CHAPTER 2

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The concept of Priority Sector Lending came with the nationalization of banks and social control over the banks by the government of India. The concept has undergone several changes from time to time. New targets and sub-targets have always taken the place of old ones. It resulted into increasing the flow of credit to different priority sectors and thereby raising the income as well as the standard of living of the beneficiaries. In India, a number of research studies have been undertaken to investigate different aspects of priority sector lending including regional and class disparities, supply of credit, the schemes adopted and the measures taken, and the problems faced by both the banks as well as the beneficiaries. However, an attempt has been made to review the relevant studies considered important from the point of this study.

Swaroop (1969), in his research paper, examined the comparative performance of public sector banks and other scheduled commercial banks in financing small scale industries for the period 1955-56 to 1966-67. He found that increase in advances to small industries by public sector banks was much more than that of other scheduled commercial banks during the study period. He further highlighted that share of public sector banks in total advances of all scheduled commercial banks to small scale industries increased manifold, whereas share of other scheduled commercial banks fell drastically during the same period. The researcher also highlighted various procedural problems faced by small scale industries in getting funds from public sector banks and suggested certain measures like procedural simplification, cordial relations with units in the time of difficulties and collaborative efforts of private and public sector banks to uplift the small scale industries.

Bhat (1974), in his research paper, evaluated the performance of commercial banks in terms of number of bank offices in rural areas, farm credit and recovery position in post-nationalization era between 1968-69 and 1971-72. He found that as a result of branch expansion programmes of banks, the branch offices of commercial banks increased manifold and this growth was maximum in rural areas during the study period. He emphasized that the growth rate of farm credit was much more than that of total bank credit during the same period. The state-wise analysis of public sector banks in agriculture sector indicated that
growth rate of agriculture credit was maximum in the case of Maharashtra. He highlighted the fact that the recovery position of banks was the highest in the case of Meghalaya and lowest in Manipur. Most of the states had the recovery position of even less than 50 per cent. He highlighted various causes of poor recovery performance of commercial banks and suggested more use of irrigational projects, improvement in warehousing and marketing facilities, timely availability of seeds and fertilizers, rationalization of agriculture price policy, more decision-making power at branch level etc. for improving the poor recovery position of commercial banks.

Pranav (1979), in his research paper analysed the performance of various measures adopted by commercial banks for the rural development during 1968-69 to 1977-78, and observed that the number of offices of commercial banks had increased manifold with maximum concentration in the rural areas. He further examined that the total advances to agriculture by all scheduled banks also increased during the study period, and highlighted the performance of banks in setting up farmers’ service societies and financing primary co-operative societies to provide integral services to small, marginal farmers and agricultural labourers. He pointed out less contribution of commercial banks in promoting infrastructure like road, education, health etc. and stressed upon the need of creating the linkages of rural production with marketing, creating consciousness among artisans and other small units, and changing attitude of the bankers to improve the contribution of banks in rural development.

Sahaya and Litt (1980), in their paper, studied the progress of banks under branch expansion programmes, advances to priority sector and Differential Rates of Interest scheme over the period 1968-69 to 1978-79. The researchers found that as a result of branch expansion programmes, the share of rural branches to total number of branches in India was doubled, resulting into manifold increase in priority sector advances during the period of study. But, they highlighted that the growth of advances to agriculture and SSI was very low. They emphasized that the performance of banks regarding DRI advances was also not satisfactory. The researchers further pointed out various procedural difficulties in disbursement of loans and also recommended solutions to the problems like ascertainment of actual credit needs for proper identification of borrowers, simplification of loan application forms, trained staff in banks, pre-sanction and post-sanction visits to borrowers, less margin money requirement for small and marginal farmers and lesser gap between receipt of loan application and final disbursement of loan etc.
Bhat (1986), in his research paper, reviewed the progress of priority sector financing by commercial banks in India between 1969 and 1978. He found that the share of priority sector in the total credit advanced by scheduled commercial banks in the country increased steadily during the study period. He pointed out various reasons for declining profitability of banks and further emphasized the need of purpose based funding than to security based funding so as to divert bank credit from speculative to productive lines. He examined certain conceptual and practical problems concerning priority sector lending and highlighted the need for conceptual changes.

