CHAPTER – I
INTRODUCTION AND DESIGN OF THE RESEARCH

1.1 INTRODUCTION
1.2 DIRECTED CREDIT
1.3 PRIORITY SECTOR LENDING (PSL)
1.4 SCOPE OF RESEARCH
1.5 STATEMENT OF THE PROBLEM
1.6 BACKGROUND OF THE RESEARCH
1.7 REVIEW OF LITERATURE
1.8 RESEARCH GAP
1.9 OBJECTIVES OF THE RESEARCH
1.10 HYPOTHESES
1.11 OPERATIONAL DEFINITION OF CONCEPTS
1.12 SAMPLING FRAMEWORK
1.13 GEOGRAPHICAL AREA
1.14 METHODOLOGY
1.15 CONSTRUCTION OF TOOLS
1.16 STATISTICAL TOOLS APPLIED
1.17 DATA PROCESSING
1.18 LIMITATIONS
1.19 CHAPTERISATION
CHAPTER – I

INTRODUCTION AND DESIGN OF THE RESEARCH

1.1 Introduction

The origin of priority sector prescriptions for banks in India can be traced to the Credit Policy for the year 1967-68, wherein it was emphasised that commercial banks should increase their involvement in the financing of priority sectors, viz., agriculture, exports and small-scale industries, as a matter of urgency. The policy was initiated because of the severe imbalance which had developed in the economy in the preceding two years. However, the description of the priority sector was formalised in 1972 on the basis of the report submitted by the Informal Study Group on Statistics relating to advances to the Priority Sectors constituted by Reserve Bank in May 1971.

On the basis of this report, Reserve Bank prescribed a modified return for reporting priority sector advances and certain guidelines were issued in this connection in February 1972, indicating the scope of the items to be included under various categories of priority sector. In most of these cases, the guidelines indicated only the general description of the advances to be included and no ceilings were fixed, except in the case of
small-scale industry and road and water transport operators where ceilings on the value of original investments were indicated.\footnote{Reserve Bank of India (2005). Draft Technical Paper by the IWG on Priority Sector Lending. p. 1.}

Simultaneously the banks were advised to prioritise the lending to weaker sectors to ensure social development. Various notifications were issued to maintain credit flow at the rate of one third of the credit outstanding. Subsequently the proportion of their advances to priority sector was increased from 33.33 percent to 40 percent. The 20 point economic programme of the Government also emphasised the need for disbursing credit to weaker section of the society. Also a sub section titled weaker section within the priority sector was introduced and the credit flow to agriculture and SSI were covered under it.

In 1991, the committee on the financial systems has observed that the directed credit programme has played a useful purpose for extending the reach of the banking system to cover sectors previously neglected. Hence a revamp was proposed and the recommendations were not accepted by the government. However, in 1998, the committee observed that the directed credit has led to increase in non-performing loans and had adversely affected the viability of banks. It was observed that 47 percent of all NPAs emanated from the priority sector.

Many revisions and policy changes were initiated with the prime objective of providing credit access to the weaker section of the society.
Various committees were appointed from time to time to understand the proper functioning of the directed credit and necessary policy directions were issued.

1.2 Directed Credit

Directed credit programme involving loans on preferential terms and conditions to priority sectors was a major tool of development policy in both developed and developing countries in the 1960s, 1970s and mid-1980s. Even though Japan and other East Asian countries supported well managed and focused directed credit programmes, the experience of most countries around the world showed that directed credit programmes suffered from abuse and misuse of preferential funds for non-priority purposes, increased the cost of funds to non-preferential borrowers, involved a decline in financial discipline that resulted in low repayment rates, and contributed to the government being burdened by unpaid loans and huge arrears. Moreover, once introduced, directed credit programmes proved to be difficult to discontinue.²

There were several models to directed credit and each country followed their own policy to suit their internal requirements. During late 1980s, several countries adopted the financial liberalisation to free their economy from social to market model. Banks were authorised to set own policy for the betterment of economy and availability of credit. Many

---

² Ibid., p. 2.
developing countries created access of credit to the needy and poor. The model adopted differ in terms of subsidy, funding source, implementation party, monitoring, credit disbursal and target segment. to make the directed credit available to the population.

1.3 Priority Sector Lending (PSL)

The unexpected decline in the productivity of the economy and a long existing demand for providing directed credit at low cost and easy access resulted in financing the priority sector in 1972. From the very humble beginning of advances to this sector, various government intervention and committee recommendations targets were set and proper framework was developed. Subsequently banks were encouraged to raise the share to priority sector in their aggregate advances. Further the proportion of advances was also enhanced to 40 percent. Based on the recommendations of the Internal Working Group, decision was made to include only those sectors that impact large segments of population and the weaker sections, and which are employment-intensive as part of the priority sector.

The broad categories of priority sector for all scheduled commercial banks are as under

(i) Agriculture (Direct & Indirect)
(ii) Small Scale Industries (Direct & Indirect)
(iii) Small Business/Service Enterprises
(iv) Micro Credit
(v) Education Loans
(vi) Housing loans

The detailed priority sector classifications are appended in Appendix – I

1.4 Scope of Research

The research intent to cover the priority sector lending framework in operation internationally and the customised model implemented in India with focus on directed lending and the effectiveness of the model. The research covers the broader spectrum of credit need, access to credit, utilisation of credit and benefit of credit on the rural beneficiaries. It focuses on the social objective of providing credit to the population which are devoid of mainstream credit access. It also focuses on the viability gap funding and not for profit business models. The research tries to narrate the peculiar pattern of directed credit delivery prevailing in the district.

1.5 Statement of the Problem

Even though, there were various statutory regulations and advisory notes are in place for releasing funds to the priority sector, the literature reviews and official publications show the reverse trend. During 2011-12, public and private sector banks’ advances to priority sectors were less than 40 per cent of adjusted net bank credit/credit equivalent off-balance sheet exposure, whichever is higher. In addition, advances to agricultural and
weaker sections by both public and private sector banks were less than 18 per cent and 10 per cent, as shown in the below table 1.1.

Table 1.1

Priority Sector Lending by Banks
(As on March 2012)

<table>
<thead>
<tr>
<th>Item</th>
<th>Public Sector Banks</th>
<th>Private Sector Banks</th>
<th>Foreign Banks</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Amount Outstanding</td>
<td>Per cent of ANBC/OBE</td>
<td>Amount Outstanding</td>
</tr>
<tr>
<td>Total Priority sector advances</td>
<td>11,307 37.2</td>
<td>2,864 39.4</td>
<td>805 40.9</td>
</tr>
<tr>
<td>Agriculture</td>
<td>4,786 15.8</td>
<td>1,042 14.3</td>
<td>1 0.1</td>
</tr>
<tr>
<td>Weaker Sections</td>
<td>2,888 9.5</td>
<td>389 5.4</td>
<td>- -</td>
</tr>
<tr>
<td>Small Enterprises</td>
<td>3,966 13.1</td>
<td>1,105 15.2</td>
<td>217 11</td>
</tr>
</tbody>
</table>

Source: RBI

The bank-wise provisional data on priority sector lending as on March 2012 indicate 62 percent of the public sector banks could not meet the overall priority sector target of 40 per cent. This statistics shows that availability of credit to the intended section of the strata is limited even though the targets for lending and various frameworks are in place.

Agriculture is one of the most important employment intensive sectors of the economy and as such a sub-target of 18 percent of 40 percent target prescribed for ensuring adequate credit flow to this sector. While
there has been variation in credit availability, it is imperative to study the impact on this component as the economy is mainly driven by this output and this segment is where large rural population is engaged.

**Figure 1.1**

*Share of Small and Marginal Farmers to Total Agricultural Credit*

![Graph showing percentage share in accounts and agricultural credit outstanding from 1991 to 2011.]

*Source: RBI*

This conundrum provides a window to explore the priority sector lending in a specific geographic area and understand the impact from different level including the impact of the credit, the access to credit and availability of credit. The research undertaken help in understanding the demo-geographic variables that influence the priority sector credit. This directed credit framework provides a broad canvas to explore the nitty-
gritty from the perspective of social, cultural, economic and demographic variables.

1.6 Background of the Research

The directed credit programme can meet its objectives by identifying the constraints faced during implementation and initiating corrective actions. There have been lot of research on various development sectors and it is generally understood that certain domain or sector are lagging behind because of lack of resources needed to take those sector forward. Theoretically, the third world economies are dualistic in nature and have both organised and unorganised sectors. The organised sector enjoy monopoly and operate under oligopolistic market conditions, they restrict output with a view to maximize profit. In unorganised sector, since the numbers of firms are very large, output is optimal and cost is comparatively lower. However they starve of financial capital and directed lending is supported across economies. Hence for understanding the directed lending activity and the associated influencing variables, this research is conceived and implemented.

