Chapter VI

SUMMARY OF CONCLUSIONS AND SUGGESTIONS

The research findings leading to some significant conclusions have been summarised in this final part of the research study. The results of the hypothesis based on the research findings have been presented at the end of the conclusions. A few suggestions based on the research study have been offered for further streamlining of the implementation of the priority sector lending by the commercial banks in the study area.

Summary of Conclusions

6.1.1 Priority sector bank lending has been an instrument of India’s financial policy which aims at restoring sectional balance within credit disbursement and for channelling credit to the weaker sections within these sectors. The Bank Company Acquisition Act 1969 leading to the nationalisation of the 14 commercial banks has implicitly made it clear in its preamble.

There has been a substantial reorientation of banking policy after the nationalisation of banks in 1969. This has been accomplished through social orientation of banking and administrative intervention.

6.1.2 The objective underlying the priority sector lending relates to ensuring the assistance from the banking system flows in an increasing measure to those sectors of the economy which though contributing significant proportion of national product
have not received adequate support of institutional finance in the past. More than 70 percent of borrowing by cultivators was from informal sector. Commercial banks directed their lending towards large industrial houses. Agricultural sector, small scale industries and weaker sections were neglected because of both risk factor and urban bias. Thus there was need for ensuring equitable and purposeful distribution of credit keeping in view the relative priorities of development needs.

6.1.3 The priority sector lending has emerged in the period after the nationalisation of banks in 1969. The following are the 4 pillars of the edifice of the priority sector.

Targets and sub-targets financing of specific sectors has been envisaged. The share of priority sector in total bank advances is 40 percent sub-targets for agriculture and weaker sections are fixed at 18 percent and 10 percent of total advances respectively.

The interest rate policy under priority sector and non-priority sector has been stipulated. Concessional rates of interest for priority sector advances and relatively higher rate of interest for other sectors has been a special feature.

To insure against the risk of default of loan account a separate insurance scheme guaranteeing a part of the loan of commercial banks was introduced in 1970 and the DICGC of India was established. The Corporation also provides deposit insurance to the depositors up to a prescribed limit.
Priority sector lending implies deliberate diversion of funds of the banks, from the other sectors and that too at lower interest. Schemes of refinance were formulated by NABARD in particular in order to mitigate the ill effects of the priority sector lending on bank resources and on profitability.

6.1.4 There have been some major changes in the features of priority sector targets in the post reform period. The changes in the post bank reform era have led to the inclusion of the following aspects of priority sector credit by banks as of March 2001.

(a) Agriculture Credit

(b) SSIs (including the setting up of industrial estates and covering units with original cost of plant and machinery not exceeding Rs. 10 million)

(c) Small business (original cost of equipment used for the business not exceeding Rs. 1 million and working capital of Rs. 50,000)

(d) Small road and water transport operators owning upto 10 vehicles

(e) Retail trades (upto Rs. 50,000)

(f) Professional and self employed persons (upto Rs. 50,000)

(g) State sponsored organisations for scheduled castes and scheduled tribes

(h) Education (educational loan granted to individuals)

(i) Housing loan (direct and indirect upto Rs. 50,000)
(j) Consumption loan under the consumption credit scheme for weaker sections

(k) Refinance by banks to RRBs

(l) Micro credit (direct and indirect)

(m) Software industry (upto Rs10 million)

(n) Agro and food processing sector and

(o) Venture capital.

6.1.5 Blockwise analysis of allocation of priority sector loans indicated continuous rise in the loan advances by banks in the 7 blocks relating to seven talukas in Haveri district during 2008-09 to 2011-12.

The loan allocation for priority sector in Ranebennur taluka is much higher compared to other talukas (blocks). However loan allocation for priority sectors in Savanur, Shiggaon and Byadagi talukas is much lower compared to other 4 talukas in Haveri district.

Commercial banks are in the forefront in providing maximum amount of priority sector loans compared to other banks and financial institutions in Haveri district. These banks provided a total amount of Rs. 44470 lakhs of priority sector loans in 2011-12 which constituted 59 percent of their total loan advances Karnataka Vikas Grameena bank which is the Regional Rural Bank in the district provided Rs. 20361 lakhs of priority sector loans in 2011-12. Co-operative Banks including DCC banks and PACARD provided a much lower
amount of priority sector loans of Rs. 9571 lakhs during 2011-12. Karnataka State Financial Corporation provided priority sector loan of Rs. 850 lakhs during 2011-12. The total amount of priority sector loans provided by the different banking institutions during 2011-12 amounted to Rs. 75252 lakhs.

6.1.6 All the banking institutions involving in priority sector lending have provided maximum amount of loan advances to Agriculture and Allied activities compared to other priority sectors like SSIs, and Non-farm sectors. The total amount of loan provided to this sector in 2011-12 amounted to Rs. 55672 lakhs.

Small scale industries and non-farm sectors had been provided with Rs. 4233 lakhs of priority sector loan during 2011-12.

6.1.7 The broad sectors which received priority sector loan were (i) Agriculture, (ii) Allied Activities, (iii) Non-farm sector and (iv) other Priority sectors.

It is significant to note that there is a continuous rise in amount of priority sector loans made by the banks to these sectors during the 5 years from 2007-08 to 2011-12. The total priority sector lendings by banks in the district rose from Rs. 40234 lakhs in 2007-08 to Rs. 75252 lakhs in 2011-12.
6.1.8 The six commercial banks covered by the study have provided substantial amount of loans to priority sector, in Haveri district during 2008-09 to 2011-12.

State Bank of India led the other 5 commercial banks in providing maximum amount of priority sector loans Canara Bank has provided second largest amount of priority sector loans during 2008-09 and 2010-2011. State Bank of Mysore provided second largest amount of priority sector loan in 2011-12 in Haveri district. Syndicate Bank provided third largest Amount of priority sector loans in 2009-10. Vijaya Bank provided a lesser amount of priority sector loans compared SBI, SBM, Canara and Syndicate Bank. However, the priority sector loans provided by Vijaya Bank was higher than that of Karnatak Bank whose priority sector loans were lower compared to all other 5 commercial banks in Haveri districts.