Rana (1986), in his research paper, analysed the growth of public sector banks in terms of rural bank offices, priority sector credit, agriculture credit, small scale industries credit and service sector credit during the period 1968-69 to 1981-82. He revealed that since nationalization the rural bank offices increased manifold as a result of various special schemes of RBI. He found that priority sector advances including agriculture had gone up between the selected time period. He showed a concern over the mounting overdues in respect of direct agricultural advances of banks and found that the recoveries of loans were lowest in the north-eastern region followed by eastern region and western region. He emphasized that recovery performance of banks in states like Punjab, Kerala, Haryana and Tamil Nadu was although better than other states, but it could be further improved.

Chawla (1987), in his doctoral work, analyzed the growth of banks in Punjab in terms of branch expansion programme and flow of credit to priority sector for the post-nationalization period up to 1983-84. The researcher revealed that the number of bank offices grew drastically at the higher rate but there were wide inter-division/inter-district disparities during the study period. The bank deposits grew at more rapid rate in the case of rural centres than urban or semi-urban centres and credit deployment recorded considerable growth during the study period. He highlighted that the number of programmes and schemes like DRI scheme, 20-Point Programme, Integrated Rural Development Plan etc. initiated for upliftment of the weaker sections did not give satisfactory results. The researcher pointed out various reasons for this state like more casual attitude of the banks, default and diversion of loan to non-productive activity and lack of awareness among the customers. For more effective results, the researcher had given many suggestions like changing attitude towards rural areas, finding out potential market in them, proper follow-up and control system and carefully planned campaign of educating the intended borrowers.
Malhotra and Kulshrestha (1987), in their article, examined the role of commercial banks in improving weaker sections of the society. Commercial banks having wide network of branches in the rural and unbanked areas and vast resources could provide large quantum of loans to fulfil the credit requirements of all sections of people particularly the weaker ones. The authors studied that after nationalization the commercial banks diverted their policies and procedures to help the neglected and weaker sections of the society especially in rural unbanked and underdeveloped areas.

Arora (1998), in his article, studied the role of banks in rural lending and suggested various measures for making rural lending more productive. He emphasized on the role of Indian banking in the development of rural as well as urban areas and importance of Lead Bank scheme in priority sector lending, after nationalization. He favoured the qualitative aspect of lending instead of the quantitative aspect. He suggested that in order to make the implementation of development plans successful, active and willing co-operation of the local people and Panchayates should be taken. The bank and development agencies should ensure that all the infrastructural facilities and expert technical guidance should be available to the borrowers besides timely and adequate availability of funds. He further emphasized the role of branch/regional/zonal offices in providing financial as well as infrastructural facilities to the beneficiaries. He suggested equipping the rural branches with sufficient staff to provide satisfactory customer service at the time of sanction and disbursement of loans. While concluding, he stated that the role of banker in the changed circumstances should not merely limited to providing adequate and timely finance but should be motivational in character as well.

Bhatia and Chawla (1988), in their research paper, examined the trend and progress of commercial banks in Punjab with regard to priority sector lending for the period between 1968-69 and 1983-84. The study revealed that aggregate priority sector advances in Punjab in comparison to other states in India were fairly good during the study period. The researchers found that bank credit to various constituents of priority sector in Punjab grew significantly, but among all the constituents of priority sector, sectors like agriculture, self-employed and professionals and transport operators grew faster than other sectors. The industrial sector, an important sector for the development of Punjab’s economy, was not receiving much importance. Therefore, it was suggested that priorities for commercial bank lending should be laid down at state level keeping in view the demands of the economy from the financial system to get the desired results from the concept of priority sector.
Dandekar and Wadia (1989), in their study, traced the development of agriculture credit, co-operative finance and supply of agricultural credit by commercial banks and Regional Rural Banks in India. It was suggested by the researchers that: (i) various co-operative credit institutions should be allowed to function so long as they were commercially viable. Otherwise, they should be gradually phased out; (ii) the commercial banks should be reorganized, consisting of: (a) three or four large banks (including the State Bank of India) which could become international in character; (b) eight or ten national banks with a network of branches throughout the country; (c) local banks whose operations would be generally confined to specific regions; and (d) rural banks (including RRBs) whose operations would be generally confined to the rural areas mainly to finance agriculture and allied activities. He emphasized that due to the complexities, no single bank could serve all the sectors.