1.7 Review of Literature

A review of the previous studies made in priority sector lending to understand the research gap in this area. Various studies have been reviewed for assimilation of the knowledge generated.
Bhatti, V.V. (1970) proposed a scheme of approved dealers to assist the lead banks in providing finance and guidance to farmers and small industrialists. In providing finance and guidance effectively the banks would have or collect the required information ensures recovery of loans and interest, assist in obtaining after sales services and keeps a watch on the working of the assessed enterprise. This work can be made easier by creating and supporting a set of approved dealers.³

Joshi, P.N. (1972) requested the RBI to give clear and specific definition of the different components of priority sectors which will enable the commercial banks to increase their participation in lending to priority sector as commercial banks are reluctant to give loans and advances to the priority sector. Some of the bankers are not clear about the precise role and the scope of lending to priority sector. Guidance from the RBI would help them to increase their involvement in farm credit on right lines.⁴

Oommen, M.A. (1972) found that among the institutional sources of finance to SSI in Kerala, commercial banks provided the lion’s share. The assistance of commercial banks in Kerala stands at par with some advanced countries. Though the financial institution at state level and all India level provided financial assistance to SSI units for meeting their fixed and working capital requirements, the major part of the financial

---
requirement of SSI units are satisfied by the loans and advances of commercial banks.\(^5\)

Purohith, M.C. (1973) conducted a survey in Jaipur city to examine the potential of small artisans in relation to bank financing. The survey revealed that the average amount borrowed per artisan from bank was `1,040/- and from non-institutional source was `3,313/- . Maximum amount borrowed by an artisan from a commercial bank was `2,000/- and from non-institutional source was `17,000/- . The small artisans therefore were denied sufficient funds from the commercial banks forcing them to borrow from non-institutional sources at higher rates of interest. Due to lack of adequate financial accommodation from the banking system, the artisans buy raw materials through other financiers at higher prices and sell the product to the same agency at a low price. With the financial assistance from the banks, this vicious circle can be broken up.\(^6\)

Thingalaya, N.K. (1974) conducted a study among the village artisans of Karnataka and found that they are receiving an insignificance percent of their total credit requirements from banks. Thus artisans are living under the influence of moneylenders.\(^7\)

---


Vadilal Dagli (1975) in his study opined that the aim of the banking policy should be to uplift the under privileged class of the society in rural India from subsistence existence to surplus existence. The concept of priority sector should include only the rural poor of the country and by providing them necessary financial assistance; they can be lifted from the pitches of animal existence to the heights of human existence.\(^8\)

Nambiar, P.C.D. (1977) conducted a study on financing of priority sector and found that the commercial banks fail to provide adequate credit to agriculture, small scale industries, small artisans and self-employed people and was observed as one of the reasons for their backwardness. The banks are reluctant to take up the financing of the priority sectors due to the smallness of their size and their precarious existence at the margin of viability. Their urban origin, security orientation, methods and procedures of operations are not suitable for financing. Financing of priority sectors is a new experience for the banks and presents a number of problems. They have to reorient their lending policies with a shift of emphasis from security to viability of the project. It is also states that the role of commercial banks in the priority sectors does not end with the provision of finance but it also includes the evaluation of the feasibility of a project and to aid the entrepreneurs to select the right type of projects. An improved

---

co-ordination between various agencies including government agencies and commercial banks is necessary for a better result.\(^9\)

Mello, L.D. (1980) conducted a study on bank credit for weaker sections and states that commercial banks which are serving the business community in cities and urban areas are unable to provide bigger amount of credit to the weaker sections. Diversion of funds for lending to weaker section may affect the profitability of the commercial banks and these commercial banks are not ready to sacrifice their profits.\(^{10}\)

Dinkar Rao, K. (1982) conducted a study on Lead Bank Scheme and states that Extension of credit to priority sector is a social obligation. It is to be shared between the agencies, including the government departments and the financial agencies who are involved in the implementation of the schemes for development of agriculture and other priority sectors. The Lead Bank Scheme is the best alternative for sharing responsibility at the grass root level on a mutual bass. The lead role is not merely confined to the Lead Bank shouldering the major responsibility in branch expansion and credit extension. The stress is laid on the lead bank's liaison role in integrating credit with complimentary inputs and services. The priority sector lending involves considerable extension efforts. The credit agencies or the government departments or both have to ensure the critical


integration of credit with inputs and services. This would require co-
ordination among financial institutions and in many cases collective action
by them. These tasks would become immensely complex if individual
agencies act independently in the short run the Lead Bank Scheme can only
facilitate the flow of a given quantum of credit to the priority sector, but
may not be able to increase this quantum. The Lead Bank Scheme can only
be expected to reflect the local needs and genuine regional grievances, the
influence of which could be felt only in the long run.\textsuperscript{11}

Angadi, V.B. (1983) observed the concentration of PSL in general
and agricultural advances in particular in some State because of rapid
branch expansion, deposit mobilization, privileged cropped area, adoption
of high yielding variety.\textsuperscript{12}

Sarkar, B.K. (1983) opines that success of a marketing drive for the
target group in priority sector depends on a careful study of each segment
of the society. The need and capacity of the borrowers and their
willingness to take activities should be thoroughly analysed. The desired
result can be achieved only if the borrowers utilize the amount borrowed
by them for the purpose for which it has been lent.\textsuperscript{13}

\textsuperscript{12} Angadi, V.B. (1983). “Bank’s Advances to Priority Sectors – An Enquiry into the causes and
\textsuperscript{13} Sarkar, B.K. (1983). “Banks Marketing for the target groups in the priority sector”, \textit{Prajnan},
Vol. XII No.4, pp.315-325
Satya Sundaram, I. (1984) found that a number of schemes are formulated and implemented for the development of rural economy and the success of these schemes solely depends on the operation of the credit agencies which are entrusted with the task of helping the rural poor. The establishment of more credit agencies is confusing the rural credit operation. Therefore, a proper co-ordination among the credit agencies is essential for the better implementation of the scheme and which will be more helpful to the rural poor.\textsuperscript{14}

Patel, K.V. and Shete N.B (1984) analysed the behaviour of weaker section accounts particularly with reference to their repayment behaviour by examining 1,554 accounts operated by seven branches of three commercial banks located in five backward districts in the states of Rajasthan, Madhya Pradesh and Karnataka. The study brings out the very positive aspects of borrowers’ willingness to repay and the bankers’ promptness in making efforts for recovery. The analysis helps in clearing some of the misgivings in weaker sections financing and in improving the image of development banking.\textsuperscript{15}

Khankhoje, D.P. and Godse, V.T. (1985) conducted a study on Systems and Procedures in priority sector lending. In the study it was found that banks are following unnecessary procedures and systems in


priority sector lending. Such procedures are very rigid and cause delay in disbursement of loans. The banks should simplify the procedures especially those relating to the documentation. But there should not be any simplification in supervision and control over the scheme.16

Kulshrestha, U.C. (1985) conducted a survey in the Western Region of Uttar Pradesh to review the progress and working of the Lead Banks and concluded that the banks which were assigned the lead role undoubtedly made considerable efforts in their lead districts in conducting of economic surveys, preparing credit plans, branch expansion, deposit mobilisation and credit deployment to priority sectors. Thus the Lead Bank Scheme holds out the promise to attain socio-economic objects in the society and to develop the rural economy at the district level.17

Ramachandran Rao, B. (1987) conducted a study on the evaluation and monitoring of Priority Sector advances. In the study he suggests that the priority sector advances should be given at low rate of interest only to the deserving people. The object of the scheme cannot be achieved if such loans are provided to the financially sound persons. Better monitoring and supervision by the banks will be required to ensure that the funds are


disbursed to the right persons and it is utilized for the right purpose. This will in turn increase the profitability of the banks.\textsuperscript{18}

Malhotra, H.C. and Kulshrestha, D.K. (1987) opines that bank loans will not improve the quality of life of the poor unless the borrower utilizes the fund for productive purposes. To ensure utilisation of fund productively, proper monitoring and supervision by the lending banks are essential. They suggest co-ordination between the lending agencies and minimizing competition to improve the better utilization of fund by the borrowers.\textsuperscript{19}

Verma, S.K. (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 loan but also to raise the economic standard of the rural poor.\textsuperscript{20}

Muhammed Yunus (1988) strongly underlined that credit without discipline is nothing but charity and charity in the name of credit will only destroy the poor, instead of helping them. He, however, stressed on the loan recovery mechanism rather than blaming the defaulters.\textsuperscript{21}


Rangarajan, C. (1988) remarks that diversion of bank credit for productive purposes is essential for economic development. Banks are more rigid in lending activities and therefore the deserving and needy people are not getting financial assistance. New measures are essential to ensure that the bank loan reach the deserving hands.\textsuperscript{22}

Jyothana, G. (1989) studied the impact of priority sector lending in and around the villages of Chandragiri Block and came out with the conclusion that bank’s assistance has exerted a significant positive impact on priority sectors with reference to income and employment levels. The impact of bank finance on employment level is very significant in agricultural sector and in small business firms and comparatively very less in SSI sector. Regarding the recovery performance, it is very poor in SSI sector as well as in agricultural sector. But performance is comparatively significant among the beneficiaries in small business and firms sector.\textsuperscript{23}

Mahendra D. Desai (1989) strongly proposed the need for evaluation of financing schemes in priority sectors to assess the extent to which economic conditions of the beneficiaries had improved and poverty minimized.\textsuperscript{24}


Pasricha, J.S. and Sanjay Modi (1989) conducted a study to assess the thrust on priority sector lending since the introduction of Lead Bank Scheme and came out with the conclusion that the overall share of priority sector advances has grown up satisfactorily during the period of study. But all States are not laying uniform emphasis on the financing of priority sectors and the share of priority sector advances ranges from as low as 21.10 per cent in Maharashtra to 76.90 percent for Manipur, indicating that industrially developed States are laying less emphasis on the development of priority sectors.²⁵

Ravola, K.S., Nigi, R.S., and Nigi, J.S. (1989) in their study of the role of banks in the development of priority sectors, have found that there has been no appreciable rise in the development of priority sectors and that the return flow of funds is not satisfactory and the over dues in the priority sector advances are gradually increasing. They have found that the percentage of over dues outstanding in the priority sector of public sector banks as agriculture (21.9 percent), SSI (17.9 percent) other priority sectors (23.6 percent) as against the non-priority sector overdue percentage of (9 percent) and total for banks (13 percent).²⁶

Karkal, G.L, Khankhoje, D.P. and Shete, N.B. (1990) emphasised the need for conducting evaluation of priority sector project by individual


banks for ensuring efficiency and cost effectiveness. Such studies answer the questions like whether the project is implemented in the ways specified, whether the methods, process and procedures adopted are appropriate to achieve the set goals, and whether the personnel are sufficiently motivated, trained and adequate for the success scale of the project (1990).  

