



OUR HERITAGE

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Organised by: Sinhgad Technical Education Society's
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Critical Analysis of lending of priority sector of some selected Nationalise banks in Pune district

Prof. Durga Bansode,

SIMCA

Abstract -

To assist the government and the Reserve Bank of India in allocating credit among different sectors and to determine the relevant priorities, since 1950 the government of India have appointed a number of Committees to look into the financial needs of the different sectors of the economy. From 1968 to 2011 Reserve Bank appointed number of committees to examine, review & recommend changes, if any, in the existing policy on priority sector lending including the segments constituting the priority sector, targets & subtargets etc. In this research a study is done on how effectively nationalize bank carry the priority sector lending in Pune district & what are new strategy they are using to achieve the target.

Keywords – Priority sector, targets, nationalize bank

Introduction –

The central government of our country gives this sector priority in obtaining loans from banks at a low rate of interest. This is known as a “Priority sector lending”. Priority sector lending is a policy of providing a specified portion of bank lending to the important sectors of the economy. Agriculture, Small-scale industries, cottage sector, tiny sector, export sector & other small business (service) firms are included. Based on the guidelines categories under priority sector are

- 1) Agriculture
- 2) Micro & Small Enterprises
- 3) Weaker section

Review of Literature –

A brief review of the studies is discussed in the following paragraphs.

Jaynal Ud-din Ahmed reviewed in his research paper that Joshi (1972) proposed RBI to give clear and specific definition of the different component of priority sector as some of the bankers are not clear about the proper scope of agricultural lendings.

Chawala (1979) analysed the dimension of credit flow to the priority sector during seventies and it was observed that the purpose of PSL by banks is not available for which it is meant for.



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Muhammed Yunus (1988) strongly stated that credit without discipline is nothing but charity and charity in the name of credit will only destroy the poor, instead of helping them. He stressed on the loan recovery mechanism rather than blaming the defaulters.

Rangarajan (1991) stated that improving the quality of loan assets is the true test of improved efficiency of banking system.

The Narasimham Committee (1991) has mentioned the need for gradual phasing out of the directed credit programme.

Krishnaswamy (1992) criticized the recommendations on financial system by the committee. He stressed that the committee's report considered the interest of industrialist and it essentially concerned with reducing government regulations and improving profitability.

Rajagopal (1994) observed the consequences of PSL in Indian banking and remarked that concessional credit should be restricted only to the poorest of the poor and to the under privileged sections of the society. Commercial rate of interest need to be charged from those who can afford it.

The Narasimham Committee (1998) stressed that the sufficient credit to priority sector is very indispensable for intended beneficiaries.

Kohli (1997) mentioned the existence of significant linkages between bank credit and investment in both agriculture and industries in India. He suggested that though directed credit programme for PSL is effective in India, affirmative support to small-scale units is required.

Department of Banking Supervision (1999) studied the effect of priority sector advances on NPAs and found that the incidence of NPAs in priority sector is much higher in view of the fact that priority sector advances constitute 30-32 percent of the gross bank credit.

Shete (2002) analysed the priority sector advances by PSBs during the post reform years and found that the PSBs are not able to reach the prescribed target of lending to priority sector.

The World Bank (2004) in its report, “Sustaining India's Service Revolution” highlighted that government ownership of banks in India stifle competition and increases the cost of lending to the public. The World Bank had pointed that RBI's stiff PSL norms for foreign and domestic banks for the weak financial health of commercial banks. The report stated that largest government ownership in the banking sector led to insufficient competition in the Indian banking system and hence, led to increased cost of intermediation, lowering capital allocation efficiency and under lending to the private sector.

Bhati (2006) pointed the lending climate for banks in emerging economies like India. The study found that because of the government policies, banks in India undertake many additional risks when they lend. This study focused on one specific aspect of lending relationship between bank manager and loan officer of bank branches in India and recommended social risk evaluation is more appropriate for risk evaluation and reduction by banks in India.



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Sooden and Kumar (2007) analyzed the priority sector lending in the post reform period and suggested for a balanced approach as development agent and sustainability of directed lendings considering the quantum of NPA in priority sector advances.