6.2.1 Evolution of priority sector lending is traced to the regime of Social Control on Banking during the later part of sixties. Social control on banks was imposed as a measure to employ prudently and purposefully the deposits along productive and socially desirable channels with the objective of achieving economic growth combined with stability and social justice as envisaged in the National Plan.

6.2.2 The process of evolution of the priority sector lending by banks was followed with the following steps.
The National Credit Council in 1968 emphasised that commercial banks should increase their involvement in the financing of the two priority sectors namely agriculture and small scale industries. RBI forwarded a list including the type of agricultural advances which would qualify for the purpose of compliance with the targets set by the NCC.

In July 1969 Government of India nationalised 14 commercial banks with the main objective of providing assured financial support to priority sector.

In 1972 the RBI formulated the description of priority sectors on the basis of the report submitted by the Informal Study Group.

In 1974 banks were advised to increase the share of priority sector advances to 33.35 percent of total advances.

In 1975 the 20 point programme was announced in favour of weaker sections in the society. The RBI issued instructions to banks in 1976 to implement action of 20 point programme.

Government of India indicated that the Banks should step up the ration of their credit to agriculture to 60 percent by 1983.

Government stipulated that the share of small and marginal farmers, landless labourers etc in direct agricultural advances should reach a level of 50 percent by March 1983.
In 1980 the Finance Minister and Chief executives of public sector banks decided to increase the share of priority sector advances in the total advances to 40 percent by March 1985. Further within this target to allocate significant proportion of credit to the beneficiaries under the 20 point programme.

The priority sector lending by banks is monitored and reported through

i. Budgeting

ii. Returns

iii. On the Spot Studies and

iv. Reporting to Various Forums and the Board

The performance of priority sector lending by banks is placed before the top management at monthly intervals. Detailed Statement of the advances is also sent to RBI and the Government of India once in half year. The RBI reviews the progress made by the banks from time to time and issues necessary instructions to banks for their implementation.

6.2.3 The viability of priority lending by banks depends on the competence and integrity of the institutions comprising it. It is found that the viability of the public sector banks has been eroded due to two factors viz.,

- Directed investment in terms of minimum statutory liquidity ratio and
- Directed lending to priority sectors.
6.2.4 The declining profitability of public sector banks has been related to the priority sector lending as one of the causes viz.,

- Increasing the quantum of interest subsidised loans causing heavy interest income losses.
- Causing highest establishment expenditure to supervise small amounts without matching productivity.
- Raising level of credit outstanding of sick limits requesting in the poor recovery of small loans.
- Expanding the volume of non-performing assets (NPA).

6.2.5 Research studies have revealed that there has been erosion of bank profitability due to concessional interest rate, subsidy and credit outstanding to priority sector.

6.2.6 The committee on the Financial Sector Reforms (Narasimhan Committee) has maintained that the directed credit programme (Priority Sector Lending) has affected seriously the viability of the banking system. The committee believes that the use of credit policies for bringing about redistribution and justice does not lead to desirable results.

The committee has suggested for the use of fiscal instrument rather than credit system. The committee has suggested for the withdrawal of subsidies on development programmes like IRDP. Narasimhan Committee suggested to reduce bank credit to priority sector from 40 percent to 10 percent.
It is felt that the recommendation of the committee on financial reforms (Narasimhan Committee) to curtail the target for priority sector lending to 10 percent should send out an unfortunate signal to the dispensers of credit that the basic objective for which priority sector lending was developed two decades ago is being diluted.

6.3.1 Socio-economic profile of Haveri district has revealed some significant trends providing a good backdrop for the research study.

The geographical location of the district suggests that the district lies on North latitude 14.28 and 14.59 and East longitude 75.07 and 75.38. The district is in the northern part of Karnataka State bordered by Dharwad and Gadag district on the north, Davangere and Shimoga districts on the south, Uttara Kannada on the west and Bellary district on the east.

Haveri district has a geographical area of 485156 hectares and accounts for 2.53 percent of the state’s total area. The district has total forest area of 47454 hectares and accounts for 10 percent of total area of the district. The district has rich black and red soil and it has 4 rivers. The district does not have any minerals. The district has two climatic zones Malnad zone and Transitional zone.

6.3.2 The district has a total population of 14.39 lakhs constituting 2.72 percent of the total population of Karnataka State. The rural population of the district accounts for 79 percent of the
districts total population. The density of population in the district is 298 per sq.km. which is more than State average of 275. Scheduled caste and Scheduled Tribe population in the district are 12.18 percent and 8.83 percent of total population respectively. The literacy rate in the district was 68.09 percent. Sex ratio in Haveri district has been 942 women for every 1000 men.

6.3.3 Haveri district is well served by large number of schools and colleges. The district has 569 primary schools (lower), 806 higher primary schools, 329 high schools, 95 PU colleges, 30 degree colleges, 3 polytechnics, 2 engineering colleges and 1 medical college. There are 211 GP libraries, 10 branch libraries and 19 slum area libraries.

6.3.4 The district has large number of hospitals in private and public organisations. There are 78 allopathic hospitals, 16 hospitals of Indian system of medicine 80 private hospitals, 6 taluka hospitals, 5 community health centres, 64 primary health centres, 307 primary health sub-centres, 423 drug shops and 1 Blood Bank in Haveri district.

6.3.5 The district is well served by a network of roads and railways and by a large number of vehicles of varied type providing transport services to users of different type of occupations. The district has 101.0kms of national highways, 588.21 kms. of State highways 1884.91 kms. of major district roads, 20.60 kms. of other district roads, 4821.60 kms. of village roads. The
The total road length in the district is 7416.32 kms. The district is served by 99 kms of broad gauge railway line. There are 258 post offices 56 Telephones Exchanges, 28908 Telephones and 4753 Telephone booths. There are large number of motor cycles, cars, cubs, auto rickshaws, maxi cubs, goods vehicles and other vehicles in Haveri district. The district has a total number of 127930 vehicles.