Manmohan Singh Gill (1990) conducted a study on the problems of the borrowers in obtaining bank loans and impact of bank loans on their economic and social status. The study reveals that most of the loans under the sponsored schemes are sanctioned on the recommendations of the political leaders and officials and that the beneficiaries have given bribe to these leaders and officials for obtaining loans. The study also reveals that though there is no much progress in the social status, the loans have helped the beneficiaries to improve their income status.

Ojha, P.D. (1990) the then Deputy Governor, RBI, while addressing a conference of Bank Economists in Calcutta opined that Service Area Approach is an answer to improve the quality of lending in rural areas. The scheme gives importance to close disbursement supervision to ensure productive use of credit.


Padmini, E.V.K. (1990) conducted a study in Thrissur branch of Punjab National Bank to examine the implementation of priority sector lending scheme. The study revealed that priority sector lending of the bank was declining. All types of loans except DRI showed a fluctuating trend. The bank can advance more amount as loans to priority sectors by adopting more number of potential villages under SAA and scientific management of funds.\(^{30}\)

Bansal, S.N. and V.K. Agarwal (1991) in the article “Why world bank is against priority sector lending” opined that the recovery has to be given equal importance as that of lending, as the lending of money to the rural masses alone is not going to deliver the goods unless it is accompanied by the equally fast pace recovery. The recovery of loan is a bottleneck to the entire lending process.\(^{31}\)

Rajasekhar, D. and Vinod Vyasula (1991) stressed the guideline of 40 percent of loans to the priority sectors and opined that with more professional functioning, the banks can maintain a recovery rate of at least 90 per cent through better lending, with reference to quality of credit. Also the proportion of nonperforming assets in a bank’s portfolio can be reduced if political interference in the functioning of the banks is reduced.\(^{32}\)

---


Bishnoi, T.R. (1991) in his study tries to examine the impact of priority sector credit on public sector banks profitability during 1974-1986, and has found that the interest subsidy rates varied across the priority sectors and increased over the period, each of the priority sectors has shown tremendous increase in absorption of bank credit, the interest income loss to public sector banks increased from `33.44 crores in 1974 to `607.39 crores in 1986. Both the ratio of income loss to total working funds and to operating income are substantially higher than the net profit ratio and profit margin earned by the banks in all these years and the rising interest income loss and low recovery in respect of priority sector credit adversely affected the profitability and fund recycling capacity of the public sector banks. It further weakens the viability of priority sector lending. Considering all these points he suggests that the entire gamut of priority sector schemes, procedures and system of credit delivery needs to be reviewed and revised for improvement in operational efficiency and profitability of the public sector banks.33

Jagirdar Brinda (1991) in the study considers the emergence, growth, profitability, the need for re-defining priority sector, and has found that priority sector advances at concessionary rates of interest have increased significantly overtime, both in absolute terms and in terms of their share in total bank credit but also resulted in low profitability of

commercial banks. Banks have managed to show profits mainly by resort to cross-subsidization. To overcome or to reduce the need for cross-subsidization he suggests that priority sector advances are to be categorized into two groups: (i) group covering advances to weaker sections as also advances which may further technological up-gradation and resource augmentation, saving and improvement in agriculture and small industry. Even though, borrowers may not belong to the weaker sectors and (ii) remaining advances under priority sectors. Only the advances under group (i) may be offered the benefit of concessionary finance.³⁴

The Narasimham Committee (1991) had observed that the directed credit programmes had played a useful purpose for extending the reach of the banking system to cover sectors, which were neglected hitherto. However, the committee observed that the pursuit of such objectives should use the instruments of the fiscal rather than the credit system. The committee recommended that directed credit programmes should be phased out. It proposed that priority sector should be redefined to comprise the small and marginal farmer, the tiny sector of industry, small business and transport operators, village and cottage industries, rural artisans and other weaker sections. The target for this redefined priority sector should be 10

---

per cent of aggregate credit. The recommendation was, however, not accepted.\textsuperscript{35}

Rengarajan, V. (1991) in his study on priority sector advances with reference to bank profitability attempts to study the return from the priority sector lending and examine critically the various segments of priority sector and the relevance of interest rate structure from the viewpoint of profitability. He also suggests some strategies for the improvement in the profit area. The study clearly shows that one of the major reasons that could be attributed to the low margin of profit is the low return from priority sector. Although the banks achieved the overall target of 40 percent, there existed wide disparities among districts within a state. Regarding interest rates, his argument is that it is not a main criterion for the availing of loans but it is the quantum of loan particularly in rural area and timely availability of the same. The study finally points out that developing countries in Asia are slowly discouraging the concession available to the priority sector giving importance to effective and sound loan management\textsuperscript{36}

Krishnaswamy, K.S. (1992) criticized the recommendations of the committee on financial system. He pointed out the committee’s report


considered only the interest of industrialist and it essentially concerned with reducing Government regulations and improving profitability.\textsuperscript{37}

Ghosh, D.N. (1992) has mentioned in his special article that the target of priority sector lending to 10 percent, as urged by the committee on the financial System, will send an unfortunate signal to the dispensers of credit that the basic objective for which priority sector lending was developed two decade ago is being diluted. Policy-makers in developing countries will from time to time find that they have to reconcile conflicting objectives, but they cannot afford to let crucial economic agents, such as banks and financial institutions, to choose the easy way out of such situations.\textsuperscript{38}

Gudannavar, V.R. (1992) called for the active involvement of banks in social lending which requires changes in the attitude of banking personnel, efficient management of resources, improvement in work technology and ethics and proper deployment of manpower. If this is done, a striking balance between social banking and commercial banking can be achieved easily.\textsuperscript{39}

Narayana, D. (1992) in his report on directed credit programmes criticizes the Narasimham committee report. According to the study, the

Narasimham committee report recommended amputation of the limbs of the banking system. The study analyses the recommendations made by the Narasimham Committee on directed credit programmes leading to low profitability of banks like rising loan delinquency, credit-deposit ratio, and concessional interest rates. Recommendations on branch licensing and priority sector lending is also analysed in the following sections and strongly oppose the recommendations made by the Narasimham Committee.40

Shete, N.B. (1992) brings out some lessons for Indian commercial banks based on the experience of agricultural loan recoveries of some developing countries. Intensive education campaigns for proper use of funds by borrowers in Sri Lanka, commodity oriented programmes in Philippines, provision of infrastructure, farm supportive prices and extreme penalty for willful defaulters in China are some of the examples which facilitate prompt recovery of agricultural loans.41

Ravi, R. (1993) in his paper reviews the norms relating to farm activities and non-farm activities of priority sector and has found that priority sector benefits the socially and economically disadvantaged people and also the other people who are credit starved and suggests that the


banker must pass on the concessions to the poor consumers of bank loans.  

Rajagopal, S. (1994) studied on the consequences of PSL in Indian banking and remarked that concessional credit should be restricted only to the poorest of the poor and to the underprivileged sections of the society. Commercial rate of interest should be charged from those who can afford it.

Anand, S. (1994) in his work highlights the importance of priority sector lending. The study discusses the chronological developments in priority sector lending over nearly 25 years and gives a brief account of the changes that appear to be in the offing in the area of priority sector lending. He concludes that commercial banks should have medium and long term perspective plans before them for devising requisite corporate strategy for meeting the call of the priority sector lending on the one hand and making Indian commercial banking vibrant with higher productivity and profitability on the other.