Vashisht (1989), in his research paper, studied the progress of commercial banks with regard to rural branch expansion, rural deposit mobilisation, rural credit deployment, and rural credit and deposit ratio during the period between 1970-71 and 1984-85; and revealed that it was only after social control that the rural banking was strengthened. He highlighted that share of rural branches, rural deposits and rural credit to that of total increased manifold during the study period. He emphasized the role of commercial banks in rural development through Rural Electrification Corporation, Fertilizer Corporation of India, Land Development Bank and other agencies. He pointed out various factors for impairing the profitability of banks and suggested means to strengthen the commercial banks in rural areas.

Pasricha (1992), in his doctoral thesis, studied the evolution, objectives, functioning and impact of Lead Bank Scheme on the branch expansion, deposit mobilization and credit disbursement, performance of District Credit Plan and Annual Action Plan and the role of Lead Bank Scheme in IRDP in the state of Punjab from 1976-77 to 1988-89. He found that the number of bank offices increased at a significantly higher rate after nationalization than in the pre-nationalization period. The deposits in rural areas of Punjab increased at a higher rate than in urban and semi-urban areas. He emphasized that all the districts had registered a phenomenal growth in the credit deployment, especially in the case of rural areas which further increased the disparities among districts. He found that banks were not able to achieve their targets under small scale sector and tertiary sector under Annual Action Plans and pointed out various problems in rural financing. So, he recommended some measures like new approach to rural credit, ensuring proper end use of funds, co-ordination between different agencies and setting of quarterly targets for improving the rural financing.
Anbumani and Niranjana (1993), in their research paper, depicted that the total advances, priority sector advances and non-priority sector advances of public sector banks had gone up drastically over the period 1968-69 to 1992-93. The share of priority sector advances to total bank advances fluctuated during the study period. The researchers also emphasized the presence of large number of private finance companies in supplying credit without much formalities. They analyzed the fact that good performance of the banks in terms of the social objectives had impaired the profitability of the banks by interest income loss during the period under study; and suggested that priority sector targets should be reduced.

Singh (1993), in his Ph.D. thesis, analysed the banking growth in various tehsils/blocks of Patiala district as a result of various social banking schemes, programmes and measures and flow of credit diverted to priority sector for the period between 1971-72 and 1990-91. He studied that there had been phenomenal growth of banking presence in various tehsils/blocks of Patiala district reducing the block-wise disparity during the study period. He highlighted that the local/regional based banks in Patiala district had an excellent performance in the case of priority sector lending and observed that although, advances to all the components of priority sector improved drastically during the study period, but it was disappointing that under priority sector, there had been a tendency towards lending to the well off segments of the society. He emphasized the problems related to priority sector advances faced by the beneficiaries and banks, and suggested that loans should be given to younger generation than to old farmers. He also emphasized that bank staff should work with more dedication.

