main reason was commercial banks rigidity in their lending approach have been reluctant to provide bank credit to the farmers.

The share of industrial sector which was already high at 34 per cent in 1951 increased almost two-fold to 67.5 per cent in 1968. This is, firstly, because there was an increasing demand for bank credit in the industrial ventures and secondly, the private sector banks were owned or controlled by the big industrial houses, so they would claim huge loans with undue favors.

The share of the trade sector in total bank credit reduced to half, from 36 per cent in 1951 to 19.2 per cent in 1968. Personal loans to private individuals also declined from 6.8 per cent in 1951 to 3.7 per cent. The share of other categories also decreased from 21.1 per cent to 7.4 per cent during the same period.

POST NATIONALIZATION ERA

The diversification of a large fraction of bank credit from the traditional sector to the priority sector is a remarkable feature of credit deployment in the post nationalization era. The concept priority sector lending (PSL) is mainly intended to ensure that assistance from the banking system is an increasing manner to those sectors of the economy which has not received adequate support of institutional finance.

Financing of priority sector has been one of the strategies of the banks in their developmental role in India. The development economics aim at achieving simultaneously their goals of higher growth rate and distributive justice.

The conflict between economic and distribution justice has to be eliminated by suitably amending the development strategies, particularly with reference to the weaker section of society. Efforts should be made in this direction on a war footing. During the more than forty years, India has launched a multipronged attack on the multi-dimensional problems of poverty. One of the ingredients of this anti-poverty programme is priority sector lending by banks. Banks in general and public sector banks in particular are required to take one certain social as well as economic responsibilities. These include a massive thrust into the rural sector of the country, and lending to sector such as agriculture, small industry, etc. There are areas which have previously been virtually ignored by commercial banks in their operations. It was, therefore thought that the banks should give up their traditional approach, should be more creative and innovative in their approach to credit by catering to their genuine needs of either to neglected but socially desirable fields of productive actives and popularly called the priority sector of the economy.

The commercial banks played a significant role among the institutional sources of credit for priority sector in India. The significance of bank credit in the priority sector can be observed against the backdrop of increasing quantum of such credit to this sector. The table–2 presents total bank credit and the deployment of bank credit to priority sector in India during 1997-2006, 2013.

TABLE 2: DEVELOPMENT OF BANK CREDIT TO PRIORITY SECTOR IN INDIA (1997-2006, 2013) (Amount Rs. in crore)

Sr. No.	Priority Sectors	March 1997	March 1998	March 1999	March 2000	March 2001	March 2002	March 2003	March 2004	March 2005	March 2006	March 2013
1	Total Bank credit	2,58,991 (100)	3,00,283 (100)	3,42,012 (100)	4.00,818 (100)	4,69,153 (100)	5,36,727 (100)	6,69,534 (100)	7,64,383 (100)	10,40,909 (100)	14,45,837 (100)	21,81,8200 (100)
2	Agriculture & Allied	31,442 (12.1)	34869 (11.6)	39634 (11.6)	44381 (11.1)	51922 (11.0)	60761 (11.3)	73,518 (10.9)	90,541 (11.8)	1,25,250 (12.0)	1,72,279 (11.9)	66,35,400 (30.41)
3	Small Scale Industries	35944 (13.9)	43508 (14.5)	48483 (14.2)	52814 (13.2)	56002 (11.9)	57199 (10.6)	60,394 (9.0)	65,855 (8.6)	74,588 (7.2)	90,239 (6.2)	54,09,000 (24.81)
4	Other Priority Sectors	17494 (6.8)	21130 (7.0)	26494 (7.7)	34632 (8.6)	46490 (9.9)	57299 (10.9)	77,697 (11.6)	1,07,438 (14.0)	1,81,638 (17.4)	2,47,379 (17.1)	---

Source: Reserve Bank of India Report on Currency and Finance, various issues

Figures in the parentheses indicate percentage to total bank credit deployed.

The outstanding bank credit of small scale sector increased from Rs.35, 944 crore in March 1997 to Rs. 90, 239 crore in March 2006 recording a 2.5 fold increase but the percentage share to total bank credit has declined from 13.9 per cent to 6.2 per cent. During the same period, the amount of bank advances to agriculture sector increased from Rs.31, 442 crore to Rs.1.72, 279 crore. There is a sudden jump of bank credit deployed to other priority sector during the period under consideration. The same has recorded an increase from Rs. 17, 494 crore in March 1997 to Rs.2, 47,379 crore in March 2006. After this in 2013 bank advances increased with approx. 37%. It can be argued that the growth of advances to other priority sector in absolute figure has gone over the growth of bank credit to small sector although the percentage share has remained lower throughout the period.

