Chapter 2

Review of Literature and Research Methodology
Review of previous studies in the field provides the direction to the research initiative being taken up. Research Methodology explains the path followed by the researcher to obtain the specified objectives of the study. The present chapter is divided into two sections. Section 1 gives an overview of previous studies conducted in the field of priority sector lending of cooperative banks. Section 2 describes the research methodology followed to complete the present study.

SECTION-I

V.V Bhatt (1970) proposed the scheme of approved dealers to assist the lead banks in providing finance & guidance effectively, the banks would have to collect the required information, ensure recovery of loans and interest, assist in obtaining after sale service and keep a watch on the working of the assisted enterprise. This work can be made easier by creating and supporting a set of approved dealers.

P.N Joshi (1972) requested that the RBI should give clear & specific definition of different components of priority sectors. Some of the bankers are not clear about the precise scope of agricultural lending. Guidance from the RBI would help them to increase their involvement in farm credit on right lines.

Vadilal Dagli (1975) is of the opinion that the aim of the banking policy should be to uplift the under-privileged classes of society in Rural India from subsistence existence to surplus existence. The Concept of Priority Sector should include only the real poor of the country and by providing them necessary financial assistance, they can be lifted from the pitches of animal existence to the height of human existence.

R.K Hazari (1976) made it clear that institutional financing does not mean replacing individual money lenders with institutionalized money lenders. Institutional financing should enable the agriculturists to move on to a level of new technology that will increase agricultural output and employment. This means productivity of both land and human being. Data relating to finance must be able to provide a basis for
assessing how much financing really contributed to additional output and employment.

**S.L. Shetty (1978)** in his study on the achievements of commercial banks since nationalization has found that the banks, which have relatively low priority sector lending have been the ones with higher than the average credit deposit ratios. Another finding noticed among the banks is that in regard to the priority sectors, a few branches of banks achieved impressive ratios, to the neglect of the rest of the areas. Again there is considerable concentration of priority sector advances in a few states.

**I.G Patel (1979)** reminded the banks about their socio-economic responsibility in the upliftment of the poorest strata of the society. A substantial portion of the people lives in abject poverty and the first priority should be to provide productive employment opportunities to the very poor whether they are in rural or urban areas. Banks should equip themselves fully to serve as instruments of development for the poorer sections of people.

**Singh & Balraj (1979)** conducted a study on commercial bank lending in Hissar district of Haryana and concluded that villagers are relieved from the exploitation of money lenders by the operation of a nationalised bank. At the same time they also reported other problems such as uneasy, untimely & non availability of loans, expensive & cumbersome procedures, excessive & useless formalities, unsuitable procedure of loan repayment and the absence of easy accessibility of banking facilities.

**L.D’Mello (1980)** is very much doubtful about the capacity and suitability of commercial banks to provide large amount of credit to the priority sectors. Since banks are high cost organizations, existing developmental agencies can be used by commercial banks to reduce the cost and to improve efficiency in the use of credit.

**C.L Khemani and K.V Balakrishnan (1981)** are of opinion that if the borrower selected under IRDP is made to approach the money lender of his very genuine consumption needs, then the very objective of institutional finance for priority sector will be defeated. Consumption Credit granted on the basis of specific needs of the
target groups are not going to cause problems. The actual consumption loans will have to be related to their minimum needs and their capacity to repay.

**V.B. Angadi (1983)** observed the concentration of priority sector advances in general and agricultural advances in particular in a few states. The reasons for such concentrations are number of bank offices, deposit mobilization, total cropped area, land under certain food and cash crops, extent of irrigated land in respective States, adoption of high yielding varieties, the availability of co-operative credit and the level of political awareness in these States.

**Senior Executive Seminar on Priority Sector Financing (1983)** organized by NIBM advised the banks to remember the philosophy behind the policy towards priority sector and to develop faith in this philosophy. Priority sectors should be looked upon as opportunities of developing the bank’s business.

**A.R Patel & M.R Patel (1983)** proposed the need for assigning the task of evaluating the working of various schemes under the 20 point programme to outside agencies not connected with its implementation. This will result in correct evaluation of the role played by implementing agencies, benefits derived by the beneficiaries and deficiencies noticed in the planning and implementation process.

