Priority Sector Lending: An Analysis

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Priority Sector Lending is a concept introduced by the Reserve Bank of India for the development of weaker sections of society through these rural areas. However, there is not too much development in the rural area so the Reserve Bank of India introduced a new scheme to develop rural areas i.e. The Regional Rural Bank. The study aims to know the impact of Priority Sector Lending on the income and employment level of respondents and its impact on the performance of KGB during the study period. The study concludes by stating that business size and lending of the banks to the agriculture and housing sectors are found to be more efficient, than lending for the education, MSMEs, and other priority sectors. At the same time, the standard of living of the people can be improved.

Key words: Regional Rural bank, Priority Sector Lending, Kerala Gramin Bank

Introduction

Priority Sector Lending is a scheme of the Reserve Bank of India for providing financial assistance to the vulnerable section of the economy. Before introducing the scheme, only large-scale industries and educated people approached our banking system for their assistance. India is a developing country and also an agriculture-based country. 70 percent of people are living in the rural area. These people were outside the banking system before introducing Priority Sector Lending. After introducing the scheme, RBI directed the banks to

provide 33 % of their loan to the Priority sector. Now, this limit is increased to 40%. The priority sector is a sector that includes agriculture, the small-scale sector, housing, the weaker sections of society, and all other vulnerable sections of society. From this agriculture sector gets more priority. Providing this type of assistance to people living in rural areas rise their standard of living and through this, the country's GDP and standard of living will also improve.

All banking services are available only in urban or semi-rural areas even after independence. Rural people especially the weaker section people are unaware of banking facilities even though the priority sector lending scheme is existing. For helping the rural people, RBI introduced Regional Rural Bank in 1975. The main objective of this bank is to provide banking services to rural people and help them with financial assistance. All Regional Rural Bank branches are located in rural or semi-rural areas. Now 43 Regional Rural Banks are functioning in India. Regional Rural Bank in Kerala is known as Kerala Gramin Bank.

Statement of the Problem

Priory Sector Lending is a very helpful scheme for borrowers because they get financial assistance at a low cost. But in the point of banking, it is low profitable because of government intervention regarding lending activities and so the impact of PSL from both sides is important. The study is to know the impact of PSL on the income and employment level of respondents and its impact on the performance of KGB during the study period.

Review of Literature

Partha Deb (2015) made a research on "Analytical Study on Improvement of Bank Loans and Finances of Regional Rural Banks". The process of institutional credit delivery was intensified with the nationalization of commercial banks in 1969 and further, for greater penetration of credit to weaker sections, Regional Rural Banks (RRBs) was created in 1975. With all these efforts, the government also launched various poverty alleviation and rural-development programs with credit as the main component.

Dr. Manoj P. K (2015) made a research on "Gramin Banks

for Financial Inclusion: A Study of the Performance of Kerala Gramin Bank in Malappuram District With a Focus on Agricultural Credit" The main goals of this research are to make an overall analysis of the performance of RRBs in India over time, taking into account trends in their earnings, profitability, advances, etc. The study uses a descriptive-analytical methodology and mostly relies on secondary data. KGB is the only RRB in India with a specific focus on agricultural loans, and the study spans the years 1990 to 2014.

Ms. Thorve Harsha Aadinath ((2017) made a research on "Analytical study of priority sector lending with special reference to lead bank scheme in Maharashtra". The study covers the important financial period from 2008 to 2016. It can be said that the performance of the lead banks in Maharashtra is noticeable. The contribution of State Bank of India & Bank of Maharashtra under the priority sector lending is major. Even the other two banks Bank of India & Central Bank of India is contributing well in total priority sector. It can be said that the performance of the lead banks in Maharashtra is noticeable under the priority sector lending.

