

A Study of Priority Sector Lending for Selected Public Sector Banks of India

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ABSTRACT

A bank is an institution which accepts deposits from the public as well as lends money to the public. From the definition itself it is clear that one of the primary functions of a bank is lending of money. The main source of income of a banking institution is the interest from their clients. Income of interest is generated by lending the money to the public by various means and technically it is known as loans and advances in finance industry.

Key words: Loan & Advances; Lending Activity, Public Sector Bank.

Introduction:

Priority sector refers to those sectors of the economy which may not get timely and adequate credit in the absence of this special dispensation. Typically, these are small value loans to farmers for agriculture and allied activities, micro and small enterprises, poor people for housing, students for education and other low income groups and weaker sections.

Priority Sector includes the following categories:

1. Agriculture
2. Micro and Small Enterprises
3. Education
4. Housing
5. Export Credit
6. Others

The Reserve Bank of India (RBI) revised guidelines for lending to the priority sector in March 2015, with loans to medium enterprises, sanitation and renewable energy sectors coming under the ambit of priority sector lending. "The target for lending to the redefined [priority sector](#) is retained uniformly at 40 per cent of Adjusted Net Bank Credit (ANBC) or credit equivalent of off-balance sheet exposure, whichever is higher, for all scheduled commercial

banks. The RBI has mandated certain targeted lending as priority sector with specific targets for banks to achieve. Till 2011, banks were allowed to achieve this priority sector targets by refinancing NBFCs (non-banking finance companies) that lend to these sectors.

However, since 2011, banks' refinance to NBFCs for such underlying assets is treated as priority sector lending (PSL) for the banks only if the ultimate lending rate of the NBFC to the end borrower is not more than 8 per cent of the base rate of the Bank. However, the costs and risk of addressing these segments of clients who are typically SRTO (small road transport operators or drivers wanting to become owners) and MSME (micro SME loans in the range of Rs 1 lakh to Rs 10 lakh) is very high and this 8 per cent limit cannot be met. This has removed the PSL tag for banks' refinance to NBFCs with such underlying asset class and has substantially reduced the flow of funds to these segments. Banks cannot do it directly either since they do not have the ability to reach out to such low end of the borrower pyramid nor manage the risk associated with such direct lending. The PSL norms need to be reviewed after due consultations with all stakeholders with a view to ensure that sufficient

fund flow is ensured to the weaker sections of the society.

OBJECTIVE OF THE STUDY

Present study is based on the Priority Sector Lending for Selected Public Sector Banks of India

PERIOD OF STUDY

The study period is to be converted 5 years; from 2011-12 to 2014-15.

NO. OF SAMPLE

SBI, Canara Bank, PNB, BOI, and BOB has selected from public sector as a sample for the present study.

TOOLS & TECHNIQUES

For the present study, Ratio-Analysis in percentage as an Accounting tools and F-Test - ONE WAY ANOVA is used as tools of Statistics.

DATA ANALYSIS AND INTERPRETATION

PRIORITY SECTOR ADVANCES TO TOTAL ADVANCES RATIO

Table 1						
Ratio of Priority Sector Advances To Total Advances						
Name of Bank	Year					Average
	2011	2012	2013	2014	2015	
SBI	30.61	28.84	25.28	23.21	22.23	29.01
CANARA	32.19	29.80	33.88	32.10	32.40	27.02
PNB	32.48	31.33	30.04	33.74	36.33	27.17
BOI	25.76	22.56	22.45	20.88	21.16	26.23
BOB	24.01	22.59	24.21	21.20	22.31	26.89
Formula : (Priority Sector Advances/Total Advances) x 100						
Source: rbi.gov.in						

Analysis for calculated ratio for selected Public Sector Banks of India

From the above table it is clear that Selected Public Sector Bank is providing their advances to Priority Sector average 26% to 29% during research period that shows that banks are following the norms for advances to priority sector on an average nearer one fourth to one third of their total advances during the research period.

Statistical Analysis

H₀: All the selected Public Sector of India have equal norm with respect to priority Sector Advance To Total Advances.

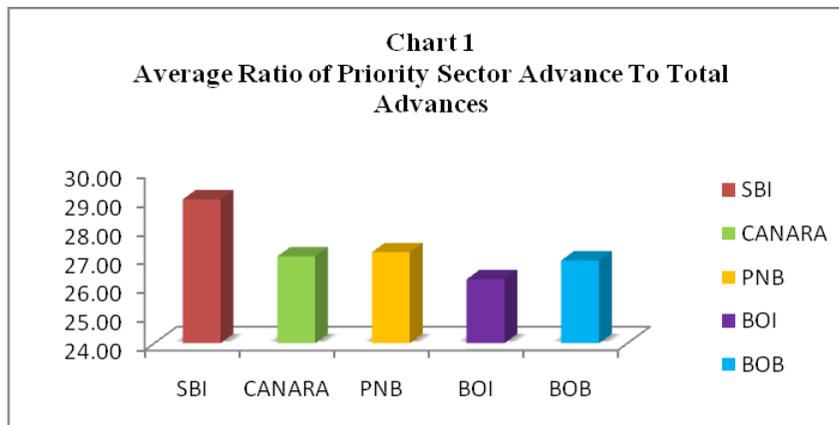
H₁: All the selected Public Sector of India have unequal norm with respect to priority Sector Advance To Total Advances.

Table 2					
“F”-Test One Way ANOVA for Ratio of Priority Sector Advances to Total Advances for Selected Public Sector Banks of India					
Source of Variation	Sum of Square	Degree of Freedom	Mean Sum of Square	F_c	F_t
B.S.S.	21.67454	4	5.418634	0.19141	2.866081
W.S.S.	566.1814	20	28.30907		
T.S.S.	587.856	24			

From the “F” test one way ANOVA Table as calculated above it shows that Calculated value of $F_c = 0.19141$ while tabular value of $F_t = 2.866081$ which show that calculated value F_c is smaller than tabular value F_t , $F_c < F_t$ Hence Null Hypothesis is accepted and Alternative Hypothesis is rejected that All the selected Public Sector Banks of India have equal norm with respect to priority Sector Advance To Total Advances.



Graphical Analysis



By observation of the graph of selected Public sector banks of India it shows overall fluctuation 26 % to 29% ranging during the research period for the priority sector advances to total advances during research period by research units.

CONCLUSION:

Accordingly to the analysis, it shows that the lending activity towards priority sector by the entire selected research units are following the norms for advances to priority sector on an average nearer one fourth to one third of their total advances during the research period. It is suggested that bank have to increase their lending activity towards priority sector to boost up the economy as priority sector is the key segment of the development of the country.

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