Patel (1994), in his doctoral work, examined the growth of commercial banks in Gujarat in terms of bank offices, deposits, credit and priority sector advances, and collected data from the priority sector beneficiaries in Gujarat during 1961-62 to 1991-92. The share of priority sector advances to total advances of banks in Gujarat also showed increasing trend, but it fell short of the targets set by RBI for priority sector. He highlighted the fact that in spite of the phenomenal growth of commercial banks in Gujarat, they could not concentrate much on the poor needy people and farmers, resulting into regional imbalances in the state. He pointed out the problems faced by the beneficiaries and suggested redefining priority sector to include only weaker sections, phasing out concessional rate of interest, establishment of primary infrastructure facility and development inputs, non-interference by politicians, greater autonomy of banks, setting of region specific targets rather than general targets etc. for reaping the full benefits of social banking.
Saini (1994), in his research paper, studied the productivity of commercial banks in terms of priority sector advances, branch expansion in rural areas, finance for development schemes, job opportunities etc. for the period between 1986-87 and 1989-90; and found the performance of banks in terms of priority sector advances to be satisfactory. But the share of priority sector advances to total advances declined during the period of study. For improving the performance of banks in meeting the social objectives, he suggested that the branch expansion programmes should give more emphasis on qualitative rather than quantitative aspects so that they could achieve credit deposit ratio in rural and semi-urban branches as per the RBI norms. He further suggested reducing the rate of interest so as to benefit the weaker sections.

Jha (1995), in his research paper, evaluated the role of commercial banks in providing finance to priority sector in general and Madhubani district (Bihar) in particular for the period 1968-69 to 1978-79. He analyzed that there had been qualitative changes in bank credit distribution and the rural artisans, rural industrialists and rural agriculturists had taken much benefit from priority sector lending during the study period. He found that the weaker sections of Madhubani district had improved their economic conditions through the programmes of the Government and banking authority. He highlighted various problems faced by loanees (weaker sections) and suggested some measures like establishment of recovery cells, proper coordination among lending institutions, linking credit with marketing, and avoidance of delays in granting loans and subsidies to banks by State Government and agencies.

Kaushik (1995), in his Ph.D. thesis, studied the impact of social responsibilities and other factors on the profitability of the banks, and compared the profitability of all public sector banks and private sector banks during the period 1972-73 to 1990-91. He emphasized that social lending had only marginal adverse effect on income from interest and discount. Further, the annual average of net profits as percentage of total deposits decreased for all public sector banks and increased for all private sector banks during the same period. He revealed that annual average of net profit as percentage of total loans remained static for public sector banks and increased for all private sector banks during that period. He highlighted that the contribution of priority sector credit towards bank profitability decreased during the study period. He concluded that social obligations of banks had adversely affected bank profitability, though it was not a major factor, other factors also contributed in declining profitability. To improve the profitability of banks, he suggested the measures like subsidy to banks by government for financing poverty alleviation programmes, judicious use of
Differential Interest Rate scheme, use of CRR and SLR as the only safety measure, and freedom to banks to close down the rural and semi-urban branches suffering from losses.

**Pandey (1997)**, in his Ph.D. thesis, evaluated the growth and inter-state inequality of commercial banks in India in terms of total offices, total deposits, total credit as well as priority sector advances during 1968-69 to 1989-90. He found that the credit to priority sector also grew substantially during the study period. His study indicated the dominant share of agriculture and small scale industries in the priority sector outstanding loans and considerable inter-state inequality in all the parameters of growth of commercial banks in India during the period 1968-69 to 1989-90. He emphasized on the need to take more measures for mobilizing deposits and advancing credit to neglected sub sector of priority sector and increasing implementation of schemes like Service Area Approach, DRI, Debt Relief scheme and consumption loans for the benefit of priority sector. He recommended building up more irrigation assets, more incentives and concessions to underbanked and backward states to reduce inter-state inequality, reduction of political interference in bank appointments, promotions, transfers and operations and upliftment of weaker sections so as to achieve the social objective of nationalization.

