Chapter 7

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During the course of present study, a large number of observations have come to light, which have been thoroughly reviewed, examined and explored in depth on various aspects of Lead Bank Scheme, Financial Inclusion, Status of the State and Priority Sector Lending by public sector banks. The present chapter is aimed at presenting major findings from the study and to offer some useful suggestions.

7.1 Summary

Lead Bank Scheme was introduced to achieve social banking objectives viz. narrowing inter-regional disparities and promote even distribution of institutional finance facilities. The LBS marks a major step towards the implementation of two fold objectives of mobilization of deposits on a massive scale throughout the country and setting up of lending to the weaker sections of the economy. In this connection a study group was constituted in October, 1968 with the approval of the National Credit Council under the Chairmanship of Prof. D.R. Gadgil. The group felt that in attempting to overcome the glaring disparities in the availability of banking facilities, adaptation to local condition was essential.

The study group drew attention to the fact that commercial banks did not have adequate presence in rural areas and also lacked required rural orientation. As a result, banking needs of rural areas could not be adequately taken care of by commercial banks and credit needs of rural sectors of the economy such as agriculture, small scale industry and allied services remained neglected. On the basis of the recommendations
of the study group, the RBI evolved the Lead Bank Scheme in December, 1969, which has now become the main plank of the banking development. The scheme is implemented by the governmental agencies on the one hand and the banking system, on the other, for the development of the priority sectors, particularly the weaker sections among them. In order to enable public sector banks to serve the social objectives, each bank focuses in certain districts where it takes lead in surveying the potential for banking development in extending banking and credit facilities. The bank assigned the lead role is expected to act as the consortium leader and seeks the cooperation of other banks operating in the district for opening branches and meeting credit needs. Thus, the objective behind the Lead Bank Scheme was that a Lead Bank would be under a structural pressure to leave no stone unturned to develop the zone of its operation and to transform 'class banking' into 'mass banking'.

The Lead Bank Scheme is playing a commendable role in the socio-economic upliftment of rural people in the State. This scheme is bringing the government, RBI and scheduled commercial banks together to a common platform to co-ordinate and co-operate each other for the successful and smooth running of the banking system for the all-round development of the rural economy whether it is agriculture, industry, education, health or the infrastructure development of the State economy.

The financial sector reforms ushered in the year 1991 have been well calibrated and timed to ensure a smooth transition of the system from a highly regulated regime to a market economy. The first phase of reforms focused on modification in the policy framework, improvement in financial health through introduction of various prudential norms and creation of a competitive environment. The second phase of reforms
started in the latter half of 90s, targeted strengthening the foundation of banking system, streamlining procedures, upgrading technology and human resources development and further structural changes. The financial sector reforms carried out so far have made the balance sheets of banks look healthier and helped them move towards achieving global benchmarks.

Branch expansion by commercial banks constitutes one of the important instruments for mobilisation of deposits and deployment of credit in a developing economy. It is a pre-condition to development and serves as important infrastructure. As such, rapid branch expansion is always prescribed by the economists for encouraging development in its initial stage. Concept of social lending would undergo a change by extending credit to the priority sectors i.e. small borrowers, agriculturalists and unorganized sectors.

The significance of agriculture is immense for Himachal Pradesh as it is the main source of livelihood to about 70 per cent of the population. The sector contributes nearly 21 per cent of the total State domestic product. Rice, wheat and maize are the main cereal crops grown in the State. Apples are a major produce as discussed earlier and the State is second largest producer of apples after Jammu & Kashmir. The State has been able to make significant progress in the field of industrialization in the recent years. With availability of gamut of incentives and packages, State has been able to attract investments for setting up new industries in the State. The key industries in the State are tourism, textiles, pharmaceuticals, food procurement and processing, light engineering and cement. In addition to this, it also offers ideal investment opportunities in power, tourism and biotechnology sectors. The services sector has performed significantly well and has come out to be as a major segment in contributing to its economic growth. Under Information
Technology Policy and Tourism Policy, the State has provided various incentives for the development of IT and tourism sector. Tourism plays significant role for the State economy and has some of the best tourist spots as discussed in the previous chapter.