Thakursingh Parmar and Patel, A.R. (1994) conducted a study in Gujarat district to assess the recovery of priority sector advances and found that in agriculture sector the recovery per cent to demand varied between

---


30 and 59 percent and in the SSI, it is between 15 and 43 per cent. For better recovery, the quality of lending must be improved and a suitable system for realisation of dues should be a part of credit management.\textsuperscript{45}

Philip Thomas and Jessey, K.O. (1994) in their study of priority sector advances of Urban Co-operative Banks in Kerala have found that only less than 35 percent of the priority sector advances had been given for income generating activities. They also found that the overdue in the priority sector ranged from 19.7 to 25.3 percent during the study period. The study also proved that the average loan given to each item was far below the extent of the financial assistance visualised by the RBI to carry out a project effectively.\textsuperscript{46}

Karthikeyan, A. (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 and SIDBI, timely follow-up and instituting approach action for recovery and invoking DICGC guarantee wherever possible. The strategy very much needs co-ordination between the banks and other agencies.\textsuperscript{47}


Bhalerao, M.M. and Pandey, R.K. (1995) conducted 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 then neglected sub-sectors of the priority sector. They also pointed out the need for effective implementation of the innovative schemes as SAA, DRI, consumption loans and housing loans for the benefit of the hitherto neglected sectors of the economy.\(^{48}\)

Patel, S.G. (1996) in his thesis propounded that the traditional banking ethics were not compatible with the needs of economic development and that the balanced development was not possible without strengthening the hold of commercial banks in the backward and neglected areas. With a view to bring the down-trodden, hitherto neglected sector households to the mainstream, fundamental changes in the traditional banking norms were called for to move away from security based credit towards programme oriented credit.\(^{49}\)

Kurien Jacob (1996) in his study try to examine the viability of social banking pursued through priority sector lending’s of commercial banks in Tamil Nadu. The study extends only to the public sector banks viz., Indian Overseas Bank and Indian Bank with their head offices in Chennai and branches in Chengalpettu M.G.R. District of Tamilnadu and


their priority sector advances to the weaker sections of the society, and has found that social banking efforts in India and Tamilnadu resulted in bringing banking service to the aid of the poor and weaker sections but have adversely affected the performance of public sector banks in India and Tamil Nadu. Moreover, non-monetary factors also influence the borrower’s repayment capacity, willingness to repay the loan, thus affecting adversely the performance of these banks. He has also proved that there is an inherent conflict between ‘Social Equity’ and ‘Economic Efficiency’ in social banking and so combining social commitments together with commercial prudence can ensure sustainable social banking.\(^{50}\)

Renu Kohli (1997) in the paper examined the theory and empirical evidence on directed credit programme and observed the existence of significant linkages between bank credit and investment in both agriculture and industries in India. The purpose of directed credit programmes is to channel credit to priority sectors, groups and regions to support activities that are either considered to be socially beneficial or inherently riskier and the borrower groups that are likely to be marginalized in the credit market.

He suggested that although directed credit programme for PSL is effective in India, affirmative support to small-scale units is required.\textsuperscript{51}

Kaladhar, K. (1997) suggested that priority sector should be changed to micro finance and targeting is to be done in terms of growth in number of accounts instead of the present stipulation of 40 per cent of the credit outstanding. With the realisation that the poor are bankable and banking with the poor is profitable, there will be no hesitation on the part of the commercial banks to actively pursue micro financing. In other words the present priority sector may be given up in favour of targeting micro finance particularly in the rural and semi-urban areas.\textsuperscript{52}

Rangaswamy, V. and Subbaiah, A. (1997) in their article analyses whether there is any significant difference in the performance of different financial agencies in priority sector lending under the Lead Bank Scheme in Kamarajar District in the state of Tamilnadu by using Kruskal-Wallis Test. The study covers seven credit plans during 1985-88, 1989-90, 1990-91 and 1992-93. Credit plan 1991-92 was not analyzed due to the non-availability of data. The results of this non-parametric test indicate that the performance differs significantly among the various financial agencies in lending to the agricultural sector and the industries sector, but there is no significant difference in lending to the service sector and the total priority


sector. The performance of public sector commercial banks is good and that of private sector commercial banks is relatively poor. In lending to the agricultural sector and in lending to the industries sector the performance of private sector commercial banks is better than the Pandian Grama Bank, the regional rural bank (RRB) operating in Kamarajar district.  

Manjappa, H.D. (1997) in his study attempt to estimate empirically the social and budgeted costs on lending to priority sectors including export sector in India during 1969-94. The findings of the study are that the priority sector advances have increased considerably in the post-nationalisation period. The social cost, in monetary terms has increased from `26 crores in 1969 to `21,559 crores as at the end of March 1994. Considering the interest rate structure the society has incurred budget cost during 1973-81. Subsequently there is no budget cost on priority sector advances. The social cost on export financing increased from `10 crores in 1969 to `769 crores at the end of March 1994 and there was no budget cost on export finance during the first four years. Since 1973 there was a steady increase in the budgeted cost on export financing. From 1983 the society has not incurred budget cost because of hike in interest of export credit. From 1989 the society has not incurred budget cost because of hike in interest of export credit. To conclude, the society has incurred social and

---


Kumaraswamy, M.R. (1998) in his study on the effectiveness of priority sector financing to vulnerable peasant farmers in the midst of widening poverty gap in Nigeria and India have found that in Nigeria 80 percent of the population live in rural areas and 70 percent of them are engaged in agriculture. Agriculture is treated as a priority sector as far as central bank of Nigeria credit policy is concerned. The core sectors of the rural economy of Nigeria-agriculture and small industries-are most neglected by the banking system and their credit operations for the four years studied (1980-83) fell short of the ‘so-called’ prescribed minimum target, while the construction sectors hared more than 40 percent of the country’s GNP which rendered the Nigerian economy a contractor-oriented economy. Regarding India the interest income losses of banks due to priority sector credit rose from `33.44 crores in 1974 to `163.42 crores in 1979, and further to `607.39 crores in 1986. The non-viable project lending also resulted in loan recovery problems. The study also gives suggestions to bring about qualitative changes in credit flow and judicious use of credit and monitoring to avoid diversions.\footnote{Kumaraswamy, M.R. (1998). “Effectiveness of Priority sector Financing to vulnerable peasant farmers in the midst of widening poverty gap—Case studies”, Journal of Financial Management and Analysis, Vol. 11, No. 1, pp.70 – 85.}
Patel, K.V. and Kaveri, V.S. (1998) conducted a study of nonperforming advances in priority sector and found that uncertainty of income generation is one of the most important reasons for NPAs. The experiences of branches covered in the study suggest that recovery from NPAs is possible provided proper care is taken. With careful approach, sincerity and involvement of staff recovery problems can be effectively solved.56

Ganesan, P. (1998) in his study on 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 these sectors. Therefore, he opined that there is an urgent need to redefine the concept of priority sector.57

The Narasimham Committee (1998) again gave careful consideration to the issue of directed credit and noted the reasons why the Government could not accept the earlier recommendation. It observed that directed credit had led to an increase in non-performing loans and had adversely affected the efficiency and viability of banks. It was observed that 47 per cent of all NPAs emanated from the priority sector. At the same time, the committee also accepted that a sudden reduction of priority


sector targets could have the danger of a disruption in the flow of credit to these sectors. In its report, the committee recognized that the small and marginal farmers and the tiny sector of industry and small businesses have problems with regard to obtaining credit and some earmarking may be necessary for this sector. Under the present dispensation, within the priority sector, 10 per cent of NBC is earmarked for lending to weaker sections. The committee recommended that given the special needs of this sector, the current practice may continue. The committee also proposed that given the importance and needs of employment oriented sectors (like food processing and related service activities in agriculture, fisheries, poultry and dairying), these sectors should also be covered under the scope of priority sector lending. It, however, recommended for the removal of concessional rates of interest on loans up to `2 lakhs and a phased moving away from overall priority sector targets and sub-sector targets. The committee also recognized that enhancement of credit to these sectors is critically dependent on the availability of adequate infrastructure in these areas.58

Shajahan, K.M. (1998) is of the opinion that the priority sector bank lending was an active instrument of our financial policy with an aim to restore sectoral balance within credit disbursement and to channel credit the weaker sections within these sectors. But banking sector reforms

---

initiated as part of the liberalization programme, since the beginning of the 1990s, has almost brought the priority sector lending policy to a halt. Moreover, the position of the poorer states in regard to priority sector bank credit seems to have worsened because of the manner in which priority sector targeting has been done by linking it to total bank credit rather than to bank deposits.\textsuperscript{59}

Manjudar, N.A. (1998) conducted a study on credit support to priority sector and found that the policy makers gave little attention to Small Scale Industries sector which contributes 40 per cent of the value added in the manufacturing sector and about 35 percent of the total exports. But in spite of their involvement, the credit extended to SSI Units has declined considerably over the last few years. The capacity utilization in this sector is around 50 percent (weighted average) and one of the main reasons responsible for the gross under-utilization is finance. Timely and adequate availability of credit to this sector would enable the capacity utilization to go up substantially both in the short and the medium term. This would also enhance export capability.\textsuperscript{60}

Rengaswamy, V. and Ramnath, R.L. (2000) in their article make an attempt to analyze the performance of financial agencies in the priority sector lending in the Madurai district of Tamilnadu. The study covers a


period of ten years from 1989-90 to 1998-99. In this study the performance of priority sector lending by the financial agencies in Madurai district has been analyzed by using Kruskal-Wallis Test and the results of the test reveals that performance differ significantly among the various financial agencies in lending to the industrial and total priority sector lending in Madurai district.\textsuperscript{61}

Khundrakpam, J.K. (2000), discussed some important issues in priority sector bank lending where the same achieved phenomenal progress prior to nineties by setting up study and working groups and targets for lending to these sectors. However the financial sector reforms reversed the trend and subsequent committees recommended pruning down lending to these sectors. Against the policy intentions, there followed marked dilution and expansion in the coverage of priority sectors. The procedure of targeting priority sector lending worsened the position of poorer states. He recommends that to remove the inherent bias towards the poorer states, targeting should be linked to bank deposits rather than to bank credit.\textsuperscript{62}

Uma, S. (2001) did a study on “Problems and Prospects of Priority Sector Lending by Commercial Banks – A Case Study on Small Scale Industries in Bangalore District and found that credit availability to Small


Scale industries will directly enhance employment generation and reduce the dependence of its citizens on the social security of the government. Also entrepreneurs engage in activities which they are really interested and also have some knowledge and experience which are necessary for the success of the enterprise. Hence the credit flow to Small Scale Industries fulfills the priority sector objective.\(^{63}\)