6.3.6 Haveri district is predominantly agricultural oriented with a sown area of 433469 hectares. The net area sown is 366971 hectares and the area sown more than once is 66498 hectares.

The district has 75186 hectares of irrigated land. Of this, 5878 hectares is irrigated by canals 9349 hectares by tank water, 42342 hectares by bore wells 391 hectares by lift irrigation and 17226 hectares by other sources of irrigation.

The major crops grown in the district are Paddy, Jowar, Maize, Ragi, Groundnut, Chillies and Cotton. The area under irrigation is 16.99 percent of net sown area.

Small and marginal holdings formed 66.68 percent of total holdings. Large holdings constituted 0.98 percent of total number of holdings. Holdings with 2-4 hectares constituted 23.83 percent and holdings between 4 and 10 acres accounted for 8.3 percent of total land holdings.

6.3.7 The industrial units in Haveri district comprise of engineering (2330) Chemicals (2) and others (4602) A Sugar Co-operative Factory at Sangur, Haveri and another one at Hirekerur
(proposed) are other industrial units. There Industrial Estates in Ranebennur, Haveri, Shiggaon, and Hirekerur formulated by Karnataka State Small Industries Development Corporation.

Infrastructural facilities like water, power, etc., are ensured for industrial production in these estates. A total number of 8786 industrial units are registered with an investment of Rs. 155.44 crore employing 33510 persons. These units are engaged in varied activities. Such as food processing, textiles, furniture leather, chemicals, metals paper printing, plastic minerals, machine, tools, transport, etc.

6.3.8 Haveri district has 133 branches of different banks. The average population per branch is 1130 which is less than the state average of 10135. Central branches accounted for 47 percent of the total branches. Rural branches accounted for 53 percent of the total number of bank branches. Karnataka Vikas Grameena Bank is having 51 branches in Haveri district, of which 43 are rural branches and 8 semi urban branches. The Karnataka Central Cooperative Bank Ltd has 11 branches. There are 7 branches KSCARD bank in the district. There are a good number of Urban Cooperative Bank branches in Haveri district.

6.3.9 Haveri district has large number of cooperative societies in agriculture, dairy business, housing, etc.

There are 19 Regulated Markets in the district for facilitation of marketing of agricultural produce of the farmers.
6.3.10 The district has made rapid strides in some areas of social development. There are 1776 Yuvak Mandals, 119 Yuvati Mandals in Haveri district. The district has 10978 old age pensioners, 18819 disability pensioners, 43325 widow pensioners and 50159 maternity allowance beneficiaries.

There are 4260 Stree Shakti Sanghas with a total number of 10456 SC women members and 8845 ST women members. The district has 1687 Anganwadi centres.

6.3.11 The age composition of the respondent borrowers of priority sector lending by commercial banks indicates a higher coverage of younger age groups compared to those in the middle age and old age groups. Thus the priority sector loans have gone more in favour of young entrepreneurs compared to others. This is a positive result of the scheme of priority sector lendings by commercial banks.

6.3.12 The study has revealed that maximum number of priority sector loan beneficiaries have been male borrowers in the study area. The research findings indicate a slow development of entrepreneurship among women as only 5.33 percent of the borrowers under the priority sector lendings have been female borrowers.

6.3.13 The educational status of the borrowers under priority sector lendings by commercial banks in the study area indicates a moderately satisfactory level of education of the borrowers.
Majority of them had education ranging from secondary level to PUC level.

6.3.14 Religious affiliation of the borrowers under the priority sector lendings by commercial banks in the study area reflects largely the general trend of population composition of the region where Hindu population is the largest. However it is surprising that Christians have outnumbered Muslims as borrowers of the priority sector loans financed by the commercial banks in the study area.

6.3.15 Priority sector loans by the commercial banks in the study area have gone to largest number of borrowers belonging to agricultural occupation. A lesser number of borrowers belonged to occupations like dairy, transport service, and business. Borrowers belonging to other occupations are very few though varied groups of occupations have availed of the priority sector loans.

6.4.1 The study has revealed that State Bank of India had maximum number of accounts for priority sector loans in its Hirekerur branch in the study area followed by Syndicate Bank in Karjagi branch, Vijaya Bank in Hangal branch, Canara Bank in Ranebennur branch, State Bank of Mysore in Haveri branch and Karnataka Bank in its Rattihalli branch.

The data regarding the number of loan accounts with the commercial banks in Haveri district indicate that Haveri, Rattihalli and Byadagi were less served through priority sector
loans while Hirekerur had maximum number of loan accounts under the priority sector lendings followed by Karjagi, Hangal, Ranebennur, and Bankapur in Haveri district.

Another significant trend that is indicated through the data on priority sector lending is that there is a continuous rise in the number of loan accounts with the respondent commercial banks in the 15 selected locations of their branches in Haveri district.

6.4.2 State Bank of India topped the list of respondent commercial banks in the study area in terms of loan accounts under non-priority sector lendings in Haveri district during 5 years from 2005-06 to 2009-10 followed by Canara Bank, State Bank of Mysore, Syndicate Bank, Vijaya Bank and Karnataka Bank.

6.4.3 The six commercial banks covered by the study have provided maximum amount of priority sector loans from their specific branches in the study area though they have more than one branches involved in priority sector lending in the study area.

State Bank of India has advanced maximum amount of priority sector loan from its branch in Hirekerur branch. Likewise Syndicate Bank from its branch at Ranebennur, Vijaya Bank from its Hangal branch, State Bank of Mysore from its branch at Byadgi, Canara Bank from its branch at Ranebennur, and Karnataka Bank from its Rattihalli branch have advanced maximum amount of priority sector loan during the study period.
6.4.4 State Bank of India has led other respondent commercial banks in the study area in providing non-priority sector loans through its branch in Ranebennur. Syndicate Bank advanced second largest amount of loan to non-priority sector from its branch at Ranebennur. Canara Bank provided third largest amount of loan from its Bankapur branch to non-priority sector in the study area. State Bank of Mysore provided fourth largest amount of non-priority loan from its branch at Haveri. Vijaya Bank advanced fifth largest amount of non-priority sector loan from its branch at Savanur in the study area. Karnataka Bank advanced sixth largest amount of non-priority sector loan from its branch at Rattihalli in the study area during the study period.