The present study is unique in itself as it tries to throw light upon the importance and coverage of the directed lendings to the priority sectors i.e. the borrowers of small means, who had traditionally not been assisted through institutional credit and coverage of Financial Inclusion in the State. So it has a great relevance to present day problem of the rural credit. The study will be helpful in finding the inter-district disparities and increasing the banking outreach based upon the potential and viability grounds. It will act as a path-breaker for more rapid growth of the rural economy in the State through a new look of the ‘financial inclusion’ drive in unbanked villages. The study comes out with specific recommendations and suggestions for strengthening the rural economy in Himachal Pradesh on sound lines.

7.2 Conclusion:

Bank Branch Expansion

The branch expansion campaign in the State has been concluded as under:

- There were only 775 branches of scheduled commercial banks in the State in 1998, which increased to 1247 in the year 2013. Thus increase of 60.9 per cent has been registered over the years in total number of branches in the State.
- District Kangra continued to have the largest number of branches in the State. It was followed by Shimla, Mandi and Solan almost in all the years under study. The aggregate share of these four districts in total branches in the State continued to be around 59 per cent. In contrast to it, Lahaul-Spiti and Kinnaur throughout
ranked the lowest, with respect to total number of branches in the State. The aggregate share of these two districts in total branches in the State continued to be less than 4 per cent.

- With a view to have more balanced growth of branches in the State, commercial banks gave more emphasis on setting up new branches in poorly ranked districts. Consequently, the branches registered the highest growth rate in Solan followed by Una, Kullu and Shimla. On the other hand, total branches registered the lowest increase in Chamba, followed in ascending order by Lahaul & Spiti, Mandi and Hamirpur.

- Solan district has registered the highest linear growth followed by Una district in the State. On the other hand, total branches registered the lowest increase in Chamba, followed by Lahaul & Spiti as these districts are sparsely populated and industrialisation has not picked up the momentum here.

- The imbalances in the expansion of bank branches over the period have been observed and the inter-district disparities over the decade are increasing at a very slow pace still the position has relatively been improved in December, 2013 over December 1998.

**Population Served Per Bank Branch**

The State has been showing an encouraging picture in the population served per branch as follows

- Due to an impressive increase in bank branches, population served per bank branch came down considerably in Himachal Pradesh. It came down from 7471 in 1998 to 5633 in 2013, showing a decline of 0.97 per cent per annum.

- The population served per bank branch stood the lowest in Lahaul-Spiti, Kinnaur, Solan and Shimla in most of the years under study. Whereas, Lahaul & Spiti and Kinnaur ranked high mainly on account of a small size of their population, rest of the districts
ranked so, mainly on account of a large number of branches. As against this, population served per branch stood very high in Chamba, Sirmaur, Kangra and Mandi in most of the years under reference. These districts ranked low mainly on account of small number of branches in comparison to the population of the respective districts.

- Due to branch expansion, population served per branch declined at a rapid rate in Solan, Lahaul & Spiti and Bilaspur. On the other hand, the rate of deceleration was the lowest in Chamba followed by Sirmaur, Mandi and Kangra due to low rate of branch expansion in these districts.

- It is observed that disparities had widened further in the State as the value of coefficient of variance and Harfindahl Index increased.

- The size of population served per bank branch (district-wise) in December, 1998, ranged between 8840 in Sirmaur district at the top and 4080 in Lahaul & Spiti district at the bottom. This range has been reduced to 7480 in Chamba district at the top and 2840 in Lahaul & Spiti district at the bottom in December, 2013.

- The district wise average population served per branch is much better as compared to National average. Over the years the population served per branch has come down in all the districts of the State, however within the State inter- district disparities prevailed.

- Total deposits in Himachal Pradesh increased by more than 9 times from 1998 to 2013, thereby registering growth rate of 13.98 per cent.

- As in case of total number of branches with respect to total deposit mobilization also; Shimla, Kangra, Mandi and Solan stood at the top in the State. These four districts which accounted for more than two-fifths of total population, throughout continued to mobilize more than 64 per cent of deposits in the State, Shimla
alone contributed for more than one-fourth of deposits in the State from 2004 onwards. The capital city also accounted for more than 47 per cent of total deposits throughout the reference period.

- Like in case of branch expansion, with respect to deposit mobilization also, Solan witnessed the highest growth rate (15.31%). On the contrary, the lowest growth rate was registered by Lahaul & Spiti (12.13%). However, there was only a negligible difference in the rate of growth registered by rest of the districts.