**B.K. Sarkar (1983)** is of the opinion that to launch a successful marketing drive for the target groups in the priority sector, the environment pertaining to each segment of the society has to be carefully scanned and vital information relevant to market decisions such as ignorance, unwillingness, poverty, political interference etc. have to be analysed. The best result can be derived only if the customer and his real need situations are assessed in a meaningful way.

**K.V. Patel and N.B. Shete (1984)** analysed the priority sector lending by commercial banks in India from 1969 to 1980 and concluded that quantitatively a very impressive coverage is achieved during the period of twelve years. The total priority sector advances have gone up my more than fourteen times. But the credit absorption capacities of the weaker sections are constrained by a variety of factors, which may not be under the direct control of banking industry. Therefore the co-ordinated efforts
of executive and developmental agencies require special care and attention in this matter.

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Raut (1984) conducted a study on the scope and problems of financing tribal farmers and concluded that the problem of overdue was mainly due to the mis-utilisation of loans by the tribal farmers. The tendency to mis-utilise the loan was due to the fact that the consumption priorities of tribal farmers were of more urgent nature than asset building priorities.

D.P Khankhoje & V.T Godse (1985) found the procedural flaws and gaps causing delays in the process of loaning activity in the priority sector, so the systems and procedures adopted by banks particularly with reference to documentation and accounting have to be simplified. But the simplification systems and procedures should not weaken the follow up, the supervision and control.

R.N Malhotra (1986) requested the banks to commit themselves to rural financing on long term basis and to engage themselves in financing to small farmers, land-less labourers and village artisans for viable products & programmes and also to monitor the credit utilization. Only strong & viable credit institutions can effectively serve the cause of rural development.

P.D.Ojha (1987), the then Deputy Governor of RBI inaugurating a seminar at Sukhadia University, Udaipur pointed out that overdues of bank loans by agriculture, SSI, DRI and other priority sector borrowers affect the ability of the banking system to recycle the credit. So he urged the banks to make conscious efforts to increase the quality of loan portfolio through proper appraisal of proposal and effective post disbursal monitoring.

S.K.Verma (1988) stressed the importance of supervised credit. Supervision of credit is the demand of the time and is to be done by experts of rural credit with professional competence and liberal attitude. Supervised credit ensures that credit brings adequate
income not only to repay the loans but also to raise the economic standards of rural poors.

**B.B. Patel (1989)** suggested the setting up of training institutions for agriculturists and artisans for proper guidance. Marketing facilities should also be provided to small farmers and artisans. There should be follow-up and monitoring of weaker section advances by sponsoring agencies and financing institutions.

**S.S. Kalra (1990)** stressed the need for follow-up and supervision of bank credit that effects the recovery and recycling of funds for further lending. While ensuring the end use of credit, the recovery of advances is most important. The tools and techniques of recovery should be adopted in an improved manner to combat the menace of overdues.

**S.N. Bansal and V.K. Agarwal (1991)** requested the government to strictly refrain from declaring any policy of waiving of loans just for the purpose of political expediency or use it as a vote catching device. The loan waiver scheme will only aggravate the problem of loan recovery causing serious problem for the government.

**K.S. Krishanaswamy (1992)** strongly criticized the recommendations of the committee on the financial system. He pointed out that the committee’s report considered only the interest of big industrialist and its recommendation are essentially concerned with getting government out, reducing regulations and improving profitability.

**N.S. Toor (1993)** called for a new approach by banks towards SSI units. Banks have to bear in mind that the SSI units have problems, which are mostly beyond their control and only a positive helping attitude can bear fruits. But the provision for contingencies, post sanction follow-up, strict adherence to maintenance of books and records by financial units are the areas where the banker cannot afford any compromising attitude.

**S Rajogopal (1994)** looks at the future of priority sector in Indian Banking and comments that concessional credit should be restricted only to the poorest of the poor & to the underprivileged sections of the society. From those who can afford it,
commercial rate of interest should be charged. The weaker section including small & marginal farmers needs to be protected against the impact of liberalization.