Muneesh Kumar (2016) made a work on "Determinants of Priority Sector Lending: Evidence from Bank Lending Patterns in India". Mandatory directed credit or priority sector lending (PSL) is part of the regulatory framework for commercial banks/ financial institutions in many countries, both developing and developed. This may be particularly so in developing countries, where availability of finance for the vulnerable sectors like agriculture, small businesses, weaker sections, is scarce. An analysis of secondary data relating to priority sector lending (1998-2014) for eighty banks in India has been published. The paper is based on findings from a survey of ninety-seven lending officers of various banks. It aims to identify the factors which determine this lending, and the implementation challenges for such lending. It also identifies bank-specific characteristics like the nature of ownership, size, performance, etc., which have a significant impact on the priority sector lending patterns. Based on its findings, the paper offers policy suggestions for improving the effectiveness of priority sector lending program.

S.Manjushree (2018) made a research on "Problems and prospects of priority sector lending"

This paper provides a platform to understand the problems and prospects of priority sector lending in state bank of India in Bhadravathi. The study has used both primary and secondary data. The collected data are represented by using tables and analysis was done by using percentage analysis.

Research Gap

A detailed evaluation of the research studies revealed that so far as no specific study has been undertaken to find out the impact of Priority Sector Lending (PSL) in Kerala from the borrower's point of and the bank's point. Previous studies have looked at the basis of the objectives of the study separately. But both these are not included in a single review. So this study tries to know the impact of Regional Rural Banks (RRB) with special reference to Priority Sector Lending (PSL) in Kerala. RRBs in Kerala state is known as Kerala Gramin Bank (KGB).

Objectives of the Study

a) To measure the impact of Priority Sector Lending on the performance of Regional Rural Bank in Kerala during the study period from 2014 to 2021.

b) To study the impact of PSL on the income and employment level of borrowers in Kerala Gramin Bank

c) To know the problems faced by borrowers while availing service from bank

Research Methodology

The present study is diagnostic and exploratory and makes use of both primary and secondary data. The primary data was collected from the borrowers of Kerala Gramin Bank through a questionnaire and secondary data was collected from the Reserve Bank of India databases, the Regional Rural Bank database, and various journals and reports of the Reserve Bank of India. The area of study is limited to the Regional Rural Bank in Kerala and the period of study is from 2014 to 2021. To study the impact of Priority Sector Lending on

the performance of bank, the researcher used Factor Analysis. Principal Component Analysis and Varimax-Rotation Method, Kaiser-Mayer Ohlin (KMO) Normalisation of sample adequacy, and Bartlett's Test of Sphericity are used. To study the impact of PSL on the income and employment level of borrowers and problems faced by the borrowers in Kerala Gramin Bank, the various statistical tools used like Mean, and percentage analysis. The results are presented in a quantitative form and the interpretations of the analyzed data are made using those quantitative results. The data consolidation process was executed through Microsoft Excel and statistical analysis has been performed by using E-views and SPSS.

Data analysis and Discussion

To study the key performance indicators the following parameters used for the study.

Parameters	Performance indicator
• Number of branches • Number of Permanent employees • Deposit • Advances • Total assets	Size of bank
• Capital Adequacy Ratio • Return on Asset • Net Interest Margin	Performance of bank
• Cash Deposit Ratio • Net Non-Performing Asset	Efficiency of lending

Table:1 depicts the overall lending efficiency of the Kerala Gramin Bank. Bank size and the total PSL were found to be significantly correlated as the R-value stood at .995 (99.50 percent) and R2 0.990 both were found to be significant at 5 percent level of probability measure. The study observed that overall lending of the rural banks functioning in Kerala are more influenced by its lending efficiency compared to the bank performances.