6.4.5 Farmers as a category of priority sector borrowers have received highest average loan amount by the commercial banks. The average loan amount for this category of priority sector borrowers varied between a minimum of 507.95 lakhs in 2005-06 to a maximum of Rs. 713.70 lakhs in 2009-10.

“Others” category of priority sector borrowers from the commercial banks received an average loan ranging between Rs. 509.90 lakhs in 2009-10. The average amount of priority sector loans to “Trades” varied from Rs. 46.83 lakhs in 2005-06 to Rs. 77.50 lakhs in 2009-10. ‘Housing’ loans under priority sector averaged between Rs. 41.70 lakhs in 2005-06 and Rs. 57.07 lakhs in 2009-10. For “Small Business” the
average amount of priority sector loans varied from Rs. 24.55 lakh in 2006-07 to Rs. 39.00 lakhs in 2005-06. Education loan averaged between a minimum and maximum of Rs. 10.45 lakhs and Rs. 27.28 lakhs in 2005-06 and 2009-10 respectively. The average annual loan for SSI units under the priority sector ranged between Rs. 11.01 lakhs in 2005-06 and Rs. 18.87 lakhs in 2009-10. The average annual amount of priority sector loan to PMRY borrowers ranged between Rs. 12.66 lakhs in 2005-06 and Rs. 16.93 lakhs in 2009-10. For transport operators the annual average priority sector loan from commercial banks ranged between Rs. 9.72 lakhs in 2005-06 and Rs. 13.8 lakhs in 2009-10.

It is found from the study that ‘farmers’ and ‘other’ category of borrowers under priority sector lending by commercial banks received higher amount of loan compared to other groups.

6.4.6 The study has revealed that the average number of loan accounts under priority sector lendings by the commercial banks was higher in case of loanees belonging to the categories of “farmers”, “others” and “small business” during the 5 years from 2005-06 to 2009-10. The average number of loan account of borrowers belonging to “traders”, “PMRY” were moderate while those belonging to “housing” and “SSI” groups were low. The average number of loan accounts under priority sector lendings by commercial banks covered by the study was
the minimum in case of borrowers belonging to “transport” business.

6.4.7 The Sectoral allocation of loans target by the commercial banks in the study area indicates that farmers as a priority sector have been allocated with the maximum amount of priority sector loan during the 5 years from 2005-06 to 2009-10. The other major areas of loan targets are the “other” category of priority sector and “traders”. Loan targets for Transport, Housing and Small Scale Industries have been moderate while low level of loan target during the 5 years were for Education, PMRY and Small Business. There is an element of imbalance in the loan targets fixed by the commercial banks involved in priority sector lending.

6.4.8 Commercial banks involved in priority sector lending in Haveri district could not reach the fixed targets of loan amount. The banks have mentioned the small number of applications for loan from the borrowers, ineligibility of some applicants and lack of prompt repayment of loan by earlier loanees as the causes for the banks’ failure to reach the loan targets.

6.4.9 The structure of interest rates on priority sector loans indicates that interest on loan for Transport services were the highest (12.25%) compared to loan for other priority sectors like PMRY (12.13%), Traders (11.67%), Artisans (11%), Other Priority Sectors (11%), Education (10.57%), SSI (10.52%), Farmers (9.70%), Housing (9.63%) and Crop Loan (7%). The
structure of interest rates on priority sector loans indicates lack of uniformity. There is need for evolving a more equitable structure of interest rates on the different categories of priority sectors.

6.4.10 The commercial banks involved in priority sector lending have not followed a uniform policy regarding the number of instalments for the repayment of loans. Loans for Education, Housing, SSI and Transport are provided with maximum of 15 instalments for the repayment of loans followed by 14 for traders, 13 instalments for farmers, 7 for artisans, 4 for small business and 1 instalment for others.

6.4.11 It is significant to note that all the 15 respondent commercial banks have taken one week’s time for release of loans to priority sector borrowers after receiving loan application. This is in contrast to the version of the borrowers who have mentioned that banks take one week to 3 months or more for the release of loans.

6.4.12 The average cost of obtaining priority sector loan has been estimated at 0.38 percent of the loan amount. The bank officials covered by the study have estimated that documentation cost was comparatively high at 0.84 percent while processing cost of the loan application was estimated at 0.15 percent. Stamp duty on the loan amount was put at 0.14 percent. Thus the borrowers have to bear the overall cost of obtaining priority sector loan of 0.38 percent. There is need for
further reducing the cost of obtaining priority sector loan as these sectors have been specially identified for a special treatment on grounds of the socio-economic significance in the present context.

6.4.13 It is significant to note that all the 15 respondent bank officials have affirmed that there is no maximum limit for the loan amount under the priority sector lending by the commercial banks though there is a minimum limit of 40 percent of the total loans to be directed towards the priority sector. However the responses of the borrowers indicate that the amount of loan provided by the banks is much less than their actual requirement. In view of this there is all the scope for banks to enhance the amount of loan to meet adequately the needs of the borrowers.

6.4.14 The bank officials have taken various measures to safeguard the loan amount provided to the beneficiaries of the priority sector lending. They include pre-sanction measures like obtaining all the documents and making necessary enquiries about the loanees and the surety and also the possibility of encashment of the security provided by the loanees. All these pre-sanction measures are useful in safeguarding the proper repayment of the loan.

6.4.15 It is also found that bank officers take the necessary step of studying the involvement of the borrowers in other loans or
liabilities. This would enable the banks to know the repayment capacity of the borrowers. Hence such steps are necessary.

6.4.16 A proper assessment of the repayment capacity of the borrower is also a needed step in the direction of prompt repayment of the loan by the borrower. All the 15 respondent bank officials have asserted that they did make necessary assessment of the repayment capacity of the borrower under the priority sector lending.