Anbumani, V. and Niranjana, S. (2002) in their analysis of priority sector credit outstanding based on the activity clearly indicate that there is no undue variation in the growth rates and thus recommendations of various working groups and committees of the RBI and the government of India has helped the deployment of large scale credit by the PSBs during the period under review 1969-1993. During the entire 1980’s the ratio of priority sector credit to total credit was well above 40 percent. They have identified that various policy instruments and programmes of the RBI and the government of India are responsible for the low profitability of the PSBs. The emergence of large number of private finance companies supplying credit without many formalities clears the fear of the adverse effect of further reduction in the priority sector advances on the development of the economy, and they also support the recommendations made by the Narasimham Committee on Financial Sector Reforms (1991)

with respect to priority sector lending, i.e., reduction of priority sector
target from 40 percent to 10 percent of the aggregate credit.64

Das, Uday Kumar Lal, (2002) in his study analyses the growth in
credit to the priority sectors and has brought into focus the following major
findings such as apart from inadequate attention to certain important
sectors, there was extreme unevenness in spatial distribution - state-wise,
district-wise and population group-wise and a strong tendency to ignore the
weaker groups. The relative share of small-scale industries declined
significantly over the years, whereas for the other sectors there was a
noticeable rise. The co-operatives played an insignificant role in advances
to these sectors. Many steps taken for larger flow of credit to the neglected
sectors came very late or were not implemented properly. The public sector
banks did not exert themselves fully and their endings suffered from many
deficiencies. There was huge locking up of funds with sick SSI units and
the banks operations were also hampered by inadequate co-operation from
other agencies involved and the lack of infrastructure.65

Rajaram Dasgupta (2002) has stated that the priority sector appears
as nothing more than several diverse items clubbed together. He advocates
a new approach to priority sector suggesting among other things the
reduction of mandatory credit to a larger number of sectors and sections,

64 Niranjana, S. and Anubumani, V. (2002). ‘Social Objectives and Priority Sector Lending,
Banking and Financial Sector Reform In India’, Deep and Deep Publications, pp. 231.
65 Das, Uday Kumar Lal (2002) “Development of the Priority Sector in India – Banking reforms
including marginal farmers, cottage industries, small trade and services and low income housing and incentives to improve credit flow to small-scale industries and food crop agriculture as well as temporary credit to assure credit to new industries and new professions by the non-poor section.\textsuperscript{66}

Vimala, P. (2002) in her doctoral thesis “A study on the priority sector lending in commercial banks in Kerala” observed that the commercial banks in Kerala achieved a spectacular progress in deposit mobilization and credit deployment compared to the national level. District wise analysis showed that Ernakulam District stood first in deposit mobilization and credit per branch is also the highest in Ernakulam district. Pathanamthitta stood first in deposit mobilization per branch. The credit deposit ratio is low compared to all India level. There is no significant difference between the growth rates of deposits and advances at the State and national levels.\textsuperscript{67}

Robin Burgess and Rohini Pande (2003) with the objective to understand the lack of access to finance, which often cited as a key reason for why poor people remain poor, used data on the Indian rural branch expansion program to provide empirical evidence on the issue. Between 1977 and 1990, the Indian central bank mandated that a commercial bank can open a branch in a location with one or more bank branches only if it


opens four in locations with no bank branches. It showed that between 1977 and 1990, the said rule caused banks to open relatively more rural branches in Indian states with lower initial financial development. The reverse was true outside this period. They exploit that fact to identify the impact of opening a rural bank on poverty and output. Their estimates suggest that the Indian rural branch expansion program significantly lowered rural poverty, and increased non-agricultural output.68

Ganeshan, P. (2003) re-examined the repeated observations of economists and bankers that whether the priority sector advances have actually eroded the profitability of the public sector banks. Confessional interest rate, the subsidy rate and credit outstanding to priority sectors have increased over the years. The total amount of interest income loss in 1974 was `34.13 crores which had gone up to the maximum of `973.25 crores in 1990-91 declined to `108.24 crore in 1998-99. The income loss ratios are substantially higher than the profitability ratios and the differences between them have increased. Consequent to the introduction of reforms in financial sector, the banks began to step-down the target for priority sector credit and thus there was decline in the income loss ratios, which subsequently increased the profitability ratios, thus establishing the fact that the priority


Abhijit V. Banerjee, Esther Duflo and Kaivan Munshi (2004) examined data on 263 firms through their model and found that change in regulation had an impact on who received priority sector credit. Also they found that capital markets in India are very far from the neoclassical ideal. The gap between the marginal product of capital and the market interest rate seems to be at least 70 percentage points and the gap between the marginal product of capital and rate paid to savers is even larger.\footnote{Abhijit V. Banerjee, et. al. (2004). “The (mis)allocation of capital” Massachusetts Institute of Technology, \textit{BREAD WP No.006}.}

Shete, N.B. (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.71

The World Bank (2004) in its report, 'Sustaining India's Service Revolution' highlighted that government ownership of banks in India stifles competition and raises the cost of lending to the public. The World Bank has blamed RBI's stiff PSL norms for foreign and domestic banks for the weak financial health of commercial banks. The report has indicated that largest government ownership in the banking sector led to insufficient competition in the Indian banking system and hence, led to increased cost of intermediation, lowering capital allocation efficiency and under-lending to the private sector.72

Abhijit, V. Banerjee, Shawn Cole and Esther Duflo (2004) as part of discussion on the broader banking reform in India and the appropriate role of the Indian government viz-a-viz the banking sector found evidence that there is substantial under-lending in India the private banks were no less responsive than the comparable nationalized banks, with the exception of agricultural lending that the public banks have been less aggressive than private banks both in lending, in attracting deposits and in setting up branches, at least since 1990. They also found that official lending policy is


very rigid. Moreover, loan officers do not appear to use what little flexibility they have. The evidence suggests that bankers in the public sector have a preference for what they call passive lending.\(^\text{73}\)

Ahmed, J.U. (2005) in a diagnosis observed that commercial banks together have gradually increased the quantum of advances to small industries but the proportion in which total bank credit in priority sector has expanded, the relative share of small sector has not grown in the same ratio during the reform regime. The weak infrastructure facilities may have prevented the greater flow of credit. The industrial campaign, awareness programmes and industrial training to the prospective entrepreneurs from the appropriate authority may be the remedy in this respect.\(^\text{74}\)

Bhati, S. (2006) examined the lending climate for banks in emerging economies like India. The study found that due to the government policies, banks in India undertake many additional risks when they lend. This study focused on one specific aspect of lending relationship between branch manager and loan officer of bank branches in India and recommended social risk evaluation is therefore more appropriate for risk evaluation and reduction by banks in India.\(^\text{75}\)


Mohua Roy (2006), the bank credit of the last couple of years has been an encouraging phenomenon in India. This reflects the turnaround in the economy as the improved balance sheets of the banks themselves. However, though the overall credit growth has been higher than the expansion of agriculture credit and credit to small scale industries sector, retail credit, which is growing from a very low base, has expanded rapidly during this period. While consumption-led growth can help improve the growth rates in the economy, it would also result in increasing risks.76

Abhiman Das Arvind Kumar and Ramachandra Rao (2006) found that the working capital support extended by commercial banks to small-scale industry is far from adequate. Although the SSI is a part of the priority sector, its share in total priority sector advances of all scheduled commercial banks has been falling consistently from around 39 per cent in 1992 to around 24 per cent in 2004.77

Sooden, M. and Kumar, S. (2007) analyzed the priority sector lending in the post reform period and suggested for a balanced approach as development agent and sustainability of directed lending keeping in view the quantum of NPA in priority sector advances.78

Yogesh Gupta and Sanjeev Kumar (2008) in their research paper analyzed the performance of public 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 a 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 cooperative credit societies rather than private sector banks. The study further analyzed 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 case of both public and private sector banks.  

Ram Pratap Sinha (2008) in his research paper made a comparison between selected public and private sector commercial banks in respect of

---

priority sector lending for the period 2000-01 to 2004-05. His studies indicate substantial fluctuations in mean efficiency scores for the observed years. In particular, the mean technical efficiency scores have declined during 2004-05. The mean technical efficiency scores of the observed public sector commercial banks are marginally higher than the observed private sector banks. Total factor productivity growth of the observed private sector commercial banks exhibited marginally higher Malmquist TFP Index than the observed public sector banks. All the observed commercial banks registered a positive total factor productivity growth during the period.\textsuperscript{80}

Ashosk, K. Lahiri (2009) has focused on the five pending reform items in the financial sector, namely, moving monetary policy to inflation targeting; modernizing the delivery of financial services to the priority sectors and vulnerable and weaker sections; introducing capital account convertibility; moving to a streamlined financial regulatory architecture; and restructuring the banking industry.\textsuperscript{81}

Uppal, B.K. (2009) in his research paper evaluated the performance of public, private and foreign banks in India and analysed the target and achievement 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, while private sector banks have achieved the target. Private could not achieve the target for weaker sections. Foreign banks could achieve the target for priority sector, small scale industries and export sector. He further, found that NPAs of public sector banks was the 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 and high transaction cost. He has discussed various strategies to overcome these issues.\textsuperscript{82}

Kanagasabai, S. (2010) studied the priority sector lending under lead bank scheme in Pondicherry Union Territory and found that there was considerable progress of priority sector lending under Lead bank scheme and the banks have complied with the stipulation of Reserve Bank of India with respect to priority sector lending. Also the study found that there has been relatively slow progress of advances to priority sector. The low credit deposit ratio has led to decline in advances towards priority sector. There was a positive relationship between priority sector lending and economic development of the union territory.\textsuperscript{83}


