



## INTERNATIONAL JOURNAL OF RESEARCH IN COMMERCE AND MANAGEMENT

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## SITUATIONAL ANALYSIS OF BANKING PERFORMANCE IN KOLHAPUR DISTRICT WITH REFERENCE TO PRIORITY SECTOR LENDING

**RAMCHANDRA D.PATIL**  
**ASST. PROFESSOR**  
**INSTITUTE OF MANAGEMENT & RURAL DEVELOPMENT ADMINISTRATION**  
**BHARATI VIDYAPEETH DEEMED UNIVERSITY**  
**SANGLI**

### ABSTRACT

*It has been the Endeavour of each state to fulfill the needs of its citizens which are primarily food, clothing and shelter. Food takes the priority over all the other needs. Which implies that agricultural sector gets top most priority. In India there are thousands of marginal farmers who struggle to make both ends meet. Along with agriculture sector there are other sectors which play an important role in the upliftment of poor people. As a financial cover banking sector in India treat these Agriculture, Small Scale Industry and other sectors of prime importance from the socio-economic development point of the country as a priority sectors and allot substantial portion of their lending to these sectors. This paper performs a situational analysis of the banking performance in the priority sector lending in Kolhapur District.*

### KEYWORDS

Endeavour, citizens, priority, marginal farmers, substantial portion.

### INTRODUCTION

The role of Commercial Banks in India has been, and continues to be an important in the economical and social development of the country. Prior to nationalization, the banks had developed a powerful trend in the direction of monopoly and concentration of wealth in fewer hands. They were giving credit only to big business houses and large scale industries and helped financially those individuals and group their off who were rich and prosperous. This had led to the process of economic concentration. During this pre-nationalisation period some sectors which were important from the societal point of view like Agriculture, Small-Scale industries and cottage industries and socially backward people were totally neglected. Also there were regional disparities among the various geographical regions of the country.

After the nationalisation of 14 major private sector banks in 1969, these banks became public sector banks and their activities were directed towards serving in larger measure the neglected sectors of the economy. Since the neglected sectors constituted the large size of the Indian society, banks had to expand and reach to them all over the country. Thus nationalisation had resulted in the expansion of branch network, particularly in un-banked and under-banked geographical areas and thereby reducing regional disparities in the levels of economic development. The banking system had penetrated into the interior parts of the country and this has helped banking habits among the people. Bank borrowings have tended to substitute the traditional moneylenders. Banking services are now available in the all the areas and not served by the banks so that the credit gaps in agriculture, small-scale and other neglected sectors are met by the organized banking system.

Equity and social justice inter alias constitute the guiding principles of our five-year plans and they are sought to be promoted through rural development and extension of assistance to the weaker sections of the society. Special programmes are implemented through the banking sector to redirect resources to the previously neglected sectors and to the weak and under privileged sections of the population. Thus banking sector has emerged as an active agent for social and economic change. At present banks are playing a key role as a catalytic agent in the development of process of the economy.

### GENESIS OF PRIORITY SECTOR

At a meeting of the National Credit Council held in July 1968, it was emphasised that commercial banks should increase their involvement in the financing of priority sectors, viz., agriculture and small scale industries. The description of the priority sectors was later formalized in 1972 on the basis of the report submitted by the Informal Study Group on Statistics relating to advances to the Priority Sectors constituted by the Reserve Bank in May 1971. On the basis of this report, the Reserve Bank prescribed a modified return for reporting priority sector advances and certain guidelines were issued in this connection indicating the scope of the items to be included under the various categories of priority sector. Although initially there was no specific target fixed in respect of priority sector lending, in November 1974 the banks were advised to raise the share of these sectors in their aggregate advances to the level of 33 1/3 per cent by March 1979.

At a meeting of the Union Finance Minister with the Chief Executive Officers of public sector banks held in March 1980, it was agreed that banks should aim at raising the proportion of their advances to priority sectors to 40 per cent by March 1985. Subsequently, on the basis of the recommendations of the Working Group on the Modalities of Implementation of Priority Sector Lending and the Twenty Point Economic Programme by Banks, all commercial banks were advised to achieve the target of priority sector lending at 40 per cent of aggregate bank advances by 1985. Sub-targets were also specified for lending to agriculture and the weaker sections within the priority sector. Since then, there have been several changes in the scope of priority sector lending and the targets and sub-targets applicable to various bank groups.