6.4.17 The bank officials have affirmed that they did enforce the borrower for proper use of the loan so that the loan is not misused by them.

6.4.18 The study has revealed that the priority sector loan beneficiaries have diverted the loan amount towards other purposes. Such diversion amounts to misuse of the concessional aspects of the loan for the priority sectors. It amounts to the defeat of the very purpose of developing the priority sectors with the help of directed lendings by the banks.

The percentage of diversion of the loan under the priority sector lendings has been estimated by the commercial banks at 10 percent of the loan provided by them to the borrowers.

6.4.19 The sectorwise analysis of the diversion of loan by the borrowers has revealed that maximum diversion of loan of 13.18 percent has been made by the borrowers involved in
PMRY. Artisans as group of priority sector borrowers have diverted 10 percent of the loan followed by Farmers who have diverted 9.25 percent of the loan for other purposes. Other priority sector borrowers have diverted 9.33 percent of the loan while Traders have diverted 6.57 percent of the priority sector loans to other purposes. Small Business group covered by the priority sector have diverted 5 percent of the loan and Small Scale Industries who had availed priority sector loan had diverted minimum of 4.67 percent of the loan amount for other purposes. The average amount of diversion by the beneficiaries of priority sector lendings by commercial banks was 8.41 percent.

6.4.20 The banks have indicated their vigilance by making periodical inspections of the units financed by the priority sector loan by the commercial banks in the study area.

6.4.21 The impact of priority sector lending by the commercial banks covered by the study has been positive in various ways. There has been increase in the additional income of 24.33 percent of the beneficiaries of the priority sector loan after availing the loan amount. Purchase of additional land has gone up by 10 percent and increase in assets of the loan beneficiaries has gone up by 43.33 percent. Increase in production due to priority sector lendings has been estimated to be 40 percent. There has been an addition of irrigation by 20.33 percent. Self employment of loan beneficiaries has gone up by 10.33
percent. The respondent bank officials in the study area have estimated the positive impact to be of the order of 24.89 percent. Thus the impact of priority sector lendings by the commercial banks in the study area has largely been positive in raising the economic status of the loan beneficiaries.

6.4.22 The utilisation of priority sector loan has been 100 percent in case of borrowers for education and housing according to all the 15 commercial bank officials covered by the study. SSI units have used 100 percent of the priority sector loan according to 14 respondent bank officials. Transport operators have utilised 100 percent loan according to 12 respondent bank officials. Traders have utilised 100 percent loan according to 4 bank officials. One bank official each have affirmed that priority sector loan is fully utilised (100%) by loanees of PMRY and SSIs. There has been 80 percent utilisation of priority sector loan by farmers according to all the 15 commercial bank officials. Further 12 bank officials have informed that loanees of PMRY have utilised 80 percent of the loan and Traders have utilised 80 percent loan according to 10 bank officials. Priority sector loans have been utilised upto 80 percent by transport operators according to 2 bank officials, while 1 bank official each have informed that loanees of small business and SSI have utilised 80 percent of the priority sector loan.
The utilisation of priority sector loan has been high according to the respondent officials of the commercial banks in the study area of Haveri district.

6.4.23 The average recovery of priority sector loans over the 5 years from 2005-06 to 2009-10 was 72.34 percent from different categories of borrowers. Highest average recovery over the 5 year period at 89.61 percent was from borrowers of housing loan followed by Transport operators (79.77%), other category of priority sectors (78.65%), Traders (72.69%), SSI units (78.65%), Farmers (60.60%), Small business (59.10%) and PMRY (50.65%) borrowers. Year wise analysis shows that the average recovery of priority sector loans was the highest at 73.65 percent in 2008-09 from different category of borrowers and the lowest recovery of 70.58 percent in 2009-10. The overall rate of recovery is above 70 percent which is largely satisfactory.

6.4.24 The respondent bank officials in the study area have observed that the borrowers of the priority sector loans in the study area are slow in their repayment performance. This needs to be probed properly for ascertaining the reasons for such slow repayment of loans. Proper steps should be initiated by the bank officials to motivate the borrowers to repay the loans promptly.

6.4.25 The bank officials have adopted all the alternative methods of recovery of loan from the borrowers of priority sector lendings.
The steps include both persuasive as well as punitive like legal steps and issue of notices, etc. Persuasive steps include personal visits by officials to the borrowing units and communications through sending reminders and telephone messages, etc.

6.4.26 The average overdues of loan from the priority sector borrowers during the 5 years from 2005-06 to 2009-10 was 2.32 percent. Maximum incidence of overdues were from the loan accounts categorised as “Substandard Assets” at 5.14 percent, while minimum incidence of overdues at 0.37 percent relate to “Loss Assets”. Highest incidence of overdues was 5.68 percent in 2006-07 while he lowest was 0.96 percent in 2005-06. Overdues caused by priority sector loans have been considered as major factor for high level of NPAs of commercial banks. Hence commercial banks should try to devise ways and means to prevent the overdues through streamlining of the management of this aspect of banking.

6.4.27 Compared to the non-priority bank loans the overdues are much higher relating to priority sector loans. The average overdues of non-priority sector loans at 7.09 percent during the 5 years from 2005-06 to 2009-10 compared to the overdues of priority sector loans at 13.76 percent were much lower. Hence there is need for reducing the high incidence of overdues relating to priority sector loans by the commercial banks.
6.4.28 The priority sector borrowers have been provided the benefit of subsidy according to 7 respondent commercial banks. However 8 respondent commercial banks have not provided loan interest subsidy to priority sector borrowers. This discrepancy needs to be overcome through a uniform policy by the government which is the agency which provides subsidy through the banking institutions.

6.5.1 The study has revealed that farmers constituted the maximum number of priority sector borrowers from the six commercial banks in Haveri district followed by traders, dairy organisers and others belonging to priority sectors.

   It is significant to find that none of the commercial banks covered by the study have involved in providing priority sector loans to small scale industries and cottage industries.