- **Credit Deployment** The credit deployment in the districts of Himachal Pradesh increased and witnessed an increase of about fifteen folds. The total credit in the State increased in an annual linear growth rate of 15.64 per cent.

- In the overall credit deployment Shimla, Solan and Kangra continued to be the leading districts in most of the years under study. The percentage share of these districts in total credit deployment in the State hovered around 55 per cent throughout the reference period. In contrast to it, Lahaul & Spiti, Kinnaur and Chamba throughout stood at the bottom. The percentage share of these three districts taken together always stood less than 5 per cent in total credit deployment in the State. It may be noticed here, that by and large the districts which had good branch network, stood in forefront with respect to total credit deployment and vice-versa. In fact credit deployment in an area besides other factors also depends on the absorptive capacity and credit awareness of the people of that area. That is why, the credit deployment was high in those districts which had comparatively developed agriculture, industry and tourism coupled with healthy banking habits.

- Being an exceptionally industrially rich district, credits went up at the fastest rate in Solan followed by Sirmaur, Lahaul & Spiti and
Una. On the other hand, the lowest growth rate was registered in Hamirpur followed by Kangra, Shimla and Bilaspur.

**Deposits per Branch**

- Deposit per branch in Himachal Pradesh increased from Rs. 6.31 crores in 1998 to Rs. 36.84 crores in 2013 depicting linear growth rate of 10.85 per cent. But in spite of witnessing a high growth rate deposit per branch in the State continued to be less than the national average in all the years under study.

- In most of the years, Shimla, Kangra, Una and Hamirpur continued to be the highest in rank with respect to deposit per branch. Shimla and Kangra ranked high mainly because of large deposit mobilization; Una and Hamirpur ranked so mainly due to comparatively small number of branches. On the other hand, Kinnaur, Lahaul & Spiti, Sirmaur and Chamba, due to poor deposit mobilization, continued to be ranked the lowest with respect to deposit per branch almost throughout the study period. Thus, by and large deposit per branch continued to be high in the district, which succeeded mobilize large amount of aggregate deposit and vice-versa.

- The analysis reveals that on account of a very high rate of increase in overall deposits on the one hand and a comparatively low rate of branch expansion on the other, deposit per branch increased at the highest rate in Shimla. Besides, Kinnaur also witnessed a high rate of increase in deposit per branch, mainly due to low rate of branch expansion. On the other hand, these deposits increased at the lowest rate in Una followed by Lahaul & Spiti and Kangra.

- The inter district disparities with respect to deposit per branch, though narrowed, yet continued to be high and remained quiet alarming to this indicator.
Credit per Branch

- Credit per branch in the State increased by about ten times, showing a growth rate of 12.96 per cent per annum. But in spite of registering a high growth rate, credit per branch continued to be very low in the State as compared to the national average.

- Solan, Shimla, Sirmaur and Kullu ranked the highest with respect to credit per branch in the State. Whereas Solan and Una ranked high mainly on account of huge loans given to their comparatively developed industrial and tourism sector, Shimla and Sirmaur ranked so because of huge credit deployment in their comparatively developed agricultural, horticultural and tourism sectors. On the other hand, because of poor absorptive capacity, credit per branch continued to be the lowest in Lahaul-Spiti, Hamirpur and Bilaspur. Apart from these districts Chamba and Kinnaur also ranked low with respect to credit per branch in majority of the years.

- Whereas in 1998, credit per branch was less than Rs. 2.64 crores in all the districts; in 2013, it was more than this in all of them. But this achievement can't be considered satisfactory in the sense that even the top ranking districts of the State, throughout continued to trail far behind the national average.

- On account of high rate of increase witnessed in overall credit deployment; Kinnaur, Sirmaur and Lahaul-Spiti registered a high rate of increase in credit per branch. On the contrary, Chamba registered a low increase in overall credit, witnessed high rate of growth with respect to this indicator. This means that Chamba registered a high growth rate in credit per branch due to low rate of growth in branch expansion. On the other hand, Hamirpur, Kangra, Shimla and Kullu registered a lowest growth rate with respect to credit per branch. They showed the lowest growth rate
mainly on account of small rate of increase in overall credit deployment. During the initial years under study, Lahaul-Spiti and Kinnaur witnessed either nil or negligible credit per branch, as a result, there existed very wide inter-district variations during these years. But during later years, on account of expanding credit deployment in these districts, the disparities narrowed down.