A. Karthikeyan (1994) suggested that priority sector advances could be made result oriented by adopting planned strategies on realistic service area, credit planning, adopting project approach in implementing the plans, availing maximum refinance from NABARD & SIDBI, timely follow-up and instituting approach action for recovery and invoking DICGC guarantee, wherever possible. The strategy very much needs co-ordination between banks and other agencies.

M.M. Bhalerao and R.K. Pandey (1995) concluded a study to review the progress of priority sector advances of commercial banks in India. They requested the commercial banks to take more effective measures in advancing credit to the neglected sub-sectors of priority sector. They also pointed out the need for effective implementation of innovative schemes as SAA, DRI, consumption loans and housing loans for the benefit of the hitherto neglected sectors of the economy.

C. Rangarajan (1996) pointed out that the main thrust of the Indian Public Policy towards rural credit has been to ensure that sufficient and timely credit is made available to the rural population. The strategy of developing rural financing services consist of expansion of institutional structure, directed lending and concessional or subsidized credit.

Renu Kohli (1997) after examining the existing evidence on the cost and benefits of priority sector lending in India, argued that the credit policy in this regard reappraised and geared towards more specific objectives. These objectives could be defined locally on the basis of a bank industry exchange that could guide the bank as to which firms and industries are to be financed.

P. Ganeshan (1998) in his study on the public sector banks and priority sector advances, has found that the priority sector advances did not actually reach to the so called neglected sections within the priority sector. Without growth and development in these neglected sectors, a further reduction in advances would adversely affect the sectors. Therefore, he opined that there is urgent need to redefine the concept of priority sector.
Narsimhan Committee Report (1991,1998) recommended that priority sector lending was successful from the government’s point of view but it affected banks in bad manner. Basically it deteriorated the quality of loan resulted in a shift from the security oriented loan to purpose oriented and ultimately leading to profit erosion of banks. The government interference in fixing the interest rate structure is also a reason to the profit erosion of banks.

P.R. Kulkarni (1999) pointed out that the SSI sector deserves liberal institutional credit due to its unique contribution in terms of creation of employment, foreign exchange earnings, reduction in regional disparities etc.. But in reality such supply of institutional credit is so meager and often delayed. Hence the banks have to overcome these difficulties and make the lending of bank organizationally effective. This will strengthen the bank borrower relationship and SSI units will prosper.

Montek Singh Ahluvalia (2000) suggested that the independence should be given to the bank for identifying the beneficiaries of priority sector lending schemes and the problems related to information asymmetry & moral hazard can lead banks under financial stress to engage in increasing cost mobilization of deposits with risky lending at increasing rates to shore up profitability and this can be mitigated by strong prudential norms with transparent accounting & disclosure requirement.

Yashwant Sinha (2001), the Union Finance Minister, while addressing the chief executives of public sector banks advised the banks should proceed against the large and willful defaulters. He also asked the banks to increase their lending to the agriculture and rural sectors so as to reach the stipulated targets of 18% of their total lending going to these sectors.

Reserve Bank of India (2007) suggested that government of India have indicated that care should be taken to see that minority communities secure in a fair and adequate measure the benefits flowing from various government sponsored special programmes. All commercial banks, both in public and private sectors have been advised to ensure smooth flow of bank credit to minority communities.

V. Jaganmohan (2007) found that the vulnerability of the Indian economy to the performance of the agricultural sector despite other macro economic indicators and
sector gaining in strength is well known. Rural credit is emerging as a focal issue and this can be gleaned from the fact that the government earmarked Rs. 15,000 crore in the interim budget to revitalize the co-operative sector.

**Usha Thorat (2010)** found that NABARD launched the SHG (self help group) – bank linkage programme in 1992 to forge the synergies between formal financial system and informal sector. Under this programme banks provide loans to the SHGs against group guarantee and quantum of loan could be several times the deposits placed by such SHGs with the banks. The recovery rate of such loans has been good and banks have found that the transaction cost of reaching the poor through SHGs is considerably lower as such cost is borne by SHG rather than the bank. Interest earned from group members is retained in the group. The penetration achieved through SHGs has been very significant.