**Das (1998)**, in his research paper, evaluated the performance of public sector banks regarding expansion of banking services to the unbanked area and advances to the priority sector during the pre-and post-reforms period. He analyzed that there existed an uneven distribution of bank offices which led to growing inequality among the states. The credit-deposit ratio of Tamil Nadu was the highest and that of Meghalya was the lowest during the period under review. He highlighted that the growth rates were positive in the case of all the sub sectors of priority sector lending during the period 1980-81 to 1989-90 (period I) and negative during the period 1990-91 to 1996-97 (period II) in the case of three sub sectors, namely, setting up of industrial estates, small road and water transport operations, and professional and self-employed persons. Similarly, the growth rates of contribution of priority sector advances in the total bank credit had been found positive during both the periods, but lesser during period II than that of period I. Thus, he concluded that the financial sector reforms had adverse effect on the priority sector.

**Ramesha (1998)**, in her research paper, revealed the inter-state disparity in scheduled commercial banks credit to small scale industries sector and artisans and village industries during the period between 1989-90 and 1995-96. He found that inter-state variation in scheduled commercial banks credit has widened between 1989-90 and 1995-96. His study
revealed that the compound growth rate of small scale industries advances by all scheduled commercial banks in India was appreciable. The share of Maharashtra and Tamil Nadu in total small scale industrial advances of scheduled commercial banks in India improved drastically during the study period. Combined share of seven states, viz. Assam, Bihar, Himachal Pradesh, Jammu & Kashmir, Madhya Pradesh, Rajasthan and Orissa declined during the study period. It was observed that outstanding credit per account had been quite above all India average of 12.8 per cent in Maharashtra, Tamil Nadu, Gujarat, Punjab and Haryana throughout the study period. Thus, the researcher found a great deal of inter-state disparity in India during the study period.

Kaur (1999), in her doctoral work, studied the growth and performance of commercial banks, co-operative banks and Regional Rural Banks in terms of branch expansion, deposit mobilisation, credit deployment and priority sector lending in Punjab for the period 1986-87 to 1995-96. She found that growth rate of commercial bank offices, deposits and credit deployment in rural and semi-urban areas had been very low during the period under study as compared to the growth rate of Regional Rural Banks and co-operative banks. She further observed that priority sector advances remained higher than national targets for all categories of banks, but the growth rate of the Regional Rural Banks was the highest and only Regional Rural Banks were able to achieve the targets under DRI scheme. She recommended various measures like assistance of Government agencies, co-ordination among developmental agencies in rural areas and simplification of loan application forms and documentation facilities to improve the progress of all the groups of banks in rural banking.

Shete (2002), in his research paper, revealed the performance of public sector banks, private banks and foreign banks in disbursing credit to agriculture, small scale industries and other priority sectors from the period between 1990-91 and 2000-01. He observed that in spite of the financial sectors reforms and various special programmes for priority sector, it was not getting requisite attention. He found that a very less number of public sector banks were able to achieve the targets of priority sector advances and agricultural advances set by RBI. Also, the performance of public sector banks in terms of small scale industries advances and other priority sector advances improved slightly only during the study period. The researcher found that even the private sector banks were lacking behind to achieve the targets of priority sector advances for many years after banking sector reforms in 1991. The researcher revealed that foreign banks were able to achieve the priority sector targets during 1996-97 to 2000-01. But their share of export credit to total priority sector advances reduced continuously over the
period of study. While concluding, stressed upon the need to identify the reasons for such reductions and implementing a time bound revival programme at the macro and micro level so that the banking credit system could be strengthened.

Kamesam (2003), in his article, emphasized the importance of small scale industries in terms of balanced and sustainable growth, employment generation, development of entrepreneurial skills and contribution to export earnings. He found that after the initiation of structural reforms, bank credit to small scale industries had increased manifold. With globalization, liberalization, and financial sector reforms, several measures had been adopted to uplift small scale industries in India. He highlighted the problems faced by small scale industries in India and suggested future actions for solving these problems.

Dadhich (2004), in his research paper, studied the performance of public and private sector banks in terms of priority sector lending for the period between 1990-91 and 2002-03, and identified the main reasons for variations in the performance of priority sector lending and suggested new schemes for increasing the flow of credit to these sectors. His analysis revealed that there were wide variations in the performance of individual banks. This was attributable to a host of factors, such as ownership, presence of rural branch network and type of loan branches. He emphasized that the existing facility of subscribing the shortfall to RIDF was inappropriate mainly because of low return from such deployment. Hence, he suggested for Inter-Bank Participatory Certificates for Agriculture which would improve the allocative efficiency in the system. He also recommended that the present practice of fine-tuning the definition / scope of priority sector and the scope of Net Bank Credit should continue.

