CHAPTER -2

REVIEW

OF

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2.1. Introduction:

The aim of this chapter is to review the literature on the priority sector credit and to identify certain gap in the earlier literature for initiating the new research. The studies on credit to agriculture small scale industries and other priority sector, their extent, change, progress and trends are reviewed. The inter-state, inter-bank and inter-region variations in credit pattern and general studies on priority sector are also covered under this review. Lastly this chapter suggests need, rational and significance for the present study. This chapter is divided into three sections as introduction, review of literature and research gap, rational and significance of study.

2.2. Review of Literature:

Karkal at el. (1) evaluate some priority sector projects for 1978-86. The focus of study was to know bank officers perception of the adequacies in there evaluation. The evaluation is made by them at three stages namely (a) Planning and design (b) Implementation stage and (c) Assessment stage. They evaluate 15 studies on farm mechanization and 13 studies on weaker
They found out that:

(1) Problem definition was vague and mixed up and no clarity in farm mechanization scheme/studies.

(2) For studies on fisheries socio-economic background of the borrowers were not given and no scientific methodology seems to have followed. Few studies were without references for study period. Sample spread was not to represent different area. The performance of priority sector was just over seen. By and large such studies have been sporadic and adhoc. The main finding of this study was that banks are considering the outstanding which include over dues, suit filed advances and doubtful advances unpaid interest etc, instead of disbursements (i.e. new advances).

The objective of Khankhaje and Godse (2) was to discuss the procedure of lending to priority sector. They divided the branch level loaning process into ten phases namely:

(1) Enquiry by prospective borrower,

(2) Handing over application forms to the prospective borrower,

(3) Return of application form with relevant details,
<table>
<thead>
<tr>
<th>Scheme</th>
<th>State</th>
<th>Districts</th>
<th>Name of the bank / agency conducting the study</th>
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<tbody>
<tr>
<td>1</td>
<td>Andhra Pradesh</td>
<td>Anantpur</td>
<td>Syndicate bank</td>
</tr>
<tr>
<td>2</td>
<td>Bihar</td>
<td>East champaran, Muzzafarpur</td>
<td>NABARD,</td>
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<tr>
<td></td>
<td>Bihar</td>
<td>West champaran</td>
<td>State Bank of India</td>
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<tr>
<td>3</td>
<td>Haryana</td>
<td>Ambala, Hissar, Kama, Kurukshetra, Sirsa</td>
<td>Punjab and Sind Bank</td>
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<tr>
<td>4</td>
<td>Madhya Pradesh</td>
<td>West Nimar</td>
<td>Bank of India</td>
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<td>5</td>
<td>Rajasthan</td>
<td>Bundi, Kota</td>
<td>State Bank of India</td>
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<td>6</td>
<td>Tamil Nadu</td>
<td>Chinglepet</td>
<td>NABARD</td>
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<td></td>
<td></td>
<td>Periyar, Thanjavur</td>
<td>Canara bank, Indian overseas Bank, State Bank of India, Union bank</td>
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<tr>
<td>7</td>
<td>Uttar Pradesh</td>
<td>Bijnoor, Gonda</td>
<td>Punjab National Bank, Allahabad Bank</td>
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<td>Gaziapur, Janpur, Varanasi</td>
<td>NABARD</td>
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<td>Meerut, sharanpur</td>
<td>State Bank of India</td>
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<td>Nainital, Pilibhit</td>
<td>New Bank of India</td>
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<td>Varanasi</td>
<td>Central Bank of India</td>
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<tr>
<td>8</td>
<td>West Bengal</td>
<td>Hoogly</td>
<td>NABARD (Hoogly, Land Development Bank)</td>
</tr>
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</table>

(4) Prime facile suitability of the proposal checked;
(5) Processing of the proposal,
(6) Refer back to borrower, pre-sanction inspection and reporting,
(7) Sanction advising regional/divisional authority for post sanction scrutiny,
(8) Documentation/Disbursement,
(9) Obtaining residual documents and
(10) Post sanction inspection.
The study concludes that

iii) Some banks have devised specific organizational setups for accelerating financing under priority sectors,

iii) The systems and procedures adopted by these have been simplified but it is not implemented properly and

iii) An in-depth study of periodical data needs of individual banks, the Reserve Bank of India and other external authorities is necessary for rationalization of data forms.