Gomathinnayagam, V. (2010) in a study on the impact of priority sector lending on the weaker sections of the rural poor found using the yardstick for measuring the impact that majority of the rural poor were able to cross the poverty line. The credit has resulted in creating additional employment by way of maintenance and operation of assets. Parallel to this, the bank faced the problem of identifying the right beneficiaries, provide infrastructural and technical support and recycling of fund through timely recovery of loan. Income of the household had the highest discriminating power followed by consumption expenditure.\footnote{Gomathinnayagam, V. (2010). “A study of the impact of priority sector lending on the weaker sections of the rural poor.” Thesis submitted to Pondicherry University.}

Parimala Rani, G. (2011) in her research article analyzed the performance of the commercial banks in the area of priority sector lending for a period of 14 years (1995-96 to 2009-10). Her studies revealed that the performance of commercial banks were on an increasing trend. The growth was 13.99 times for public sector banks, 35.63 times for private sector banks and 69.09 times for foreign banks. The researcher found that during the period 2005-06 and 2006-07, the level of NPAs was very high in priority sector segment. However, in the later year, there was a considerable decline in its share. Three public sector banks, two private
sector banks and three foreign banks have not achieved the priority sector
targets.\textsuperscript{85}

EPW Research Foundation (2011) in its research paper discusses the
policies for directed credit that were introduced in the 1970s which
accorded significant priority to agriculture, exports and micro, small and
medium enterprises. However, the present framework for directing and
targeting credit under the priority sector lending policy has lost much of its
original thrust because of the demand of the banking system to sustain its
profitability and meet tighter prudential standards. The current priority
sector guidelines suffer from multiple and complex categorisations
incorporating several objectives. A strategic reprioritisation of directed
credit to agriculture, exports and micro, small and medium enterprise
sectors can moderate the costs of correcting the adverse redistributive
effects of inflation. It is also imperative that the priority sector be redefined
more from the objectives of growth and employment while the equity angle
is left to be best served through the policy of financial inclusion.\textsuperscript{86}

Silony (2012) studied the performance of public and private sector
banks in Punjab with respect to branches, deposits, credit, priority sector
advances, agricultural advances, small scale industrial advances and other
priority sector advances during post reforms period. The study found that


\textsuperscript{86} EPW Research Foundation (2011). “A New Orientation to Directed Credit”, Economic &
Political Weekly, Vol. XLVI No.22.
branches, deposits, credit, priority sector advances, agricultural advances, small scale industrial advances and other priority sector advances of private sector banks in Punjab grew at higher rate than that of public sector banks in Punjab. Public sector banks in Punjab showed faster growth in the case of other priority sector advances followed by agricultural advances and small scale industrial advances while in the case of private sector banks agricultural advances grew at higher rate followed by other priority sector advances and small scale industrial advances. Private sector banks in Punjab had higher growth than their counterpart in terms of achievement of targets regarding total priority sector advances and its various components. There was uneven distribution of total priority sector advances and its various components by the banks in different districts of Punjab during the reference period. Further the opinion of beneficiaries and bank managers regarding priority sector lending was studied. In the end, some suggestions were given for the improvement in the performance of commercial banks regarding priority sector lending programme.

Abhijit V. Banerjee and Esther Duflo (2012) used variation in access to targeted lending programme to estimate whether firms are credit constrained. They found that while both constrained and unconstrained firms are be willing to absorb all the directed credit that they (because it may be cheaper than other sources of credit), constrained firms use it to

---

expand production, while unconstrained firms primarily use it as a substitute for other borrowing. They applied these observations to firms in India that became eligible for directed credit as a result of a policy change in 1998, and lost eligibility as a result of the reversal of this reform in 2000, and to smaller firms, that were already eligible for the preferential credit before 1998 and remained eligible in 2000. Comparing the trends in the sales and the profits of these two groups of firms, they found that there is no evidence that directed credit is being used as a substitute for other forms of credit. Instead the credit was used to finance more production—there was a large acceleration in the rate of growth of sales and profits for these firms in 1998, and a corresponding decline in 2000. There was no change in trends around either date for the small firms. It was concluded that many of the firms must have been severely credit constrained, and that the marginal rate of return to capital was very high for these firms.\(^{88}\)

Sasirekha, S. (2012) did a comparative study on evaluation of recovery performance of commercial banks regarding priority sector loan in Tiruchirappalli district and found that there was a significant improvement in recovery of priority sector loans under agriculture while the industrial loans are not encouraging. Delays in credit availability due to stringent formalities affect the purpose of loan and repayment. Lethargy

\(^{88}\) Abhijit V. Banerjee and Esther Duflo (2012). “Do Firms want to borrow more? Testing credit constraints using a directed lending programme”, Department of Economics, MIT CEPR and BREAD.
on the part of bankers resulted in poor repayment performance of borrowers.\textsuperscript{89}

Kerwal Kumar and Atul Gambhir (2012) discussed the financing of priority sector by commercial banks and its impetus to the economy. The object behind PSL (Priority Sector Lending) is equitable and sustainable economic development at desired direction. To attain the said objectives, banks were nationalized in India in 1969. Since in this scheme banks were entrusted to fulfil some targets and sub-targets of deployment of credit such as 40 per cent for domestic banks and 32 per cent for foreign banks was fixed for priority sector lending of their total advances. Though public sector banks have progressed remarkably and achieved their targets, private sector banks are lagging behind in this respect. Now on invent of some new schemes like PSL banks in India are shaping the economy and are providing an impetus to the economy. Despite various qualities and goodness, the scheme is not free from problems. They made an attempt through this treatise to highlight these problems and suggested some ideas for effective formation of the scheme. The overall future of this scheme in India is bright but needs a regular review process.\textsuperscript{90}


1.8 Research Gap

Based on the review of literature, it can be seen that there are lot of studies on the macro level and the variables that are influencing the priority sector lending depends on micro factors and policy decisions. However, geographic area specific impact of priority sector were not conducted, which pave a way for identifying geographic factors, local economy, socio-economic conditions, demographic variables of the district.

The priority sector lending mainly in the past was focusing on target achievement and banks were mainly focusing on disbursement in any of the RBI directed categories. The main focus was still missing in understanding the lending impact i.e. the benefit derived from the available of credit and improvement of any socio economic conditions. This research addresses the concern and explores the impact at different level on rural development.

1.9 Objectives of the Research

The research has the following objectives

1. To analyse the gap between demand and lending in priority sector

2. To evaluate the need for priority sector lending and the factors influencing the need for credit

3. To ascertain the access to priority sector lending by the beneficiaries in Kanyakumari district
4. To explore the use of credit by the beneficiaries and the deviations in channelising of credit

5. To understand the benefit of priority sector lending achieved by the beneficiaries and change in socio-economic conditions

6. To examine how for the beneficiaries have succeeded (impact) in:-
   a. Generating income and employment.
   b. Improving savings and investment.
   c. Asset creation.
   d. Improving social conditions.

1.10 Hypotheses

The researcher has set the following hypotheses on the basis of objectives of this research

1.10.1 There is no significant difference between the demographic variables and income groups of the priority sector beneficiaries

1.10.2 There is no significant difference between the socio-economic variables and income groups of the priority sector beneficiaries

1.10.3 There is no significant difference between the financial variables and income groups of the priority sector beneficiaries

1.10.4 There is no significant difference between profile variables of priority sector beneficiaries and access to credit factors

1.10.5 There is no significant difference between the demographic variables of the priority sector beneficiaries and use of credit by those beneficiaries

1.10.6 There is no significant difference between the socio-economic variables of the priority sector beneficiaries and use of credit by those beneficiaries

1.10.7 There is no significant difference between the financial variables of the priority sector beneficiaries use of credit by those beneficiaries
1.10.8 There is no significant difference between the outcome of asset purchase and use of credit by the beneficiaries

1.10.9 There is no significant differences among the groups of profile variable in relation to the reason for loss of asset purchase

1.10.10 There is no significant difference between the demographic variables of the priority sector beneficiaries and achievement of purpose/goal of the loan by those beneficiaries

1.10.11 There is no significant difference between the socio-economic variables of the priority sector beneficiaries and achievement of purpose/goal of the loan by those beneficiaries

1.10.12 There is no significant difference between the financial variables of the priority sector beneficiaries achievement of purpose/goal of the loan by those beneficiaries

1.10.13 There is no significant difference between the pre-income and post-income of the priority sector beneficiaries

1.10.14 There is no significant difference between the benefit of credit variables and achievement of purpose/goal of the loan by those beneficiaries

1.10.15 There is no significant difference among the groups of profile variable in relation to the impact of credit

1.11 Operational Definition of Concepts

1.11.1 Priority Sector

Priority sector refers to those sectors of the economy which may not get timely and adequate credit in the absence of this special dispensation. Typically, these are small value loans to farmers for agriculture and allied activities, micro and small enterprises, poor people for housing, students for education and other low income groups and weaker sections.

1.11.2 Directed lending

Loan on preferential terms and conditions to priority sector to bridge the discrepancy between private and social benefits.
1.11.3 Direct Finance

Loan to individual farmers, small and marginal farmers, distressed farmers and bank loans to primary agricultural credit societies.