Shete (2004), in his research paper, studied the performance of banks in lending to priority sector, gross non-performing advances of the public sector banks, private sector banks and foreign banks in regards to priority sector and its various components during the period 1991-92 to 1995-96. He found that since the initiation of financial sector reforms, the growth rate of priority sector advances declined. The relationship between NPAs in the priority sector and overall NPAs of a bank was found to be negative. He pointed out various external reasons for NPAs in the priority sector which comprised of natural calamities, inadequate income generation, high transaction costs, inappropriate financial policies as well as the stipulation and gradual tightening of prudential norms for banks. He concluded that attempts should be made to reduce NPAs in the priority sector by closer follow up, educating borrowers, and sympathetic consideration of the genuine problems of borrowers.


**Kumar (2005),** in his research paper, studied the usage of banking services by rural and urban households in India, number of branches, deposits, credit and credit-deposit ratio of banks in urban, semi-rural and rural areas for the period 1991-92 to 2002-03. He emphasized that there had been a decline in the performance of banks in lending to agriculture and allied activities during post-reform period. Rural centres had a lower credit-deposit ratio as compared to that of urban centres. He analyzed that financial reforms ensured a relatively better credit availability rate in the urban areas as compared to the rural ones. Although, the rural or semi-urban branches had been fairly successful in mobilizing the rural population towards greater savings but they were not successful in credit expansion to this segment and there was a continued migration of rural savings to the urban sector, resulting in a rural-urban imbalance during the period under study. He pointed out the increasing tendency among the urban banks and financial institutions to switch focus to the rural sector because of certain factors like low cost of operations and cheaper labour. He stressed the role of private players like ICICI Bank Ltd., in moving towards the rural segment in search of new opportunities for revenue and to meet the target of 18 per cent set for agriculture sector by RBI.

**Sahu and Rajasekhar (2005),** in their research paper, analysed the trends in credit flow to agriculture by scheduled commercial banks during 1980-81 to 1999-2000. They observed that the share of credit to agriculture in total bank credit for all the bank groups declined significantly, especially after banking sector reforms in spite of many efforts. They analysed that scheduled commercial banks provided large quantum of funds to better-off farmers and to the activities earning high interest income only. They established the negative relationship between agriculture credit and investment in government security, credit subsidy and proportion of credit provided by the co-operative. They recognized that increasing lending rate reduced the credit disbursed to agriculture by scheduled commercial banks and affected the average quality of their loan portfolio so they suggested not to increase the interest rate to offset losses from defaults or to meet the lending cost, but to strengthen the quality of credit delivery system and ensure prompt repayment of loans for supporting the agriculture sector.

**Sharma (2005),** in his article, stressed upon the importance of small scale industries in improving the overall production, export, employment, innovation and reduction of regional imbalances. He observed the debilities of small scale industries in terms of delayed payment of bills, technological obsolescence, inadequate working capital availability, marketing bottleneck, weak infrastructure and inability to provide collateral security. He further
highlighted that in spite of wide range of facilities by banks and financial institutions for improving performance of small scale industries, credit flow to this sector had not improved. He suggested various measures like adoption of customer friendly and hassle free procedure of obtaining credit from banks, streamlining of legal and institutional framework of the financial sector, introduction of innovative financing techniques for securing loans, financial restructuring of SFCs and setting up of more small scale industries specialized branches in the clusters/districts for making small scale industries more competitive and realizing high and sustainable growth.