### CATEGORIES OF PRIORITY SECTOR

(i) **Agriculture (Direct and Indirect finance):** Direct finance to agriculture shall include short, medium and long term loans given for agriculture and allied activities directly to individual farmers, Self-Help Groups (SHGs) or Joint Liability Groups (JLGs) of individual farmers without limit and to others (such as corporate, partnership firms and institutions) up to Rs. 20 lakh, for taking up agriculture/allied activities.

Indirect finance to agriculture shall include loans given for agriculture and allied activities as specified in Section I, appended.

(ii) **Small Scale Industries (Direct and Indirect Finance):** Direct finance to small scale industries (SSI) shall include all loans given to SSI units which are engaged in manufacture, processing or preservation of goods and whose investment in plant and machinery (original cost) excluding land and building does not exceed the amounts specified in Section I, appended. Indirect finance to SSI shall include finance to any person providing inputs to or marketing the output of artisans, village and cottage industries, handlooms and to cooperatives of producers in this sector.

(iii) **Small Business / Service Enterprises** shall include small business, retail trade, professional & self employed persons, small road & water transport operators and other service enterprises as per the definition given in Section I and other enterprises that are engaged in providing or rendering of services, and whose investment in equipment does

not exceed the amount specified in Section I, appended.

(iv) **Micro Credit :** Provision of credit and other financial services and products of very small amounts not exceeding Rs. 50,000 per borrower to the poor in rural, semi-urban and urban areas, either directly or through a group mechanism, for enabling them to improve their living standards, will constitute micro credit.

(v) **Education loans:** Education loans include loans and advances granted to only individuals for educational purposes up to Rs. 10 lakh for studies in India and Rs. 20 lakh for studies abroad, and do not include those granted to institutions;

(vi) **Housing Loans:** Loans up to Rs. 15 lakh for construction of houses by individuals, (excluding loans granted by banks to their own employees) and loans given for repairs to the damaged houses of individuals up to Rs.1 lakh in rural and semi-urban areas and up to Rs.2 lakh in urban areas.

#### TARGETS/SUB-TARGETS OF PRIORITY SECTOR LENDING

The targets and sub-targets set under priority sector lending for domestic and foreign banks operating in India are furnished below:

##### Total Priority Sector Advances:

###### i) Domestic Commercial Banks:

40 per cent of Adjusted Net Bank Credit (ANBC) or credit equivalent amount of Off-Balance Sheet Exposure, whichever is higher.

###### ii) Foreign Banks:

32 per cent of ANBC or credit equivalent amount of Off-Balance Sheet Exposure, whichever is higher.

##### Total Agricultural Advances:

###### i) Domestic Commercial Banks:

18 per cent of ANBC or credit equivalent amount of Off-Balance Sheet Exposure, whichever is higher. Of this, 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 performance under 18 per cent target. However, all agricultural advances under the categories 'direct' and 'indirect' will be reckoned in computing performance under the overall priority sector target of 40 per cent of ANBC or credit equivalent amount of Off-Balance Sheet Exposure, whichever is higher.

###### ii) Foreign Banks:

No target.

##### SSI Advances:

###### i) Domestic Commercial Banks:

Advances to SSI sector will be reckoned in computing performance under the overall priority sector target of 40 per cent of ANBC or credit equivalent amount of Off-Balance Sheet Exposure, whichever is higher.

###### ii) Foreign Banks:

10 per cent of ANBC or credit equivalent amount of Off-Balance Sheet Exposure, whichever is higher.

##### Micro Enterprises within SSI:

###### i) Domestic Commercial Banks:

(i) 40 per cent of total SSI advances should go to units having investment in plant and machinery up to Rs 5 lakh,

(ii) 20 per cent of total SSI advances should go to units with investment in plant & machinery between Rs 5 lakh and Rs. 25 lakh (Thus, 60 per cent of SSI advances should go to the micro enterprises).