6.5.2 Major forms of security offered by borrowers under the priority sector lending included land, gold and national savings certificate. Hypothecation and pledging the assets were the security offered by borrowers for obtaining priority sector loans from the commercial banks in some cases.

   Maximum number of borrowers offered land as security for the loan obtained from banks followed by those who offered gold and NSC. A substantial number of others offered hypothecation and pledging of assets.

6.5.3 The field survey has revealed that maximum number of borrowers (78) under the priority sector lending could get 75
percent of the loan required by them followed by those (62) who could get 60 to 75 percent, 7 borrowers got 50 to 60 percent and 3 borrowers got less than 50 percent of the loan required by them.

The study has revealed that the commercial banks have not been liberal enough to meet the actual amount of credit required by the borrowers. This calls for a change in the approach of the commercial banks. They should try to meet adequately the credit needs of the priority sector borrowers.

6.5.4 The respondent borrowers under the priority sector lendings by commercial banks in the study area have resorted to borrowing from other sources to cover up the shortage of loan amount advanced by the banks. Majority of borrowers (75) resorted to borrow from money lenders. A substantial number of borrowers (34) used their own funds to overcome the shortage of bank loan. Borrowing from friends was resorted to by a small number (11) of borrowers. A very small number (3) respondent borrowers borrowing from both money lenders and using their own funds to overcome shortage was resorted to by 3 respondents, while another 3 respondents borrowers used both their own funds and borrowed from friends. A lone borrower of priority sector lending borrowed both from friends and from money lenders.
The responses indicate that the incidence of borrowing from high cost source of money lenders is still prevalent among the priority sector borrowers.

6.5.5 Large majority of (138) beneficiaries of priority sector lending by the commercial banks have denied to have received loan subsidy by the government. Among the 12 borrowers who asserted to have received the subsidy 5 were farmers, 3 traders, 3 dairy farmers and borrowers belonged to other category of borrower under the priority sector lending by commercial banks in study area.

6.5.6 The study has revealed that large majority of respondent borrowers (140) of priority sector loans have utilised the loan for the purpose for which it was borrowed. A small number (10) of borrowers utilised the loan for other purposes. Those who utilised the loan for the proper purposes included maximum number of farmers (21) and other borrowers (18). It is thus found from the study that the incidence of diversion of loans for other purposes is negligible.

6.5.7 The number of borrowers who utilised the loan for purposes other than for the purpose for which it was borrowed was limited to 3 farmers, 4 traders, 2 dairy farmers and 1 other category of priority sector borrowers. Farmers who diverted the loan used the same for marriages, repairs and other purposes, Traders used it for consumption, marriages and repairs, Dairy farmers and others diverted loan for repair works.
6.5.8 A trend of mixed opinion is found regarding the procedures of banks for compliance by the borrowers while applying for priority sector loans. A large number of 60 borrowers (40%) found the procedures simple. A substantial number of 38 borrowers (25.33%) found the procedures convenient. A good number of 20 respondent borrowers felt that the procedure of applying for loan is circuitous, while 25 borrowers considered the procedure “complicated”. A small number of 7 borrowers found the procedure of applying for priority sector loan laid down by the bank was “time consuming”.

6.5.9 The personal interviews with the respondent borrowers of priority sector loans have revealed that the bank officials had a favourable and sympathetic approach towards them during their loan transactions with them. However a good number of respondent borrowers (28) found the approach of bank officials as “rigid” and a small number of borrowers (19) felt that the bank officers were “indifferent”. Thus a change in the approach of the bank officials in dealing with the borrowers of priority sector loans is needed.

6.5.10 The discrepancy between the loan amount applied for and the actual amount sanctioned by the banks has been found through field survey. It is found that 70.67 percent of borrowers received 75.89 percent of the amount applied for while 24.67 percent of borrowers received 50.74 percent of loan applied for and 1 borrower (0.67%) received 25.49 percent
of the loan applied for. However 6 respondents (4%) received more than 90 percent of the loan they had applied for.

It is therefore clear that none of the respondent borrowers of priority sector loan received the actual amount of loan applied for. Hence the commercial banks should try to enhance the quantum of loan to the borrowers and provide 100 percent of the loan applied for by them.

6.5.11 The repayment schedule of the priority sector loans has been found “convenient” by large majority of respondent borrowers in the study area. However a small number of respondents (12.67%) found the repayment schedule “not convenient”. There is need for the commercial banks to further relax the repayment schedule for priority sector loans.

6.5.12 The study has revealed that the repayment performance has been complied with by large majority of respondent borrowers of the priority sector loans. The compliance in this regard is poor only in case of small number of respondents. A proper post-credit supervision by bank officials can lead to better repayment performance by the borrowers.

6.5.13 Incentives as a reward for prompt repayment of loans by the commercial banks has not been affirmed by large majority of respondent borrowers of the priority sector loans in the study area. However a small number of 20 respondents have mentioned that they did receive incentives from the banks for their regular repayment of loans. Commercial banks could
make it a general policy of providing incentives to the borrowers who repay loans regularly so that the overall repayment of loan would improve considerably.

6.5.14 Delay in repayment of bank loan under the priority sector lending by the borrowers has been caused by their inability to generate income from their ventures financed by the loan. This factor has been mentioned by 14 of the 18 respondents (77.78%) who could not repay their loan regularly. In case of a small number of 4 respondents (22.22%) the delay in repayment of loan was due to the credit sales which blocked their sales revenue from the buyers. This type of business operations of the borrowers indicate their lack of proper planning of their business investment.

6.5.15 Banks have initiated legal steps in case of 6 respondent borrowers of the priority sector loans from the commercial banks. However the other respondents who also failed to repay their loans in time did not face such situation as the banks did not face such situation as the banks did not initiate legal steps against them. The loanees should be properly enlightened about the legal implications of the delay in repayment of loans instead of involving in legal measures for the recovery.