BANK GROUP WISE PRIORITY SECTOR ADVANCES

The bank group wise distribution of priority sector advances and percentage share to total bank credit in India are furnished in table-3

TABLE 3: PRIORITY SECTOR ADVANCES BY BANK GROUPS IN INDIA (Rs. in crore)

As on March	Public Sector Banks	Private Sector Banks	Foreign Banks
1995-96	61809 (36.6)	6049 (34.3)	4439 (29.0)
1999-00	107200 (43.5)	14155 (41.4)	8270 (37.0)
2005-06	409748 (40.0)	106586 (42.8)	30439 (34.4)
2009-10	864564 (41.68)	215552 (45.99)	60290 (35.09)

Source: RBI Statistical tables Relating to Banks in India, IBA Bulletins

It is clear that in the reform years percentage share of priority sector advances of PSBs has increased steadily from 36.6 per cent in 1995-96 to 41.68 per cent in 2009-10. Further during post reform era, PSBs lending in priority sector remains higher than the foreign banks. The PSBs did not achieve the priority sector target of 40 per cent till March 1998. The target was first achieved in 1999 and continued till 2009-10. The priority sector lending of PSBs, however, fell short of 40 per cent by 0.4 per cent in March 2007. The private sector banks were able to meet priority sector lending target of 40 per cent throughout the period from 1997-98 to 2009-10 except 2000-01. The 32 per cent target fixed for priority sector lending has been met by foreign banks over the years. This indicates that these banks, private banks in particular, lent larger quantity to the priority sector in recent years though the volume of advances are meager than that of PSBs.

PRIORITY SECTOR LENDING IN RAJASTHAN

The pace of priority sector lending of banks has received impetus since nationalization in the State. In June 1969, the total priority sector advances in Rajasthan which was Rs. 6.43 crore increased to Rs. 365.06 crore in 1981 and further increased to Rs. 1719.40 crores in March 1990. Table 3.6 reveals that in March 2000. Priority sector advances were Rs. 5519.75 crore. The same has increased to Rs. 49493 crore in March 2010.

Table 4 shows the overall growth of priority sector advances in respect of total advances during 1981-2010 in the State of Rajasthan. The growth of priority sector advances in respect of total advances was recorded 370.99 percent between 1981 and 1990 while it was 221.03 percent between 1990 and 2000. It was recorded 796.61 per cent between 2000 and 2010.

TABLE 4: PRIORITY SECTOR ADVANCES IN RAJASTHAN (During 1981-2010) **(Rs. in Crore)**

Year	Total advances	Priority sector advances	Percentage of priority sector advances to total advances	Growth rate of total advances over previous period	Growth rate of Priority sector advances over previous period
1981	662.24	365.06	55.13	--	--
1990	2896.38	1719.40	59.36	337.36	370.99
2000	10671.81	5519.75	51.72	268.45	221.03
2010	101817.00	49493.00	48.61	854.06	796.61

Sources: Compiled from Department of SLBC, Bank of Baroda, Rajasthan Zone, Jaipur

The ratio of priority sector advances to total advances has been higher than the stipulated norm of 40 percent in the State. It was the highest (59.36 percent) in 1990 and lowest 2010 (48.61 percent). Thus it is clear that in respect of priority sector advances a phenomenal growth was recorded in Rajasthan.

OVERALL GROWTH IN AGRICULTURAL ADVANCES

Table 5 shows the overall growth of agricultural advances from 1981 to 2010 and also shows the percentage of agricultural advances to total priority sector advances. It is evident from the table 5 that the agricultural advances which were Rs. 195.34 crore in 1981 increased to Rs. 27899 crore in 2010 while the total priority sector advances increased from Rs. 365.06 crore in 1981 to 49493 crore in 2010.

TABLE 5: AGRICULTURE ADVANCES IN RAJASTHAN (During 1981-2010) (Rs. in Crore)

Year	Total advances	Priority Sector advances	Agriculture advances	Percentage of Agriculture advances to total Advances	Percentage of Agriculture advances to Priority Sector Advances	Growth of agricultural advances over previous period
1981	662.24	365.06	195.34	29.50	53.51	-
1990	2896.38	1719.40	878.15	30.32	51.07	349.55
2000	10671.81	5519.75	2289.94	21.46	41.49	160.77
2010	101817.00	49493.00	27899.00	27.40	56.37	1118.33

Source: Compiled from Department of SLBC, Bank of Baroda, Rajasthan Zone, Jaipur

Growth of agricultural advances was higher (349.55 per cent) between 1981 and 1990 as compared to the period between 1990 and 2000 (160.77 per cent). The agriculture advances increased by 1118.33 percent between the year 2000 and 2010.

The share of agricultural advances in total priority sector was 53.51 per cent in 1981. It decreased to 51.07 per cent in 1990, 41.49 percent in 2000 but again increased to 56.37 per cent in year 2010. It was higher than the stipulated norm of 40 per cent of the total priority sector advances. Thus the growth of agricultural advances was quite good.

As a whole, banks achieved the target of 40 percent of the priority sector advances. This ratio was more than 50 percent during 1981 to 1990 and 2000 to 2010. As per the direction of Reserve Bank of India and Government of India, a major share of priority sector advances was given to agriculture.

CONCLUSION

There are three major issues before the rural financial institutions which need attention for making the agriculture sector make a significant contribution to the economic growth of the country – First, The quantum of flow of institutional credit to agriculture has to be increased; Secondly, The access to formal credit for the rural poor and disadvantaged and agriculturally less developed regions has to be improved; and the Last, the economic viability of rural banking system has to be ensured over time.

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