###### ii) Foreign Banks:

(i) 40 per cent of total SSI advances should go to units having investment in plant and machinery up to Rs 5 lakh,

(ii) 20 per cent of total SSI advances should go to units with investment in plant & machinery between Rs 5 lakh and Rs. 25 lakh (Thus, 60 per cent of SSI advances should go to the micro enterprises).

##### Export Credit:

###### i) Domestic Commercial Banks:

Export credit is not a part of priority sector for domestic commercial banks.

###### ii) Foreign Banks:

12 per cent of ANBC or credit equivalent amount of Off-Balance Sheet Exposure, whichever is higher.

##### Advances to Weaker Sections:

###### i) Domestic Commercial Banks:

10 per cent of ANBC or credit equivalent amount of Off-Balance Sheet Exposure, whichever is higher.

###### ii) Foreign Banks:

No target.

##### Differential Rate of Interest Scheme:

###### i) Domestic Commercial Banks:

1 per cent of total advances outstanding as at the end of the previous year. It should be ensured that not less than 40 per cent of the total advances granted under DRI scheme go to scheduled caste/scheduled tribes. At least two third of DRI advances should be granted through rural and semi-urban branches.

###### ii) Foreign Banks:

No target.

#### PROFILE OF KOLHAPUR DISTRICT

Kolhapur is the southernmost district of Maharashtra with its head quarter located at Kolhapur city. This is an ancient city situated on the banks of river Panchganga and is known as 'Dakshin Kashi'. Kolhapur is seat of Goddess Mahalaxmi and is one of the Shaktipeeths mentioned in Indian mythology. Chhatrapati Shahu Maharaja was the founder architect of modern Kolhapur. The district is rich in natural resources- water, soil, natural vegetation, animal wealth and minerals. As a result, Kolhapur is one of the most agriculturally advanced districts of not only Maharashtra but also India.

The geographical spread of the district is of 7746.40 sq. kms. The city of Kolhapur which is a district head quarter is located on National Highway No.4. The administration of the district is governed through four Revenue Sub Divisions, 12 Tehasils and 12 Panchayat Samittee Blocks. There are nine Municipal Councils and One Municipal Corporation in the district. Total Population of the district as per census 2001 is 3515,413.

Geographical area of the district is 776000 hectores, and net sown area is about 442000 hectores. Land not available for cultivation is 77200 hectores. The land holdings in the district are fragmented and 85% holders are below 2 hectores. The district is endowed with 7 main perennial rivers. All the rivers flow from West side towards Eastern side. The net irrigated area of the district is 129000 hectores which is about 26% of the net sown area of 442000 hectores.

Some of the worth visiting tourist places in and around Kolhapur are:

**Temples:** Mahalaxmi Temple, Holy Jotiba Hill, Goddess Tryambuli Temple, Narasinhawadi, Holy-place Bahubali, Katyani Devi Temple, Kashi Vishveshawar Temple, Holy Khidrapur (Kopeshwar), Kaneri Cloister, and Shankaracharya's Cloister.

**Historical Places:** New Palace, Shalini Palace, Bhavani Mandap, Town Hall, Shivaji Vidyapeeth

**Hill Stations:** Panhala Fort & Hill Station, Vishalgad Fort, Dajipur Abhayaryana

**Lakes:** Rankala Lake, Kotiteertha

#### OBJECTIVES OF THE STUDY

The present study has the following objectives

1. To study the Concept of priority sector lending.

2. To study the bank group-wise performance of priority sector lending at National level.
3. To evaluate sector-wise & bank group-wise performance of priority sector lending as compare to the targets set by RBI in study area.
4. To study the performance of different bank groups on the basis of targets set by District Credit Planning Committee.

**METHODOLOGY**

The author has selected the Kolhapur District as geographical area for present study because he belongs to this district. He has collected and used the primary as well as secondary data. The present study is based on the data collected from the Lead District Bank, Kolhapur and Report on Trend and Progress of Banking in India of the Reserve Bank of India. Some other information is derived from the various books, journals, magazines and retrieved from internet. This study covers the priority sector lending in four financial years i.e. from 2004-05 to 2008-09. The data is analyzed and interpreted by calculating the percentage and compound growth rate.