**Jaynal ud-din Ahmed (2010)** found that the banking statistics revealed that this designated priority sector as well as neglected section received about 15% of total bank credit at the time of bank nationalisation and later the proportion of advances to priority sector increased to 40% in 1980. The banks have achieved the target in quantitative terms but in qualitative terms, there is an apprehension among the bankers that the advances to priority sector resulted in loss of interest of income due to highly subsidised lending rates. As a result, the profitability of banks has adversely affected besides maintaining additional manpower requirement for supervision of small loans, mounting overdues, poor recoveries of advances and raising volume of non-performing assets (NPAs).

**C.S Reddy (2010)** found that banks prioritize MFI (Micro Financing Institution) lending to SHG lending because MFI is an easier route to fulfill the requirements of priority sector lending. He suggested that the MFI & SHG should co-operate not compete and become partners in the wider mission of poverty eradication.

**R.K Uppal (2010)** found that lending to priority sector has created the fear of NPAs among the banks and the profitability of the banks has also been adversely affected by the priority sector advances. Due to the government interference in the working of the banks the loans are delivered in the hands of the rich rather than weaker sections of society. It was also found that the sanctioning and monitoring of large number of
small advances is time consuming and man power intensive thus adding to transaction cost.

**Research Gap and Justification of the present study-**

A Critical review of the studies reveal that most of the studies were not scientifically designed and opinion surveys were not properly structured. Also most of the findings were just in the form of generalised observation made without testing the statistical significance.

Most of the literature available on the subject analyses PSL (Priority Sector Lending) from the point of view of bank’s only. Various studies have mentioned about the problems faced by the banks like low profitability, increasing NPAs, low recoveries etc. But a scientific analysis of the PSL from the borrower’s point of view has been neglected. The practical ground reality about what are the reasons behind the default in payment by the borrowers, whether the loans have contributed in increasing the standard of life of the beneficiaries or not, the attitude and expectations of the borrowers from the bank etc have not been properly analysed.

Hence in this study, the researcher has made a comprehensive and systematic effort to analyse the PSL from the experience and point of view of both bank managers and borrowers. The researcher has taken into consideration various aspects like weakness in the lending procedures, methods of selecting the beneficiaries, reasons behind default in the payment of loan, any social, cultural and ethical factors involved and any other difficulty experienced by the bankers and the borrowers in the implementation of the schemes.
Objectives of the study:

The following objectives have been set to conduct the present research study:

- To trace out the genesis and the concept of Priority Sector Lending.
- To analyse the position & performance of the HARCO Bank in terms of various physical and financial variables and various key banking parameters.
- To analyse the effectiveness of Priority Sector Lending of HARCO Bank.
- To analyse the advances as well as recovery rate of lending to different segments of priority sector and give suggestions, if any, to improve the recovery system.
- To evaluate the overall impact of Priority Sector Lending on the socio–economic status of the borrowers.
- To identify the problems & difficulties experienced by banks and borrowers in the implementation of the scheme.
- To offer suggestions on the basis of the finding & conclusions of the study, so that deficiencies & shortcomings can be rectified.
SECTION - II
Research Methodology

Methodology of the Study-

The Methodology of the study includes methods applied for conducting the study & for information collection from different sources. In the present study, data required for the study has been collected from two sources i.e. the primary sources and the secondary sources.

Primary Sources: includes the collection of information and data from self-seen facts, observation, discussions, personal interviews with officials of the HARCO Bank and beneficiaries as per the selected sample design.

Secondary Sources: includes the collection of information and data from various sources like:

- Review date of State Level Bankers committee from 2004 onwards.
- Books related to Priority Sector Lending.
- Cooperative Mirror.

Sample Design

In this study the researcher has used multistage sampling framework for the selection of the sample size. Area of study is the State of Haryana & its districts. There are 21 districts in Haryana & for the purpose of study these are divided into 3 zones – Northern zone, Central zone & Southern zone. From each zone 1 district has been selected & from each district 4 blocks & 1 municipality has been selected at random. Thus total 12 blocks & 3 municipalities have been selected and from each block & municipality some beneficiaries & some bank managers have been selected. Thus final sample size contains 300 beneficiaries and 75 bank managers. Stratified random
sampling techniques have been applied in selecting respondents. The beneficiaries have been selected from various sectors like – agriculture sector, SSI sector and tertiary sector. In same way bank managers have been selected from State Cooperative Banks, District Central Cooperative Bank & Primary Agriculture Cooperative Credit Societies.