1.11.4 Indirect Finance

Loans to corporate, partnership firm engaged in agriculture, loan to Primary agricultural credit societies and loans to producer companies for agricultural activities.

1.11.5 Micro and Small Enterprise

Business units that satisfy the criteria for investment in plant machinery/equipment as per MSMED Act 2006

1.11.6 Beneficiary

An individual who has applied for a priority sector loan and availed the loan for the intended purpose

1.11.7 Activity Type

Priority sector beneficiaries who are engaged in either agricultural, industrial or service industry and providing that specialised service.

1.11.8 Credit Access

The opportunity for an individual to avail the priority sector loan without any hassle if the intended individual is eligible as per RBI regulation.
1.11.9 Credit use

The usage of the availed loan in an activity type as indicated during the access to loan

1.11.10 Credit benefit

The outcome derived due to the usage of the priority sector credit.

1.12 Sampling Framework

1.12.1 Target Population

The target population for the research on the priority sector lending is as follows: The element of the target population is male or female head of the household who had availed the priority sector loan. The sampling unit is the households of the priority sector beneficiaries and the extent is the taluks under Kanyakumari district of Tamil Nadu state and the time period of the sampling activity was the year 2011.

1.12.2 Sampling Frame

Samples were selected based on proportionate stratified random sampling method. Following table indicates the division of samples.
Table 1.2
Details of Priority sector beneficiaries in Kanyakumari District
(as on 31/03/2011)

<table>
<thead>
<tr>
<th>Sl. No</th>
<th>Name of Bank</th>
<th>Total No. of account holders under PSL</th>
<th>Sample size</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Agastheeswaram</td>
<td>47085</td>
<td>66</td>
</tr>
<tr>
<td>2.</td>
<td>Thovalai</td>
<td>30966</td>
<td>44</td>
</tr>
<tr>
<td>3.</td>
<td>Rajakkamangalam</td>
<td>47109</td>
<td>66</td>
</tr>
<tr>
<td>4.</td>
<td>Kurunthencode</td>
<td>41152</td>
<td>58</td>
</tr>
<tr>
<td>5.</td>
<td>Thuckalay</td>
<td>43585</td>
<td>61</td>
</tr>
<tr>
<td>6.</td>
<td>Thiruvattar</td>
<td>35146</td>
<td>50</td>
</tr>
<tr>
<td>7.</td>
<td>Melpuram</td>
<td>30483</td>
<td>43</td>
</tr>
<tr>
<td>8.</td>
<td>Munchirai</td>
<td>29318</td>
<td>41</td>
</tr>
<tr>
<td>9.</td>
<td>Killioor</td>
<td>54687</td>
<td>77</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>359532</td>
<td>506</td>
</tr>
</tbody>
</table>

Source: Lead Bank (Indian Overseas Bank), Priority Sector Kanyakumari District

1.13 Geographical Area

Kanyakumari is the southern most district of Tamil Nadu. The district lies between 77° 15’ and 77° 36’ of the eastern longitudes and 8° 03’ and 8° 35’ of the northern latitudes. The district is bound by Tirunelveli district on the north and the east. The south eastern boundary is the Gulf of Mannar. On the south and the south west, the boundaries are the Indian Ocean and the Arabian Sea. On the west and northwest is bound by the state of Kerala.¹

¹ District Profile from www.kanyakumari.tn.nic.in/location.htm accessed on 01/04/2012
According to the census of India, 2011, the district has an area of 1672 sq.km with a population of 1863174. Out of this 926800 were male and 936374 were female.⁹²

Figure 1.2
Geographic Map of Kanyakumari District, Tamil Nadu

1.14 Methodology

1.14.1 Qualitative Research

An unstructured, exploratory study based on small sample was conducted through focus group method involving depth interview to finalize the variables those are required to be captured in the priority sector lending impact research in Kanyakumari district. The variables were factored to arrive at a questionnaire to measure the impact, need, utilisation and benefit of directed credit to beneficiaries in Kanyakumari District.

1.14.2 Measurement and Scaling

Measurement means assigning numbers or other symbols to characteristics of objects according to certain pre-specified rules.\(^93\) The measurement is normally not the object, but some characteristics. Thus the characteristics of the borrower are measured using the common used scales like nominal, ordinal, interval and ratio.

Traditional guidelines suggest that the appropriate number of categories should be seven plus or minus two: between five and nine.\(^94\)

1.14.3 Scaling

Scaling, the generation of a continuum upon which measured objects are located which will measure the objectives/variables defined in

---


the research. Rank order scaling, and the multi item scale (Likert Scale) was used to measure the impact of priority sector advances on the livelihood of the beneficiaries.

1.14.4 Scale Evaluation

A multi-item scale should be evaluated for accuracy and applicability. The survey questionnaire was tested for the measurement accuracy keeping the measurement error to the minimum.

1.14.5 Reliability

The reliability of the scale for producing consistent results were tested through the Coefficient alpha the average of all possible split-half coefficient resulting from different ways of splitting the scale items. The scale has reported a score of 0.877 with the cronbach’s alpha.

1.14.6 Validity

The validity of the scale is the extent to which differences in observed scale scores reflect true difference among objects on the characteristics measured. The content validity had been undertaken on the scale through the systematic evaluation of how well the content of the scale represents the measurement task by conducting focus group discussion with the industry practitioners. This helped in structuring the sufficient measure of validity.

---

1.15 Construction of Tools

A questionnaire was prepared to capture the scoring of variables derived from the qualitative research conducted earlier. The same was pilot tested with a sample size of 25 beneficiaries to remove inconsistencies and depth analysis was carried out derive to the final tool. The questionnaire was finalized and was administered for the research.

1.16 Statistical Tools

The basic data was analysed to understand the distribution pattern so that suitable test can be applied. In order to derive inference, hypotheses were set to see whether the data is complying with the same. Also basic descriptive statistics were used to understand data patterns. Cross-tabulation was used to compare means of variables collated through different scale items.

Demographic variables were hypothetically tested to understand trends and patterns in credit requirements, credit utilisation and impact of priority sector lending using tools like chi-square for significance and phi/Cramer’s – v for effect size (Nominal Variables).

Analysis of Variance (ANOVA) was used to compare various levels on the independent variable with several dependent variables for statistical significance and the appropriate post hoc tests like Tukey HSD and Games-Howell were conducted.
The satisfaction of credit access and the impact variables were factored using Principal Component Analysis (PCA) to mathematically derive a relatively smaller number of variables that provide credit access and measure the impact of credit on the livelihood of priority sector beneficiaries from a much larger number of variables qualitatively obtained. Eigen value criterion and Scree test criterion were set and the orthogonal varimax rotation with Kaiser Normalisation was used to extract the variables that mostly convey the collective behaviour of all the variables scored in the data collection. Assumptions were tested using Kaiser Meyer Olkin (KMO) for sampling adequacy and Bartlett’s test of sphericity for correlation matrix significance.

Garrett’s Ranking was used to understand the factors influencing the need for credit and level of service expectation during access to credit (Ordinal variable).

The tools used to infer the data collected through questionnaire are detailed as follows:

(i) Chi-square statistic ($\chi^2$)
(ii) Phi Coefficient ($\varphi$)
(iii) Garrett’s ranking
(iv) T – Test
(v) Product Moment Correlation
(vi) One way Analysis of variance (ANOVA)
(vii) Factor Analysis
(viii) Logistic Regression
(ix) Multiple Regression
1.16.1 Chi-square statistic ($\chi^2$)

Chi-square statistic ($\chi^2$) is used to test the statistical significance of the observed association in a cross tabulation. It assists in determining whether a systematic association exists between two variables. The null hypothesis $H_0$, is that there is no association between the variables. The test is conducted by computing the cell frequencies that would be expected if no association were present between the variables, given the existing row and column totals. These expected cell frequencies, denoted $f_e$ are then compared to the actual observed frequencies, $f_o$, found in the cross-tabulation to calculate the chi-square statistic. The greater discrepancies between the expected and actual frequencies are the larger value of the statistic. Assuming that a cross tabulation has $r$ rows and $c$ columns and a random sample of $n$ observations. Then the expected frequency for each cell can be calculated by using a simple formula:

$$f_e = \frac{nrnc}{n}$$

where $n_r$ = total number in the row

$n_c$ = total number in the column

$n$ = total sample size

1.16.2 Phi Coefficient

The phi coefficient ($\phi$) is used as a measure of the strength of association in the special case of a table with two row and two columns (a
2 x 2 table). The phi coefficient is proportional to the square root of the chi-square statistic. For a sample of size n, this statistic is calculated as:

$$\phi = \sqrt{\chi^2 / n}$$

It takes the value 0 when there is no association, which would be indicated by a chi-square value of 0 as well.

1.16.3 Garrett’s ranking

This method devised by Henry E Garrett which is used especially in the calculation of coefficients of correlation, to be able to transmute measures arranged in order of merit into measures in units of amount or “scores” on some linear scale. The order of merit was accomplished by means of tables, provided the data assume "normality" in the trait for which the ranking has been made. The order of merit is calculated as follows

Formula$^{96}$

$$\text{Per cent Position} = \frac{100 \left( R_{ij} - 0.5 \right)}{N_j}$$

$R_{ij} = \text{Rank given for the } i^{th} \text{ variable by the } j^{th} \text{ respondent}$

$N_j = \text{Number of variables ranked by the } j^{th} \text{ respondent.}$

1.16.4 t-Test (One Sample)

The t test is based on the Student’s t statistic. The t statistic assumes that the variable is normally distributed and the mean is known (or assumed to be known), and the population variance is estimated from the

sample. Assume that the random variable $\overline{X}$ is normally distributed, with mean $\mu$ and unknown population variance $\sigma^2$, which is estimated by the sample variance $s^2$. The standard deviation of the sample mean $X$, is estimated as $s_x = s/\sqrt{n}$. Then $t = (X - \mu)/ s$ is $t$ distributed with $n-1$ degrees of freedom.