**BANKING IN KOLHAPUR DISTRICT**

There are 22 Nationalized Banks and 8 Public Sector/Private Scheduled Banks with 232 branches of which 169 branches have been allotted specific service area covering 1145 villages. The Kolhapur District Central Cooperative Bank Ltd, occupy major share of rural finance in Cooperative Sector. They have 207 branch networks in the district. Maharashtra State Co-operative Agricultural and Rural Development Ltd. is operating in the district with their 16 branches. Besides, there are 60 Urban Co-operative Banks and 2161 co-operative societies in the district. As on 31<sup>st</sup> March 2008 Total Deposits of all the banks in district were Rs. 5756.44 Crores and Total Advances were Rs. 5921.67 Crores and C.D. Ratio was 103%.

**PRIORITY SECTOR LENDING IN INDIA**

Since the 1974 all commercial banks are lending to priority sectors as per the targets set by the Reserve Bank of India. But after the 36 years of targeted lending, it is observed that, some groups of banks have failed to attain the set targets. The Table No. 1 shows that during the study period Public Sector Banks and Private Sector Banks have attained the set target of 40 percent of Net Bank Credit except in the financial year 2006-07.

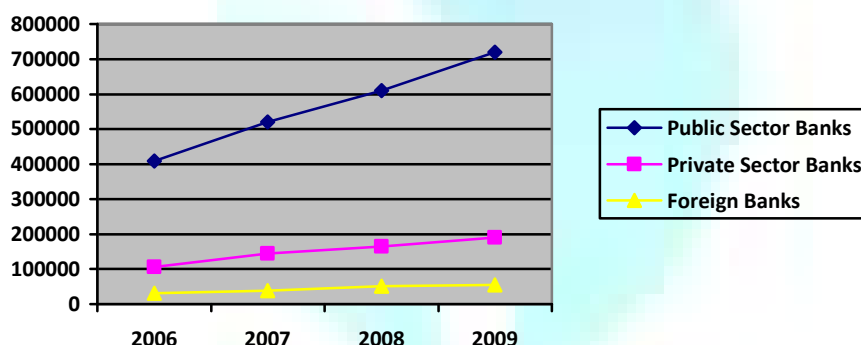
**TABLE NO. 1: BANK GROUP-WISE ADVANCES TO THE PRIORITY SECTORS IN INDIA (As on last reporting Friday) (Rs.in Crores)**

Bank Group	Amount Outstanding				Compound Growth Rate
	March 2006	March 2007	March 2008	March 2009	
Public Sector Banks	409748 (40.3)	521376 (39.7)	610450 (44.7)	720083 (42.5)	15.14%
Private Sector Banks	106586 (42.8)	144549 (42.9)	164068 (47.8)	190207 (46.8)	15.58%
Foreign Banks	30439 (34.4)	37831 (33.4)	50254 (39.5)	55483 (34.3)	16.19%
Total Priority Sector Advances	546773	703756	824772	965773	15.28%

Source: Report on Trend and Progress of Banking in India, RBI.

@ Provisional

Note: Figures in bracket indicate the percentage of Priority Sector advances to NBC.



The analysis of Priority Sector Lending during the study period by the Public Sector Banks, Private Sector Banks and Foreign Banks shows that, all these bank groups have been paying the required attention to adhere the targets set by RBI regarding advances to Priority Sector Lending of 40 percent of their Adjusted Net Bank Credit or Off-Balance Sheet Exposure whichever is higher. The above table no. 1 shows that out of the four years of study during three years, Public Sector Banks have achieved the targets and Private Sector Banks and Foreign Banks have achieved their respective targets of 40 percent and 32 percent during all the years of study. The table No.1 reveals that the compound growth rate of Public Sector Banks (15.14%) is less than that of the compound growth rate of total priority sector lending (15.28%). Compound growth rate shows that Private Sector Banks and Foreign Banks are performing well as compare to Public Sector Banks.