Statistical Technique used

The analysis was carried out with the help of Statistics package (SPSS 16). The analysis includes frequency table, percentage, bar and pie chart. The association of variables with socio demographic profile is based on Chi-square test i.e. if the p-value is greater than the level of significance then the null hypothesis is accepted but if p-value is less than or equal to the level of significance then the null hypothesis is rejected.

\[ \alpha = 5\% \quad (\alpha = \text{level of significance}) \]

Pearson’s Chi-square

Chi-square test as a test of independence of attributes enables us to examine whether or not two or more than two attributes are associated or independent of one another.

Chi-square is computed as follows:

Expected frequency = \( \frac{(R) \times (C)}{N} \)

Where \( R = \text{Row total, C= Column total, N = Total number of observations.} \)

\[ \chi^2 = \sum \frac{(E-O)^2}{E} \]

Degree of freedom = \( v = (c-1) \times (r-1) \)

‘c’=number of column

‘r’=number of row

Mean & Standard Deviation- The standard statistical formulas of Mean & Median are used, wherever required, for calculating the value of Mean & Standard Deviation of the subject data.
Growth rate Formula

Step 1: Calculate the percent change from one period to another using the following formula:

\[
\text{Percent Change} = 100 \times \frac{\text{Present or Future Value} - \text{Past or Present Value}}{\text{Past or Present Value}}
\]

Step 2: Calculate the percent growth rate using the following formula:

\[
\text{Percent Growth Rate} = \frac{\text{Percent Change}}{\text{Number of Years}}
\]

Hypothesis

To achieve the objectives in an effective manner, the following hypothesis were framed:

- **Ho₁**: There is no association between zone wise classification and response of liason officer for PSL.
- **Ho₂**: There is no association between zone group and response of training program for PSL.
- **Ho₃**: There is no association between zone group and decisions for conducting pre-sanction visits.
- **Ho₄**: There is no association between zone group and nature of post-sanction visits.
- **Ho₅**: There is no association between zone group and time taken for disposal of applications.
- **Ho₆**: There is no association between zone group and response for interference in the selection of beneficiaries.
- **Ho₇**: There is no association between zone group and misutilisation of loans.
- **Ho₈**: There is no association between zone group and category of education of defaulters.
• **Ho₉**: There is no association between zone group and category of size of holdings of defaulters.

• **Ho₁₀**: There is no association between zone group and category of income for defaulters.

• **Ho₁₁**: There is no association between zone group and category of caste for defaulters.

• **Ho₁₂**: There is no association between zone group and response for feeling hardship in recovery of PSL.

• **Ho₁₃**: There is no association between zone group and response about sufficient amount received from loan.

• **Ho₁₄**: There is no association between zone group and response about utilization of loan properly.

• **Ho₁₅**: There is no association between zone group and response about repaying the loan.

• **Ho₁₆**: There is no association between zone group and response about economic and social status.

**Limitations of the Study**

• The study is restricted to the period of only ten years so it is difficult to evaluate why the particular schemes and programs are adopted in priority sector lending by the bank and whether the suggestions given suits the bank or not.

• The study is related to the past period. So it does not necessarily show the future position of the bank. The future planning may be different from past practices as well as the guidelines of the Government relating to funding of the priority sector lending. So the present analysis may be an indicator of past performance but may not be related to future decision making.
Review of Literature

- Some of the sample respondents were hesitant to give correct information. Therefore the analysis may suffer from non-sampling errors.

- Some of the branch managers were reluctant to provide certain details, such as amount of priority sector advances, non-performing assets etc. for want of specific permission from the head office which was denied. So the attempt to analyse branch level performance was discarded.

- Majority of the beneficiaries were not having the habit of maintaining proper records of their income, expenditure, savings etc. and hence the details supplied by them from their memories had to be relied upon for this study. It may result in either under or over estimation.
References


Usha Thorat, Deputy Governor, RBI at the Tenth Annual International Seminar on "Policy Challenges for financial sector."