Table 1 The overall Lending Efficiency of the Kerala Gramin Bank

Variables	Bank Characteristics	Initial Eigen Value	R	R^2	F Value	Constant	Co-efficient	t value	Sig
Advances	Business Size	1.358					.744	14.724	.000
Deposits									
Total Assets									
No. of. Employees									
No. of Branches			.995	.990	138.592 (.000)	3.057			
CAR	Bank Performance	1.295					0.057	2.012	.115
ROA									
NIM									
CD Ratio	Lending Efficiency	.347					.274	3.632	.022
Net NPA									

Level of Significance: 5 Per cent

Table 2 Lending to Agricultural Sector Efficiency

Variables	Bank Characteristics	Initial Eigen Value	R	R^2	F Value	Constant	Co-efficient	t value	Sig
Advances	Business Size	1.358					.844	18.526	.000
Deposits									
Total Assets									
No. of. Employees									
No. of Branches			.997	.994	223.204 (.000)	4.504			
CAR	Bank Performance	1.295					.068	2.673	.056
ROA									
NIM									
CD Ratio	Lending Efficiency	.347					.330	4.855	**.008**

Level of Significance: 5 Per cent

Table 3 Lending to Housing Sector Efficiency

Variables	Bank Characteristics	Initial Eigen Value	R	R²	F Value	Constant	Co-efficient	t value	Sig
Advances	Business Size	1.358					1.329	16.046	.000
Deposits									
Total Assets									
No. of. Employees									
No. of Branches									
CAR(Capital Adequacy Ratio)	Bank Performance	1.295	.995	.991	143.287 (.000)	10.704	.023	.492	.649
ROA(Return on Assets)									
NIM (Net Interest Margin)									
CD Ratio (Cash-Deposit Ratio)	Lending Efficiency	.347					.294	2.382	.076
Net NPA(Non-Performing Assets)									

Level of Significance: 5 Per cent

Table 2 illustrate that the bank size and the agriculture sectors were found to be significantly correlated as the R value stood at .997 (99.70 per cent) and R2 .994 both were found to be significant at 5 per cent level of probability measure. The study observed that the overall agriculture lending of the rural banks functioning in Kerala was more influenced by its lending efficiency compared to the bank's performances.

Table 3 depicts that the bank size and the housing sectors were found to be significantly correlated as the R-value stood at .995 (99.50 percent) and R2.991 both were found to be significant at a 5 percent level of probability measure. The study observed that housing sector lending of the rural banks functioning in Kerala is more influenced by its business size compared to the bank performances and lending efficiency.

Table 4 Lending to Education Sector Efficiency

Variables	Bank Characteristics	Initial Eigen Value	R	R²	F Value	Constant	Co-efficient	t value	Sig
Advances	Business Size	1.358					.078	.535	.621
Deposits									
Total Assets									
No. of. Employees									
No. of Branches									
CAR(Capital Adequacy Ratio)	Bank Performance	1.295	.446	.199	331 (.000)	3.937	.039	.479	.657
ROA(Return on Assets)									
NIM (Net Interest Margin)									
CD Ratio (Cash-Deposit Ratio)	Lending Efficiency	.347					.068	.313	.770
Net NPA(Non-Performing Assets)									

Level of Significance: 5 Per cent

Table 4 represents the efficiency of lending in education sector. The bank size and the education sectors were found to be significantly correlated as the R-value stood at 0.446 (44.60 percent) and R2 0.199 both were not found to be significant at a 5 percent level of probability measure. The study observed that the overall education sector lending of the rural banks functioning in Kerala were not significant.

Table 5 Lending to MEMEs Efficiency

Table 5 clearly says that the bank size and the MSMEs were found to be significantly correlated as the R value stood at .680 (68.00 percent) and R2 .463 both were not found to be significant at 5 percent level of probability measure. The study observed that the overall MSMEs lending of the rural banks functioning in Kerala is not significant.

Table 5 Lending to MSMEs Efficiency

Variables	Bank Characteristics	Initial Eigen Value	R	R²	F Value	Constant	Co-efficient	t value	Sig
Advances	Business Size	1.358					.043	.589	.588
Deposits									
Total Assets									
No. of. Employees									
No. of Branches									
CAR(Capital Adequacy Ratio)	Bank Performance	1.295	.680	.463	1.147 (.432)	5.800	.061	1.493	.210
ROA(Return on Assets)									
NIM (Net Interest Margin)									
CD Ratio (Cash-Deposit Ratio)	Lending Efficiency	.347					.023	.206	.847
Net NPA(Non-Performing Assets)									

Level of Significance: 5 Per cen

Table 6 Lending to Other Priority Sector Efficiency

Bank size and the other priority sectors were found to be significantly correlated as the R value stood at .966 (96.60per cent) and R2 .933 both were found to be significant at 5 per cent level of probability measure. The study observed that overall lending of the rural banks functioning in Kerala is more influenced by its business size compared to the bank performances and lending efficiency.