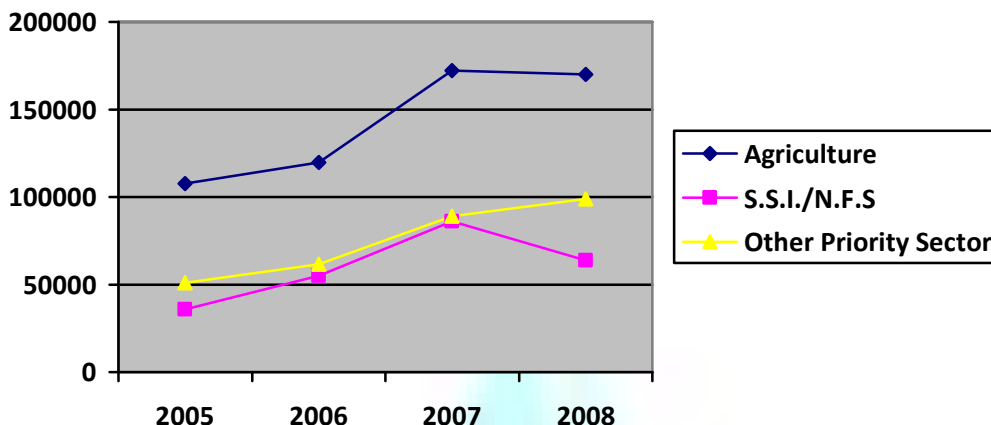
**PRIORITY SECTOR LENDING IN KOLHAPUR DISTRICT**

**TABLE NO. 2: SECTOR-WISE OUTSTANDING ADVANCES TO PRIORITY SECTORS IN KOLHAPUR DISTRICT (AS ON 31<sup>ST</sup> MARCH) (Amount in lacs)**

SECTOR	2005		2006		2007		2008		Compound Growth Rate
	Amount	% of Total Adv.	Amount	% of Total Adv.	Amount	% of Total Adv.	Amount	% of Total Adv.	
Agriculture	107523	34%	119617	30%	172347	33%	170122	29%	16.53%
S.S.I./N.F.S	35587	11%	55054	14%	85959	16%	63806	11%	21.49%
Other Priority Sector	51048	16%	61677	15%	89062	17%	99075	17%	24.74%
<b>Total</b>	<b>194158</b>	<b>62%</b>	<b>236448</b>	<b>59%</b>	<b>347368</b>	<b>66%</b>	<b>333003</b>	<b>56%</b>	<b>19.70%</b>

Source: Lead District Bank, Kolhapur



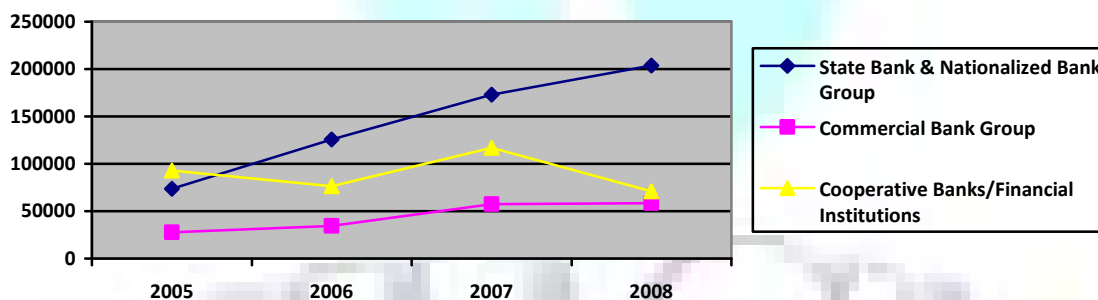


According to the norms set by Reserve Bank of India at least 18% of the net banking credit must go to the Agriculture sector. The table No.2 shows that in Kolhapur district the Agriculture Sector has been getting more importance about banks finance as compared to the other priority sectors including Small Scale Industries. The outstanding advances to Agriculture and Small Scale Industries shows the increasing trend in first three years of the study, which has decreased in the last financial year 2008. The amount outstanding advances to Agriculture as well Small Scale Industries have decreased to Rs.170122 lacs and Rs. 63806 lacs in the financial year 2008 as compare to Rs.172347 and Rs.85959 lacs in 2007 respectively. The graph shows the increasing trend of outstanding advances to Agriculture and other Priority Sectors excluding the Small Scale Industries. The compound growth rate shows that the growth rate of outstanding advances in agriculture sector is poor as compare to compound growth rate of other priority sectors as well as to compound growth rate of outstanding advances to total priority sectors.