Mohan (2006), in his research paper, examined the role of agricultural credit in supporting agricultural production in India and reviewed the performance of agricultural credit in India during the period 1950-51 to 2003-04. He found that there was rapid increase in total number of rural branches, resulting into the growth of rural credit. The share of commercial banks in total rural credit of the banking system increased rapidly during the study period. He found a wide disparity in disbursement of agricultural credit by commercial banks. Southern states had higher share of agricultural credit to net state domestic product, followed by the northern and central regions. He observed that the proportion of NPAs for commercial banks were higher for agriculture sector than that of non-priority sector. He revealed that although the overall flow of institutional credit increased over the years but there existed several gaps in the system like inadequate provision of credit to small and marginal farmers, paucity of medium and long-term lending, and limited deposit mobilization. He recommended reviewing the agriculture policy and adoption of package approach in different segments of agriculture and agro industry for developing the status of agriculture sector.

Rao et al. (2006), in their research paper, emphasized the inadequacy of credit to small scale industry by commercial banks. They attempted to highlight the trends in sectoral allocation of bank credit to small scale industries and non-small scale industries sector, variations in bank credit to small scale industries sector across bank groups during the period 1991-92 to 2003-04. They emphasized that the share of small scale industries sector in total bank credit declined continuously. The growth in credit to small scale industries sector fluctuated and was lower than those of non-small scale industries sector for all bank groups with few exceptions during the study period. They found that the spread of State Bank of India and its associates, foreign banks and other scheduled commercial banks declined, while for nationalized banks it fluctuated between 2.1 per cent and 3 per cent except for 1992-93.
The study revealed a positive relationship between the share of small scale industries sector in industry and the performance of the bank.

**Rao (2006),** in his article, demonstrated the importance and progress of priority sector for economy during the period 1994-95 to 2003-04. He highlighted in his study that priority sector credit including farm credit of scheduled commercial banks declined during the said period indicating the preference of banks for bigger borrowers with higher credit limits instead of large number of small borrowers. He observed the decline in indirect credit to agriculture and small scale industries sector but relatively better position in credit to other priority sectors during the study period. He referred the recommendations of the Narasimham Committee 1991 and 1998 to redefine the concept of priority sector and also referred the observations of RBI committee to stress much on direct agriculture lending, small scale industrial lending, lending to small road and water transport operators (owning more than five vehicles), retail trade and small business under priority sector. In his study, he highlighted various problems of rural credit and suggested to improve input delivery system, water management system, power supply, irrigation facilities, market information and general rural infrastructure, educational and medical facilities, reforming RRBs, state and central co-operatives and scheduled commercial banks for extending rural credit in rural areas.

**Roy (2006),** in his research paper, studied the trends and progress of bank lending, priority sector lending and retail lending for the period 1996-97 to 2004-05. He observed that the share of small scale industrial sector credit to total credit had declined and that of agriculture sector had been stagnant because of risk factor involved in them, while credit to other priority sectors had shown a sharp increase, mainly on account of housing loans. He further emphasized in his study that efforts of government through monetary and credit policy for expanding agriculture credit and small scale industrial credit were lagging behind.

**Thorat (2006),** in his article, emphasized the role of commercial banks, co-operative banks and RRBs in rural credit and reviewed the performance of various strategies and programmes adopted by Government of India for the poorest sections of rural and urban areas in the pre- and post-reforms period. He found that during pre-reforms period, the concentration of public sector banks was on achieving the quantitative targets rather than qualitative targets which resulted into more defaults and erosion of profitability of banks. He found that the problems of rural credit, i.e., inadequacy of credit, delayed availability of credit, high rate of interest, and neglect of small and marginal farmers continued to exist even after reforms. He further disclosed the fact that only 27 per cent of rural households and only
23 per cent of the small land holders were covered by formal sources like banks, microfinance institutions and SHGs. He also observed the fall in overall indebtedness of formal and informal sources in all the states of India for one reason or the other. In his article, he quoted the example of SHGs, as an important innovative product in the post-reforms period and expressed his views on the role, performance and challenges before SHGs. At the end, he suggested various measures to strengthen the credit delivery system to serve the poor sections of society.