6.5.16 The responses of 150 borrowers of the priority sector lendings by the commercial banks indicate a largely positive impact of the bank loan on their economic status. All the 150
respondent borrowers have mentioned that their income has
gone up due to the loan facility under the priority sector
lending. Increase in investment due to the loan facility has
been indicated by 99.33 percent of the respondent borrowers
while increase in employment has been mentioned by 96.67
percent of the borrowers. Expenditure on education and
medical facilities has been possible due to priority sector loans
availed by 95.33 percent of the respondent borrowers. There
has been a reduction in borrowing due to bank loans
according to 94.67 percent of respondent borrowers. A large
number of borrowers accounting for 74.67 percent of the total
respondents have mentioned that bank loan has enabled them
in increasing their hired labour in their business units.
Reduction of their old debts has been possible due to the
priority sector loans obtained from commercial banks
according to another 74.67 percent of respondents.

Thus there has been an allround positive impact of the
priority sector lendings by the commercial banks on the
economic status of the borrowers.

6.5.17 Business impact of priority sector loans has been asserted by
large majority of borrowers. Loans financing of better
equipments has been indicated by 89.33 percent of respondent
borrowers. Telephone facility for the business due to loan is
referred by 54 percent of respondent borrowers. Storage
facility has been facilitated in case of 53.33 percent of
borrowers of priority sector loans. Machinery has been obtained with the help of loans under priority sector loans according to 40 percent of respondents. Use of High Yielding Variety of seeds has been made possible by the priority sector loans obtained by 42 percent of respondents. It has been possible to buy milch animals through priority sector loans according to 43.33 percent of respondent borrowers. Maintenance of proper accounting through the loan facility has been mentioned by 58 percent of respondent borrowers. Thus there has been a positive impact on the business of the respondent borrowers of the priority sector loans as revealed by the responses obtained through personal interviews during the field survey.

6.5.18 Priority sector loan by the banking institutions has been of immense use for the borrowers covered by the sector. Majority of the respondent borrowers of the loan from the commercial banks in the study area were enlightened about the loan facility by bank officials (54%). A still larger number of respondent borrowers (59.33%) were provided with the information about the priority sector lending by banks by associations of business and concerned occupations. Friends and relatives enlightened the respondents (45.33%) about priority sector lendings by the commercial banks. Non-Government Organisations were the source of information
about the priority sector loans in case of a few respondent borrowers (6.67%).

6.5.19 The commercial banks have taken much time in the release of loan after receiving the loan applications from the borrowers covered by the study. The responses suggest that the time taken by the banks lending priority sector loans has varied from a minimum of 15 days in case of 18 respondent borrowers (18.67%) to a maximum of more than 3 months in case of 7 respondent borrowers (4.67%). Details of responses indicate that 44 respondents (29.33%) had to wait one month each before the banks released the loan while another 44 respondents (29.33%) had to wait for 2 months. A good number of 27 respondent borrowers (18%) waited for 3 months before the banks released the loans. Thus the duration of scrutiny and processing of loan applications by the banks seems to be too much time consuming. There is therefore need for expeditious release of loans by the banks to the borrowers to enable the latter to go ahead with their operations.

6.5.20 Regularity of repayment of loan by the different categories of priority sector borrowers has been largely affirmed by majority of respondents. Large majority of 90.77 percent of respondent farmer loanees, 88 percent of trader loanees, 95.45 percent of dairy farmers and 76.19 percent other respondent borrowers asserted that they maintained regularity of repayment of loans obtained from the commercial banks covered by the study.
6.5.21 The social and economic impact of priority sector loans advanced by commercial banks has been reflected in an allround improvement in the standard of living of the respondent borrowers. The improvement in the standard of living of borrowers is indicated in better housing, domestic facilities, family tours and possessing of vehicles. The study has revealed that 78 percent of the respondent loanees of the priority sector lending by commercial banks have improved their housing conditions. Improvement in the domestic facilities of the majority of 72 percent of respondent loanees has been found from the personal interviews during the field survey. Family tours have been arranged by 46.67 percent of respondent borrowers subsequent to their availing of priority sector loans. Purchase of two wheeler vehicles financed by the priority sector loans has been mentioned by 58.67 percent of the borrowers. Thus there has been a positive improvement in the standard of living of the borrowers of the priority sector loans in the study areas.

6.5.22 Majority of borrowers of priority sector loans in Haveri district had availed the loan from commercial banks for agricultural related purposes. Majority of 16 borrowers (24.62%) used the loan for irrigation purposes. Land purchase was another purpose for which 14 farmer borrowers of priority sector loans as indicated by 14 respondents (21.54%). Purchase of implements was the purpose in case of 9 respondents
(13.85%) used the loan for livestock purchases. A good number of 15 respondents (23.08%) had borrowed priority sector loan for buying crafts and vehicles. A small number of 7 respondents (10.17%) used the borrowed amount for construction of farm houses. A smaller number of 4 respondents (6.15%) had borrowed priority sector loans for education of children.

6.5.23 The borrowing of priority sector loans by traders in the study area related to varied areas of business like construction of shops, construction of garages, hotel building, rooms, purchase of autos, canteens, mini lorry, taxi, cycles, provisions, stationary, cement, furniture, timber, tools, used items, purchase of fixed assets and other assets, etc. A few respondents borrowed priority sector loans for financing their working capital needs.

6.5.24 Dairy farmers (16) had availed of priority sector loans for purchase of milch animals and construction of cattle sheds (13).

6.5.25 Borrowing of priority sector loans from commercial banks in the study area for other purposes was aimed at financing various assets possessing activities of the respondents. They included construction of building construction of sheds, purchase of auto, purchase of canteen, purchase of cutting machine and purchase of equipment.
The analysis of the purposes of borrowing indicates varied interests of borrowers of priority sector loans. They reflect largely the productive purposes in the areas of agriculture, dairy farming business and services, etc.

**Results of the Hypotheses**

The results of the hypotheses have been presented here taking into consideration the research findings.

1. The first hypothesis states that larger volume of priority sector advances by commercial banks are made to farm sector. This hypothesis is proved correct in the light of the research findings during the field survey. Maximum amount of priority sector loans have been provided to farm sector compared to other priority sectors like housing, PMRY, small business and small scale industries, etc. The average annual amount of priority sector loans to farm sector during the 5 years from 2005-06 to 2009-10 amounted to a maximum of Rs. 374.08 lakhs compared to a minimum amount of Rs. 7.70 lakhs to small business. Thus the hypothesis is found vindicated from the research findings.