TABLE NO. 3: BANK GROUP-WISE OUTSTANDING ADVANCES TO PRIORITY SECTOR IN KOLHAPUR DISTRICT (AS ON 31<sup>ST</sup> MARCH) (Amount in lacs)

Bank Group	2005		2006		2007		2008		Compound Growth Rate
	Amount	% PS to Total Adv.	Amount	% PS to Total Adv.	Amount	% PS to Total Adv.	Amount	% PS to Total Adv.	
State Bank & Nationalized Bank Group	73693	58%	125823	67%	172938	68%	203716	68%	40.35%
Commercial Bank Group	27601	51%	34417	50%	57561	49%	58464	43%	28.43%
Cooperative Banks/Financial Institutions	92864	71%	76208	53%	116869	70%	70823	46%	-8.64%
<b>Total</b>	<b>194158</b>	<b>62%</b>	<b>236448</b>	<b>59%</b>	<b>347368</b>	<b>66%</b>	<b>333003</b>	<b>56%</b>	<b>19.70%</b>

Source: Lead District Bank, Kolhapur



The analysis of bank group-wise outstanding advances to priority sectors in Kolhapur District clearly shows the increasing trend of public sector banks i.e. State Bank Group and Other Nationalised Banks. These Public Sector Banks are giving more emphasis to increase the share of priority sectors in their advances as compare to other Commercial Banks, Cooperative Banks and other Financial Institutions. The Table No.3 has revealed that the amount outstanding advances by Public Sector Banks has increase from Rs. 73693 2005 to Rs. 203716 lacs in 2008 at the compound growth rate of 40.35 percent. In the case of Cooperative banks and other Financial Institutions, it seems that they have been achieving the set target of 40 percent advances to priority sector during all the years of study, the outstanding advances towards priority in terms of amount, the table reveals that it has decreased from Rs. 92864 in 2005 to Rs. 70823 in 2008 at compound growth rate of -8.64 percent.

TABLE NO.4: BANK GROUP-WISE PERFORMANCE UNDER PRIORITY SECTOR LENDING IN KOLHAPUR DISTRICT (Rs. In Crores)

BANK GROUP	2004-05			2005-06			2006-07			2007-08		
	Target	Achievement	%	Target	Achievement	%	Target	Achievement	%	Target	Achievement	%
State Bank & Nationalized Bank Group	298	397	133	418	540	129	404	348		620	672	108
Commercial Bank Group	223	90	73	137	118	86	126	56		233	309	132
Cooperative Banks/Financial Institutions	551	292	53	677	526	78	579	357		830	459	55
<b>Total</b>	<b>972</b>	<b>779</b>	<b>80</b>	<b>1232</b>	<b>1184</b>	<b>96</b>	<b>1109</b>	<b>761</b>		<b>1683</b>	<b>1440</b>	<b>85</b>

Source: Lead District Bank, Kolhapur

From the above Table No.4 it can be seen that State Bank and nationalized banks fulfill their targets set by District Credit Planning Committee every year. The performance of State Bank Group and Nationalised Banks during the all these financial years of the study period has been excellent. The achievement in terms of percentage to target has been always more than 100 percent of the public sector banks as compare to Commercial Banks, Cooperative Banks and other Financial Institutions. The performance of Cooperative Banks and Financial Institution has been very poor as compare to performance of other bank groups. In 2005 the performance of Cooperative Banks and other Financial Institutions was just 53 percent which has increased to 78 percent in 2006, but again it has decreased to 55 percent in 2008. It is significant to note that banks in the co-operative sector and commercial banks fall short of targets.

## CONCLUSIONS

Indian banking sector gives importance to lending to priority sector and most of the banks especially State bank groups and nationalized banks act according to the national priority set by the Reserve Bank of India. Commercial Bank groups and those in the private sector must be advised to fall in line. It seems that, in case of State Bank Group and Nationalised Bank Group the targets set by the District Credit Planning Committee are not sufficient or less. While setting the target the District Credit Planning Committee should consider the business of the respective bank as well as the demand from the borrowers belong to priority sector.

The advances of cooperative banks and other financial institutions have been quit satisfactory as compare to their total advances, but it is showing the deceasing trend. The major reason behind this failure can be decrease in the business of these banks.

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