Credit-Deposit Ratio

- C-D ratio is closely related with the economic activity prevailing in an area, generally, economic activity and credit-deposit ratio move in the same direction. That is why; the C-D ratio is usually high in developed districts and low in backward districts.
- Thus, C-D ratio in Himachal Pradesh declined at the rate of 3.99 per cent per annum during 1998-2013. The commercial banks could never achieve the stipulated norm of 40 per cent C-D ratio (which is now 60 per cent as per Thorat Committee Recommendations) in any of the years under study. The low level of C-D ratio speaks about the transforming of resources from this hilly state to other parts of the country.
- A district-wise analysis shows that the C-D ratio stood at a very high level in district Sirmaur and Solan in the most of the years under study. In contrast to it, in district Lahaul & Spiti this ratio could never be more than 23.47 per cent.
- The C-D ratio registered a nominal growth in the State. It increased at the highest linear growth rate in Kinnaur followed by Lahaul-Spiti and Sirmaur. On the other hand, it registered the least rate in Shimla. The C-D Ratio of the State is improving in a slow pace because the industries are having their units in Himachal and generally their Headquarters are located in metropolitan cities or big cities from where they are availing the credit facilities. The economic activity is broadening,
manufacturing is going on, the State is generating money but money is not being credited to the banks in the State.

- The Private Sector banks operating in the State are not deploying their resources within the State and due to that reason their C-D Ratio varies which is also the cause of low C-D Ratio in the State.

Growth and Imbalance Analysis of Inter-district Deposit Mobilization

- The study points out on the basis of elasticity that a vast potential is there for deposit mobilization and credit disbursements in the State.

- The analysis of targets and achievements of priority sector lending under ACP brings into light that in Himachal Pradesh the lead banks have been disbursing plenty of loans towards the agriculture sector as throughout the study period achievements are more than that of targets set for the respective years. The performance of District Una and Kullu is appreciable as these managed to attain the 100 per cent achievement of targets for the agriculture sector throughout the study period. Moreover, district Mandi and Shimla have maintained the same trend except lagging behind in the achievement for only one year. District Lahaul-Spiti witnessed the highest LGR (32.36%) followed by Kullu (29.01%), Kinnaur (27.60%) and Una (24.33%). On the other hand, loan disbursal achievement showed the lowest growth in Solan (15.47%) followed by Shimla (19.18%) and Sirmaur (21.29%).

- As regards the stipulated targets for the State, the convenor banks have surpassed the targets and disbursed ample of loans to MSEs sector till 2008 (except for the year 2005). Unlike the previous years, from 2009 onwards, the achievement per cent started declining due to the economic meltdown in the global economy. But experiencing this impact till 2010, the achievements as against the targets have replenished the gap. Lead Banks of District
Chamba, Kangra, Sirmaur and Una have accomplished the targeted flow of credit for the 6 years out of the 9 years of study period. On the contrary, District Shimla has denoted shortfalls in achieving the annual target under ACPs for the most of the years under reference followed by Hamirpur, Kinnaur, Bilaspur and Mandi. As regards the LGR District Kangra registered the highest growth rate in the disbursement of loan as against the targeted loan followed by Chamba and Lahaul & Spiti. On the contrary District Solan witnessed the lowest disbursement rate as against 23.34 per cent target followed by District Kullu and Shimla.

- Fresh credit has been disbursed to various segments such as Housing, Education, Retail Trade, & Consumption Loans and Micro-Finance (falling under the category of Priority Sector Advances). During the first half of the study the performance of services sector advances in the State was good as it achieved 100 per cent allocated targets. Furthering ahead, an adverse impact of economic slowdown in credit offtake has been noticed because the achievement per cent decelerated and reached at 67.85 per cent denoting a shortfall in achievement under ACP by 32.25 per cent on March 2013.