Gupta and Kumar (2008), in their research paper, analysed the performance of public and private sector banks regarding priority sector lending in India during the period 1996-97 to 2004-05. They found that both the banks had shown an increasing trend in priority sector lending, except in few years. Although both the banks achieved the stipulated target for priority sector, but in absolute terms, public sector banks disbursed a higher amount of credit than private sector banks. The study showed that agricultural lending by private sector banks showed an increasing trend, but public sector banks had stagnant position in this regard during the study period. Also, percentage share of small scale industrial lending continuously declined and that of other priority sector lending increased in the case of both public and private sector banks. They observed that the major responsibility of financing weaker sections of the society was undertaken by public sector banks and co-operative credit societies rather than private sector banks. The study further analysed that NPAs in priority sector of both the banks were lesser than those of non-priority sector but more than those of public sector. Sector-wise analysis showed that the contribution of small scale industrial sector in priority sector NPAs was highest in the case of both public and private sector banks.

Sharma (2008), in her doctoral work, evaluated the comparative performance of public and private sector banks in India regarding priority sector advances, agricultural advances, weaker section advances and other priority sector advances for the period 2000-01 to 2004-05. She observed that priority sector advances of private sector banks increased more than three times and that of public sector banks was almost doubled. She found that agricultural advances, weaker section advances and other priority sector advances of private sector banks improved profoundly. Their agricultural advances increased more than five times, weaker section advances were almost doubled and other priority sector advances increased about four times during the study period, whereas, in case of public sector banks these advances improved twice only. She further, analysed that the share of agricultural advances, weaker section advances and other priority sector advances in priority sector
advances of public sector banks increased considerably and in case of private sector banks, share of agricultural advances increased considerably, while that of weaker section advances and other priority sector advances could not increase much significantly. She also examined the problems faced by the beneficiaries of public sector banks and suggested ways to overcome these problems.

Uppal (2009), in his research paper, evaluated the performance of public, private and foreign banks in India and analysed the target achievement by them during 2006-07. He found that priority sector advances of public and private sector banks were higher than foreign banks. He observed that public sector banks were unable to achieve the target of priority sector, while private sector banks have achieved the target. Private sector banks could not achieve the target for weaker section. Foreign banks could achieve the targets for priority sector, small scale industries sector and export sector. He further, found that NPAs of public sector banks was highest followed by private sector banks and foreign banks. Main reason for more NPAs in public and private sector banks was found to be more NPAs in agriculture sector. He examined various issues related to priority sector like, low profitability, more NPAs, Government interference, high transaction cost, etc. He also suggested various strategies to overcome these issues.

Varshney (2009), in his Ph.D. thesis, studied the role of State Bank of India in financing priority sector in Aligarh, on district and block basis, for the period between 1990-91 and 2000-01. He found a declining trend of priority sector lending in Aligarh district, due to declining C/D ratio and rising NPAs. He observed that the targets of agriculture sector were achieved, but targets of small scale industrial and other priority sectors were not achieved in some blocks; and even in some blocks targets for small scale industrial and other priority sectors were not fixed. He also analysed the problems of banks like low profitability due to high NPAs, and lack of software and hardware engineers in banks; and problems of borrowers like inadequate loan amount, high rate of interest and lengthy loan procedure. At the end of his study, he suggested various measures to remove such problems.

It can be observed from the above reviews that although many studies had been conducted with regard to priority sector lending, but most of these studies had focused attention on one of the three components of priority sector lending, i.e., agriculture, small scale industries and other priority sector. Also, many studies had been undertaken on priority sector lending by all the commercial banks in India as a whole. Very few studies had been undertaken for all the three components collectively in the state of Punjab. Most of the studies
had focused on either inter-region or inter-state analysis. There had been very few studies dealing with inter district-analysis. So, in this study, an attempt has been made to analyse the component-wise, bank-wise and district-wise performance of both public and private sector banks regarding priority sector lending in the state of Punjab.
References