1.16.5 Product Moment Correlation

Product Moment Correlation summarise the strength of association between two metric variables. It is an index used to determine whether a linear, or straight line relationship exists between $X$ and $Y$. It indicated the degree to which the variation in one variable, $X$ is related to the variation in another variable, $Y$. From a sample of $n$ observations, $X$ and $Y$, the product moment correlation, $r$, can be calculated

$$r = \frac{\sum_{i=1}^{n} (X_i - \overline{X})(Y_i - \overline{Y})}{\sqrt{\sum_{i=1}^{n}(X_i - \overline{X})^2 \sum_{i=1}^{n}(Y_i - \overline{Y})^2}}$$

$$= \frac{COV_{xy}}{s_x s_y}$$

In these equations, $X$ and $Y$ denote the sample means, and $s_x$ and $s_y$ the standard deviation. $COV_{xy}$, the covariance between $X$ and $Y$, measures the extent to which $X$ and $Y$ are related. The covariance may be either positive or negative. Division by $s_x s_y$ achieves standardization, so that $r$ varies between -1.0 and 1.0.
1.16.6 Analysis of Variance (ANOVA)

Analysis of variance is used as a test of means of two or more populations. The null hypothesis, typically, is that all means are equal. ANOVA include the following steps of identifying the dependent and independent variable, decomposing the total variation, measure of effects, test of significance and interpretation of results. The total variation in Y denoted by $SS_y$, can be decomposed into two components:

$$SS_y = SS_{between} + SS_{within}$$

where the subscripts between and within refer to the categories of X. $SS_{between}$ is the variation in Y related to the variation in the means of the categories of X. It represents variation between the categories of X.

The effects of X on Y are measured by $SS_x$ because $SS_x$ is related to the variation in the means of the categories of X, the relative magnitude of $SS_x$ increases as the differences among the means of Y in the categories of X increase. The relative magnitude of $SS_x$ also increases as the variations in Y within the categories of X decrease. The strength of the effects of X on Y are measured as follows:

$$\eta^2 = SS_x/SS_y = (SS_y - SS_{error})/SS_y$$

In one-way analysis of variance, the interest lies in testing the null hypothesis that the category means are equal in the population. The null hypothesis may be tested by the F statistic based on the ration between the two estimates and that statistic follows the F distribution. The F
distribution is a probability distribution of the ratios of sample variances. It is characterized by degrees of freedom for the numerator and degrees of freedom for the denominator.

1.16.7 Factor Analysis

In Factor analysis each variable is expressed as a linear combination of underlying factors. The amount of variance a variable shares with all other variables included in the analysis is referred to as communality. The variation among the variables is described in terms of a small number of common factors plus a unique factor for each variable. These factors are not overtly observed. If the variables are standardized, the factor model may be represented as

\[ X_i = A_{i1}F_1 + A_{i2}F_2 + A_{i3}F_3 + \ldots + A_{im}F_m + V_iU_i \]

\( X_i \) = \( i^{th} \) standardized variable

\( A_{ij} \) = standardized multiple regression coefficient of variable \( i \) on common factor \( j \)

\( F \) = common factor

\( V_i \) = standardized regression coefficient of variable \( i \) on unique factor \( i \)

\( U_i \) = the unique factor for variable \( i \)

\( m \) = number of common factors
The unique factors are uncorrelated with each other and with the common factors. The common factors themselves can be expressed as linear combinations of the observed variables.

\[ F_i = W_{i1}X_1 + W_{i2}X_2 + W_{i3}X_3 + \ldots + W_{ik}X_k \]

Where

- \( F_i \) = estimate of \( i^{th} \) factor
- \( W_i \) = weight or factor score coefficient
- \( k \) = number of variables

**1.16.8 Logistic Regression**

Logistic regression analysis examines the influence of various factors on a dichotomous outcome by estimating the probability of the event’s occurrence. It does this by examining the relationship between one or more independent variables and the log odds of the dichotomous outcome by calculating changes in the log odds of the dependent as opposed to the dependent variable itself. The log odds ratio is the ratio of two odds and it is a summary measure of the relationship between two variables. The use of the log odds ratio in logistic regression provides a more simplistic description of the probabilistic relationship of the variables and the outcome in comparison to a linear regression by which linear relationships and more rich information can be drawn.

In logistic regression, a complex formula is required to convert back and forth from the logistic equation to the OLS-type equation. The logistic
formulas are stated in terms of the probability that \( Y = 1 \), which is referred to as \( \hat{p} \). The probability that \( Y \) is 0 is \( 1 - \hat{p} \).

The \( \ln \) symbol refers to a natural logarithm and \( B_0 + B_1X \) is the equation for the regression line.

\( \hat{p} \) can be computed from the regression equation also. So, if the regression equation known, theoretically, calculate the expected probability that \( Y = 1 \) for a given value of \( X \).

\[
\hat{p} = \frac{e^{B_0 + B_1X}}{1 + e^{B_0 + B_1X}}
\]

\( \exp \) is the exponent function, sometimes written as \( e \).

### 1.16.9 Multiple Regression

In statistics, regression analysis is a statistical process for estimating the relationships among variables. It includes many techniques for modelling and analyzing several variables, when the focus is on the relationship between a dependent variable and one or more independent variables. More specifically, regression analysis helps one understand how the typical value of the dependent variable (or 'Criterion Variable') changes when any one of the independent variables is varied, while the other independent variables are held fixed.

Most commonly, regression analysis estimates the conditional expectation of the dependent variable given the independent variables –
that is, the average value of the dependent variable when the independent variables are fixed. Less commonly, the focus is on a quantile, or other location parameter of the conditional distribution of the dependent variable given the independent variables. In all cases, the estimation target is a function of the independent variables called the regression function. In regression analysis, it is also of interest to characterize the variation of the dependent variable around the regression function, which can be described by a probability distribution.

Regression analysis is widely used for prediction and forecasting, where its use has substantial overlap with the field of machine learning. Regression analysis is also used to understand which among the independent variables are related to the dependent variable, and to explore the forms of these relationships. In restricted circumstances, regression analysis can be used to infer causal between the independent and dependent variables. However this can lead to illusions or false relationships, so caution is advisable; for example, correlation does not imply causation.97

Many techniques for carrying out regression analysis have been developed. Familiar methods such as linear regression and ordinary regression are parametric, in that the regression function is defined in terms of a finite number of unknown parameters that are

97 http://en.wikipedia.org/wiki/Regression_analysis accessed on 30/05/2013
estimated from the data. Nonparametric regression refers to techniques that allow the regression function to lie in a specified set of functions, which may be infinite-dimensional.\textsuperscript{98}

Multiple regression attempts to predict a normal dependent variable from a combination of several scale and/or dichotomous independent/predictor variables. The general form of the multiple regression model is as follows:

\[ Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \ldots + \beta_kX_k + e \]

which is estimated by the following equation

\[ \hat{Y} = a + b_1X_1 + b_2X_2 + b_3X_3 + \ldots + b_kX_k \]

1.17 **Data Processing**

The researcher has administered 550 questionnaires and used 506 filled questionnaires as per sample size. The collected data is codified to suit SPSS package. The variables were created in variable view and data from each questionnaire was entered in data view.

1.18 **Limitations**

Every research is confronted with challenges and issues that have a profound influence on the broader framework of the research. Even though every step has been taken to make the research free from limitations, a few limitations were experienced during data collection.

(i) The reliability of the data was solely dependent on the information provided by the beneficiary.

(ii) The data availability with respect to priority sector was limited to NABARD and lead bank which coordinates the entire beneficiary list of Kanyakumari District.

(iii) Few respondents were hesitant to provide information of use of credit and the validity entirely depend on the score provided by the respondents.

1.19 Chapterisation

The impact of priority sector lending by commercial banks in Kanyakumari district on rural development thesis has the following chapterisation scheme.

Chapter 1 starts with an introduction to Priority Sector Lending with the evolution of directed credit at the international level. It also include the scope of research, statement of problem, background, literature review, research gap, objectives of research, methodology, sampling framework, data collection and limitations.

Chapter 2 provides the detailed glimpse of the genesis of priority sector in India and the evolution of the policy during the course of time. It details policy intervention in providing directed credit and the mid-course correction in implementation plans.

Chapter 3 deals with the trends in priority sector lending which includes the innovative methods in making credit available to the intended
beneficiaries and discussion on activity-wise credit to various segments and its sub-segment.

Chapter 4 discusses the access to priority sector credit by the targeted beneficiaries and the challenges in taking the credit to the weaker and the needy section.

Chapter 5 explores the utilisation of the availed credit and the benefit derived out of the credit. It also explores the achievement of social objective and the nitty-gritty in measuring the utilisation.

Chapter 6 evaluates the impact of priority sector lending on the beneficiaries and the dominant factors that play a significant role in directed credit.

Chapter 7 summarises the finding and details the suggestion in improving directed credit and focusing on the implementation of the precision targeting of credit.