- The banks under the Lead Bank Scheme have been very good in the achievement of targets in district Kullu as it is more than 100 per cent except for the year 2009-10. Similarly, the LGR of achievement i.e. 7.65 per cent is quite high than the targets i.e. 2.17 per cent. Shimla continued to have the major chunk of the services sector loan disbursal in the State followed by Kangra and Solan. In contrast to it, Lahaul-Spiti, Chamba and Kinnaur throughout ranked the lowest, with respect to targets and achievements thereon in the State. District Bilaspur showed shortfalls in achieving the targets under various ACPs for the most of years under reference followed by Sirmaur and Kinnaur. The
LGR of District Sirmaur was the highest followed by Una and Kangra whereas the growth of disbursement per cent was the least in Lahaul-Spiti followed by Chamba and Bilaspur.

Lead banks have shown a significant achievement in financing the total priority sector of the State. It is found that the achievement per cent (performance) of the entire study period is surpassing the allocated target (except for the year 2009) which means there is sufficient flow of credit towards this sector. Moreover, accounting for a good track of achievement per cent, the State is also attaining the national parameters for the entire study period. The aggregated share of targets and their related achievements of District Shimla, Kangra and Solan is continued to be around 50 per cent which means one-half of the credit flow of the State goes to these three districts only as they have the potential to absorb the same. Kullu district has been a good performer vis-à-vis to the total priority sector lending as well as other indicators as it is evident from the previous analysis. The Lead Bank of the district has a better coordination among other banks and district administration as in all the years under review targets have been achieved. LGR has been 18.19 for targets per cent and 22.52 per cent for achievement which indicates that there is good potential for priority sector lending.

District Sirmaur witnessed the highest growth rate followed by Lahaul-Spiti and Una District. On the other hand district Shimla showed lowest rate of growth in the disbursement of loan as against the allocated target followed by Solan and Bilaspur.

It is found that private sector banks are playing a vital role in lending to the agricultural sector whereas the performance of cooperative banks is poor in the same sector. Regional rural banks are showing good performance in lending to the MSEs sector than that of the other financial agencies. Private sector banks
performance is relatively poor in lending to the services sector whereas the public sector banks are leading in financing the services sector in Himachal Pradesh. Taking the entire priority sector as a whole, unlike public sector banks, private sector banks are playing praiseworthy job in lending to the total priority sector in Himachal Pradesh.

- The outreach of banking services in the State is one of the best in the country. Still there is need of greater participation by the financial sector to increase banking penetration through various modes like brick & mortar branches, ATMs, Mobile Banking, ICT based Business correspondents (BCs)/Ultra Small Branches etc. to enhance outreach of banking services to the excluded section and increase usages of basic banking services through technology enabled services to the left out households both in rural and urban areas.

- The focus in the State will be to cover the left out households without any bank account and households without any account of the lead lady. Pradhan Mantri Jan Dhan Yojana will plug the gaps in this context as at the very beginning of the Yojana banks in the State opened 1,92,500 accounts and organized 5111 camps.

- Banks in the State have network of 1809 branches with more than 80 per cent branches located in rural area. Banks have added 143 branches over the previous year branch network of 1666. In addition 1419 ATMs of member banks are operational in the State as on March 2014. Banking outlets numbers will witness phenomenal growth with opening of more Ultra Small Branches, Brick & Mortar branches, ATMs under Financial Inclusion initiatives in the current fiscal.

- Banks have given special impetus for extending finance under Kisan Credit Cards, General Credit Cards, ‘no-frills account’ and now the Basic Saving Bank Deposit Account with Rupay Card and
provision for Micro Credit to cover each household under the credit inclusion. Revised KCCs scheme was made hassle free and user friendly by RBI. KCCs can now be used as smart cards by the farmers.

➢ The State is having 8,44,499 active KCCs with outstanding balance of Rs. 4557.49 crores as of March, 2014.

7.3 Suggestions for the effective implementation of the Lead Bank Scheme in Himachal Pradesh

Taking the above facts into concern, there is an urgent need to improve the working of Lead Banks in financial inclusion and priority sector lending. Following suggestions are put forward in this context.

➢ NABARD may make a detailed review of the SHG-bank linkage programme and come up with revised guidelines to facilitate migration of members of mature groups to become micro entrepreneurs and increase the scale of lending through such groups.

➢ State Governments should ensure road and digital connectivity to all centres where penetration by the formal banking system is required. The achievement of such connectivity may be monitored by a sub-committee of the DCC.

➢ The plan may also include publicity and awareness endeavours, road map for setting up and monitoring financial counselling centres as also focus on critical infrastructure gaps that have affected credit deployment and improving recovery climate etc.