The study concludes by stating that business size and lending of the banks to the agriculture and housing sectors are found to be more efficient, than lending for the education purpose, MSMEs development and other priority sectors.

Table 7 reveals that the impact of priority sector lending on the income and empoloyment level of borrowers in Keral Gramein Bank, the researcher found that most of the respondents get information of PSL from various Medias; most of the respondents are under

Table 6 Lending to Other Priority Sector Efficiency

Variables	Bank Characteristics	Initial Eigen Value	R	R^2	F Value	Constant	Co-efficient	t value	Sig
Advances									
Deposits									
Total Assets	Business Size	1.358					.600	5.665	.005
No. of. Employees									
No. of Branches									
CAR(Capital Adequacy Ratio)									
ROA(Return on Assets)	Bank Performance	1.295	.966	.933	18.565 (.008)	2.044	.090	1.525	.202
NIM (Net Interest Margin)									
CD Ratio (Cash-Deposit Ratio)	Lending Efficiency	.347					.086	.543	.616
Net NPA(Non-Performing Assets)									

Level of significance 5%

the category of male at the same time the age in between 30 to 45 years. Education qualification of most of the respondents has only up to S.S.L.C., their occupation is also agriculture, and they are availing agriculture loan also. Most of the respondents took up to Rs 3, 00,000 as loan and their repayment method is annually. Their standard of living is also improved after availing loan.

Table 8 illustrates that the problems faced by the respondents for availing loan.0 From this analysis, lack of knowledge of the respondents is the main barrier to them. Apart from this, they face fear of insecurity, long procedure of bank, lack of cooperation from bank staff and high rate of interest.

Conclusion

Regional Rural Bank is very helpful to rural dwellers for their financial assistance. After the introduction of PSL, the bank must provide 40% of the advances to rural people. Through this rural people can rise their standard of living but the banks are not in a happy position based on their profit. Their profit declined due to the heavy intervention from the government. The study also concludes by stating that business size and lending of the banks to the agriculture and housing sectors are found to be more efficient, than lending for education purposes, MSMEs development, and other priority sectors. Government intervention must be minimized but at the same time, government must rely on the minimum standard that must be achieved by every commercial bank.

Table 7 Socio Economic Profile of respondent

Particulars	No of respondents	Percentage
Sources of knowing Priority sector lending		
Bank officials	10	20
Medias	24	48
Friends and relatives	16	32
Total	50	100
Age		
Below 30	11	22
30-45	24	48
45-60	13	26
60 and above	02	04
Total	50	100
Gender		
Male	39	78
Female	11	22
Total	50	100
Educational qualification		
Up to S.S.L. C	36	72
Higher secondary	11	22
Graduation & above	3	06
Occupation		
Agriculture	31	62
Business	12	24
Others	7	14
Total	50	100

Types of loan availed		
Agriculture loan	22	44
MSME	12	24
Housing	7	14
Education	2	04
Others	7	14
Total	50	100
Amount of loan		
Less than 1,00,000	6	12
1,00,000 to 3,00,000	41	82
Above 3,00,000	3	06
Total	50	100
Repayment method		
Quarterly	16	32
Half yearly	11	22
Annually	23	46
Total	50	100
Status after availing loan		
Raised	29	58
No change	21	42
Total	50	100

Author's computation

Table: 8 Problems faced by the respondents

Particulars	No. of respondents	%
Lack of knowledge	14	28
Fear of insecurity	12	24
High rate of interest	07	14
Long procedure while availing service	09	18
Lack of cooperation form bank staff	08	16

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