One of the important features of Indian Banking is the specification that a proportion of total net bank has to be for priority sectors, Sarkar and Nayak (3) study attempts to analyze the regional pattern of credit outstanding in the priority sectors at only two selected points of time, i.e. June, 1985 and March 1990. Considering approximately with the beginning and end of seventh five year plan. The major aims of this study are to assess

a) the region wise share of priority sector outstanding in total credit outstanding.

b) changes in any, in the distributional pattern of number of accounts and the amount of credit outstanding over the regions as well as over the sub sectors during the study period and

c) the overall positions of the various regions in terms of per capita credit outstanding at two time points.
Special emphasis is accorded to the points. They grouped the priority sector data into 3 main sub-sections namely Agriculture, Small Scale Industries (SSI) and other priority sectors. They used number of accounts and amount of credit outstanding as measures or indicators. This study is based on information furnished by the commercial bank in the returns on 'Advances to priority sector' and 'From A' in terms of section 42. of the RBI Act. They find out the analysis of priority sector credit expressed as percentage of total net and credit indicated that the banks were able to comply with the target of 40% by 1985 as stipulated by RBI and improved upon this slightly in 1990 (42%). Agriculture constituted 16.6% of the total credit outstanding in 1985 and 17.3% in 1985 and 16.3% in 1990, while SSI Constituted 14.8% in 1985 and 16.3% in 1990. The region wise achievement of the target was, however, different. In 1985 only three out of six regions surpassed the target. The achievement was around the level of 69% in the central region and 67% in the North-Eastern region followed by the southern region (51%). In 1990, all the regions except western region achieved the target. The best performance in the North-Eastern region where as much as 72% of credit outstanding in the priority sectors but this study is for pre-liberalization. Therefore similar type of the study is required for post-liberalization.

Mujandar (4) stated that the priority sectors are and will continue to remain, in the medium term the bread and butter, both literally and figuratively, of Indian economic growth. According to him priority sectors are critical to high and sustained growth of GDP. It should be the business of public sector banks to support these sectors irrespective of whether there are
credit targets or not. After assessing critically on priority sectors at macro perspective level he suggest that the credit policy needs to be reoriented for the purpose of reversing the neglect of priority sector running 1990's.

Singh devoted two chapters on priority sectors in his study lead bank schemes (5). He studied what had happened during district credit plan period. This study is with reference to the state bank of India. This study is focus on implementation on lead bank credit pattern and its performance it is extensive. The study observed that the economic of various bank able schemes included in some of the (DCP) District Credit Plan have not been furnished and adequate credit support is more provided in some of District Credit Plans for implementing for priority sector schemes. Further the bank wise priority sector advance shows large variation in allocation of District wise advances.

Kumar (6) studied Banking reform and lead bank scheme. This study analysis the development and operation of priority sector in India in terms of lead bank scheme as lead banks scheme aims at the development and operation of the priority sector in India. His study concluded that the six states Maharashtra, Andhra Pradesh, Tamil Nadu, Kamataka, Uttar Pradesh and Gujarat together accounted for as much as 76.4% credit in agriculture. Regarding credit to small scale industries study shows that Gujarat, Delhi Kerala, Andhra Pradesh and Uttar Pradesh together 84% received under priority sector segment. Further state wise distribution advances to transport operators was very heavily concentrated in a few states. They are Maharashtra, Kamataka, Uttar Pradesh, Gujarat and West Bengal together
accounted were 52.5% of the total loans outstanding. The period of this is 1968 to 1985. It is interesting therefore to assess what had been happen during the post banking reform trade. This study covers all public sector Banking and Nationalize Banking.

Patel and Kaveri (7) made an attempt to study strategies for recovery of Non-performing advances in priority sectors followed by different banks in all they covered 29 Branches out of 21 banks. They identified some of the reasons for non-performing assets in priority sectors. They covers in their study the effect of write off the debts of borrowers under the Agricultural and Rural Debt Recovery Scheme(ARDR). The study was under taken during the second half of 1995-96 and was completed during 1996-97. They undertake 23 case studies covering 11 states they also covered in their study factors responsible for non-performing assets in priority sector. Study concluded that the recovery rate is increased in priority sectors due to increasing attention to NPA (Non performing Assets).

Suneja (8) made an attempt to study the Management of Bank credit including Bank credit for priority sectors and weaker section. They study financing of agriculture (Direct and Indirect). This is a village level study and the required document includes extracts of Khasra and Khatauni for one year but, if Jor Bhal is available, Khatauni need not be submitted. Agriculture production credit and agriculture investment credit, are the two main aspect of the study. This study also assesses post sanction supervision and control of
agriculture credit along with financing of small scale industries and other priority sectors borrowers.