➢ The Annual Credit Plan would be prepared by the Lead District Manager of the Lead banks concerned taking into account the PLPs. The Annual Credit Plans, among others, should clearly indicate the proposed coverage for SCs/STs, minorities and
promotion of SHGs in the district. The Lead banks may also need to involve the private sector banks more closely in the LBS, both while drawing up and in implementing the ACP.

➢ Every SLBC should have its own website where all instructions pertaining to the Lead Bank Scheme as well as other instructions issued by Reserve Bank and other agencies as also in respect of Government Schemes for the benefit of common person are made available. This site could also be used for financial education and could carry a FAQ section to answer all possible queries relating to various products and services.

➢ The State Government machinery may support the efforts made by banks for financial literacy. Towards this, State Government may proactively provide assistance of the government machinery, especially at the grass root level such as schools, panchayats, etc., for this purpose. The local media should be encouraged to frequently interact with the Financial Literacy Division and its help taken to reach out to the common persons.

➢ As it is evident from the previous discussion that due to the sparse population, lower business per branch and transport bottlenecks; branch banking may not be the most viable way to increase outreach in the difficult hilly terrain of the State. Hence, in order to achieve the objective of financial inclusion recourse will have to be taken to SHG-Bank linkage programme, business correspondent/business facilitator model and also extensive use of IT based solutions which facilitate remote banking which is suggested earlier in the context of financial inclusion.

➢ There is a need to exploit scientifically the resources of the tribal districts as these have the great potential in aromatic, herbal and medicinal plants. A gradual shift in the cropping pattern, upgradation of the handloom and handicraft industries, scientific extraction of forest produce, etc. are the areas which need a
thorough rethinking and redesigning of the developmental initiatives. This will ultimately reduce the disparities found in these tribal regions of the State.

- Excluded labour can now be brought in banking fold by opening their no frill account on the basis of identification of their landlords or employers. The banks operating in industrial pockets and in apple belt can conduct a survey which will help them to identify such labour.

- Mere opening of no-frill bank accounts is not the purpose or the end of financial inclusion while banks must gain the trust and goodwill of the poor through developing strong linkages with community-based financial ventures and cooperatives.

- To push the State on sustained economic growth momentum, there is an urgent need to expand the base of financial services, with a particular focus on the rural economy and the small and medium entrepreneurs. In view of the low savings potential of the people, expanded financial services must be cost effective and their delivery should be of high quality.

- By reviewing the economic background of the districts it is observed that the State is known as Fruit bowl particularly for Apple Crop. In addition there are vital scope for vegetables particularly off-season vegetables, floriculture and medicinal plants. The production volume of Cash Crops is improving on account of using the Poly House Technology by the farmers. This is of course a capital intensive activity and banks have to come forward for providing adequate finance.

- As per the discussion with the bank officials it is found that there is a close coordination between Banks and State Govt. Line Departments exists at all levels to resolve banking related operational issues from time to time to overcome the poor
connectivity in the remote parts of the State and frequent power break down in upper parts of the State in winter.

➢ RBI has been requested to examine the proposal of bankers for deletion of those villages from the list of unbanked villages who are getting regular satisfactory banking services from the existing rural bank branches within a distance of 1-5 Kms in a special consideration having hilly terrain and less density of population.

➢ In order to make Financial Literacy and Credit Counselling a success, it is necessary to create widespread awareness about the concept, scope, modus operandi and, more importantly, for banks to appreciate the overall benefits of such initiatives. It is necessary to have the total and complete involvement of the top management of banks in this initiative.

➢ Special privilege should be given for promotion of SHGs. This would be possible by sanction loans on easy instalments, with minimum of formalities. This would ultimately lead to upliftment of economically downtrodden classes in rural areas.

➢ The State having a strong density of bank branches is a good indicator for the development. The bankers should introduce the Saving Products as well as interest bearing products at the micro level and look after customer grievances seriously.

7.4 Areas for Future Research

The following areas are recommended for future research.

• An empirical Study on the Lead Bank Scheme based on the concept of Financial Inclusion can be under taken to know the impact upon beneficiaries’ real income.

• Since the study was confined to the State of Himachal Pradesh, new comparative study could be conducted on the different states.

• Further studies can be conducted to examine the impact of priority sector financing on beneficiaries’ economic status.

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