2. The second hypothesis that the priority sector advances of commercial banks have not reached the targets fixed by the banks during the last five years has been proved correct as per the responses of the bank officials covered by the study. The respondent banks maintained that the targets could be reached as number of loan applications, were few and some applicants were not eligible. Further the officials maintained that there have
been delay in processing of loan applications and the loanees were defaulting in repayment. Thus the hypothesis is found correct in the light of the research findings.

3. The third hypothesis that borrowers have diverted the funds advanced by commercial banks under priority sector lending is found vindicated by the research study. The responses of the borrowers have indicated that the loan amount was diverted for other purposes to a tune of 10 to 15 percent of the total. Hence the hypothesis is correct.

4. The fourth hypothesis that there is a positive impact of priority sector loan on the borrowers is found vindicated by the responses of the loan beneficiaries covered by the study. More than 90 percent of the respondent borrowers have mentioned that the loan facility has led to increase in their income, investment, production, savings, employment, consumption level, etc. Further they have been able to reduce their old debts and private borrowings due to the loan facility under the priority sector lendings by banks. There has been positive impact on their business. There is an allround improvement in their standard of living. Hence the responses of borrowers have proved the hypothesis correct and it is accepted.

5. The fifth hypothesis that the priority sector advances are inadequate leading to additional borrowings from private sources is found vindicated in the light of the responses of the borrowers. it is found that the shortage of priority sector loans has led to
additional borrowing from money lenders in case of 50 percent of the respondents, while 22.67 percent of respondents used their own funds for their business requirement, a small number of respondents (7.33%) borrowed from friends and others have resorted to both the options by borrowing from friends and using their own funds to supplement the bank loans. Thus the hypothesis is accepted.

6. The sixth hypothesis states that utilisation of loans under priority sector is considerably low among borrowers. The research study has revealed that the utilisation of the loan has been less than the actual amount advanced by banks ranging between 18 to 63 percent. Hence the hypothesis is correct and accepted.

Suggestions

The research study has revealed some areas of concern which need to be reviewed and proper measures could be initiated to streamline the scheme of priority sector lending by the commercial banks in the study area. In this context the following suggestions have been offered for the future improvements in the implementation of the priority sector lending.

1. Borrowers of the priority sector loans from the commercial banks in the study area have experienced the inadequacy of the loan amount provided to them. Hence it is necessary to reorient the lending policies under the scheme and enhance the quantum of loan to meet adequately the requirements of the loanees under this important scheme of the government. The main purpose of
directed credit policy towards the priority sectors would be best served only when adequate amount of loan is provided by the banks. Adequate supply of credit under the scheme could be an instrument to reduce the incidence of borrowing from high cost sources like private money lenders.

2. The commercial banks in the study area have been following a rigid procedure regarding the processing of loan applications from the borrowers. A good number of borrowers have found the procedure of complying with the banks rules regarding the loan application as circuitous, complicated and time consuming. Hence it is essential for the banks involved in priority sector lending to simplify the procedure and the process of releasing the loan must be made expeditious. Further the approach of bank officials must be more sympathetic towards the borrowers. A good number of respondent borrowers have found the approach of bank officials as rigid and indifferent. Hence the bank management must look into this aspect and exhort the officers to be more sympathetic towards the borrowers.

3. There is the problem of delay and redtapism in the releasing of loan according to a substantial number of respondent borrowers of priority sector loans. The commercial banks in the study area have been found to be taking 1 to more than 3 months time before releasing the loan amount. Such delay is highly frustrating for the borrowers. There must be a time limit within which the
whole process of scrutiny of applications is completed. Expeditious release of loan must be ensured.

4. The priority sector loans provided by the commercial banks in the study area have been more in favour of farm sector compared to other priority sectors. Thus there is imbalance in the distribution of loan amount among the borrowers belonging to different priority sectors. This imbalance needs to be overcome by providing an equitable distribution of loan to the different priority sectors.

5. The involvement of the six commercial banks in the priority sector lending is not uniform. The study has revealed that the involvement of some commercial banks is more intense while others have lesser involvement in terms of the volume of loan amount provided to the borrowers. This trend of unequal involvement does not serve the real purpose of providing adequate quantity of credit to the borrowers. Hence the Government and the RBI should monitor the involvement of different banks to adequately provide the credit to the borrowers under the priority sector lending.

6. The commercial banks providing priority sector loans should properly supervise the use of the loan by the beneficiary loanees, so that the loan amount is used for the purpose for which it is obtained. The incidence of diversion of loan to other purposes has been identified during the research study. Hence the sectors for which the loan is intended to be used may be denied if there is no proper check and supervision over the utilisation of loan by the
borrowers. A system of periodical visits by the bank officials of the projects financed under the priority sector scheme must be enforced.

7. The borrowers of the priority sector loan and the bank officials involved in the scheme should try to keep up the schedule of repayment. There is need for prompt and regular repayment of loan to the concerned bank. Delay in repayment is likely to reduce the quantum of loan for the prospective borrowers under the priority sector lending. Borrowers should be properly motivated to stick to the schedule of repayment of loan by the bank officials.

8. There is need for the borrowers to improve their skills through training prior to obtaining the sanctioning of the priority sector loan so that they can use loan productively and repay them.

9. Productive use of priority sector loans needs the linking of the borrower’s products with marketing. There is need for introducing business consciousness among artisans and other small units who avail of priority sector loans.

10. It is desirable to adopt indirect financing of priority sector borrowers through unions like weavers cooperatives and handloom development corporations, dairy cooperatives, etc., instead of direct financing so that credit administration, supervision and recovery are easier.
11. Priority sector loans at low rates of interest should be given only to weaker sections and not to the affluent under the label of priority sector. This will help banks to improve monitoring and supervision of these advances on the weaker sections and their own profitability.