Uma S (2001) assessed the extent of utilization and the extent of recovery of loans provided to small scale industries and impact of credit on employment and profits of the borrowing units.

Mallikarjunappa, T (1997) in his thesis examined whether banks and participating government institutions have undertaken the PSCPM as seriously as advocated by the RBI in its policy.

Need for the study –

As per Pune Municipal Corporation (PMC) and Pimpri Chinchwad Municipal Corporation (PCMC) forty percent of Pune's population, an estimated 14 lakh people, live in slums. According to Pune Municipal Corporation (PMC) estimates, some 88,000 people migrated to the city in 2006, of which 45,000 settled in the slums. Every year, the number of people migrating to the city will continue to increase. Government of India, ranks Pune third in the cities with the largest number of slums in India.

As per Planning commission, the State and Central government spending crores on slum rehabilitation. More money will flow for slum rehabilitation under the Jawaharlal Nehru National Urban Renewal Mission (JNNURM) and Slum Rehabilitation Authority (SRA). In 2012, the municipal standing committee approved tenders worth Rs. 200 crore for the same purpose. It means that scope of priority sector lending is increase for bank.

Scope for the study –

50% of 17 nationalise banks are covered in the district credit plan will be studied. A period from 2007 to 2012 is taken for the study.

Statement of the Research problem –

As per Trend and progress RBI report on bank for F Y 2011-12, public and private sector banks advances to priority sectors were less than 40 percent of adjusted net bank credit. In addition, advances to agriculture and weaker sections by both public and private sector banks were less than 18 percent and 10 percent, respectively, at the aggregate level. Domestic banks failure to meet the priority sector target remains a concern. The bank-wise provisional data on priority sector lending as on last reporting Friday of March 2012 indicates that 16 out of 26 public sector banks could not meet the overall priority sector target of 40 percent. The number of public sector banks, which could not meet the sub-target of priority sector lending to agriculture and weaker sections stood at 15 and 11, respectively.

Considering the national level scene on priority sector lending, the study examine the nationalize bank's involvement in implementation of the scheme, to find out the problem faced and strategy they use to achieve the target on Pune district level.



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Objective of the study –

- 1) To study the role of bank in priority sector financing in Pune district.
The aim of the objective is to study the Development, Construction and Performance of various scheme suggested by lead bank in selected nationalize banks.
- 2) To find out bank strategy to achieve the given percentage of target. (norms of priority sector)
Under this objective a detailed study of various programmes and plans to achieve the given target (as on mention in credit annual plan).
- 3) To evaluate the percentage of Priority sector lending
Under this objective to find out of Priority sector lending target achieved.
- 4) To study the sector wise and bank wise lending and growth rate.
To analyse the data collected from the primary and secondary sources using statistical tool.
- 5) To find out the problem faced by bank while disbursing the advances.

Research Design and Methodology –

1. Sampling Design –

The study will be done with special reference to Nationalise banks in Pune district. As in Pune 17 nationalise bank are comes under the district credit plan. For simplification and conviniance 50% bank will be studied. Bank will be selected randomly.

2. Time period of the study –

For the study the period from 2007-2012 (11th five year plan) is taken.

3. Primary data –

A detailed structured questionnaire, personal interview and discussion with Bank officials.

4. Secondary data –

Bank of Maharashtra (Lead Bank, SLBC report), Selected nationalize bank's annual report Reserve Bank of India Bulletins and other related publications, Maratha chamber of commerce industries and agriculture, Census, Economic survey report, NABARD potential credit plan.

Significance of the study –

Priority sector lending play a crucial role to reduce the poverty and increases the self employed generation. The objectives of 11th five year plan are –

- 1) Projected agriculture growth at 4% per year.
- 2) MSME's sector accounts for 76% of the total investment in the economy and an even larger share in employment and output.



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3) Reduce the headcount ratio of consumption poverty by 10 percentage points.

If these sector are strengthen then it will affect over all economy.

Conclusion –

Under the lead bank scheme, the practice and pattern of all nationalize bank are effective in Pune district to achieve the sector wise given target and the growth rate of advances.

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