Srivastava's (9) studied the institutional financing of commercial Bank for the period of 1969 to 1980. This is a study on understanding inter bank changes in interest rates in the public sector bank. This study is on Rae Bareli District of Uttar Pradesh as a case study. He attempted Block wise position of commercial bank offices, block wise necessities of bank branches staff, position of commercial bank in the Rae Bareli district, progress of crop loan disbursement and advances in priority sector. The study shows that the commercial banks are advancing at an average more than 73%. About the recovery study shows that there was a satisfactory recovery. The study also located number of problem faced by the bank in advancing and recovering loan such as documentation, motivation, high cost of stamp duty, small holding, and co-ordination.

A micro finance study was done by Nayar (10) 2005, Ram (11), Varman (12), Sinha (13) and Harper (el.et) (14). The focus of Nayar's study was on up scaling of micro credit, its trend, conversance and future micro finance in India regarding for agriculture and Allied activities along with small scales for the period of 1997-98 to 2002-03. On the other hand Ram exploring existing structure financial intermediation. He highlights issues and priorities in micro finance with a special reference to the Self Help Group bank link programme. The impact of Self Help Growth (SHG) on formal banking habits were studied by Varman with objectives to examine whether there is any
association between the growth of SHGS and the increase in female bank deposit account. SHG is a new scheme in priority sector. This scheme is studied by Harper and others also. The period of study was 2001 to 2003 only. Whereas, Varman's study period is 1996 to 2001. Their findings are stating that HSGS operation increase the confidence of HSGS leader and account holding in increased. The rotation of leadership is quicker, more number of bank account are expected. Therefore, enhancing and giving support to SHG types priority sector activities are needed study of Sinha is based on sample survey covering the states of Andhra Pradesh, Tamil Nadu, Karnataka, Kerala, Uttar Pradesh, Assam and Manipur. Micro finance is making a significant contribution to the savings and borrowings of the poor in the country, concluded by his study. One of the important findings of the study is that while the presence of microfinance has increased the borrowing option for the poor clients, it seem not (yet) to have significantly affected the terms and conditions of different informal credit providers. The public sector banks advances to priority sectors are studied by Gupta and Maruty (15) for the period 1994 to 2003. However, a detail study on priority sectors is not under taken by him.

Problems of Rural credit with reference to agriculture are studied by Shivamanggi (16), Gagan Bihari Sahu and Rajsekhar (17) and Puhazendhi and Jayaramanain (18). The innovation in rural credit delivery had an impact on agricultural production and reduction of poverty due to the increased flow of credit. Accelerating the pace of capital formation in agriculture, infrastructure development with focus on transportation and marketing
ensuring credit discipline will enable the rural sector to absorb more credit from institutional sources, argued by Puhazendhi and Jayaramanain. Their studied rural credit delivery performance and challenges before the bank. On the other hand Shivamanggi identified number of problem of rural credit in India, their route causes and to what extend this problem can be solved. He concluded that up till now many review committees and study group have examined the rural credit problem form time to time and recommended a series of remedial measurer. But still the problem remains, partly on account of the peculiarities of socio-economic condition and political environment and partly due to lack of serious effort to implement the various recommendations made as a package. This mean implementation is a major problem in India. Have banking sector reform improved the share of net bank credit to the agricultural sector. Have profit oriented norms persuaded commercial banks to neglect the agricultural sector? Does the provision of a credit subsidy reduce the supply of agricultural credit? Can an increase in the lending rate be a suitable measure to reduce the rate of credit subsidy? What is the interest rate elasticity of supply of agricultural credit? What has been the impact of the closure rural bank branches on the provision of credit to agriculture? Are studied by Sahu and Rajsekhar.

Shrivastava (19) pointed out that in spite of large number of priority sector lending schemes and commendable progress in financing to this sector the development of this sector remained a serious problem for policy maker and implementer. In spite of widespread banking operations, the high share of
money lenders in India still exists. This is happened because of lack of attitude and emotional responsiveness of bankers.

Desai (20) assessed Indian banking nature and problems along with sector wise credit of industry and manufacturing and agricultural sector for 1966 to 1974. According to Prem Kumar (21) why priority sector could not get bank credit apart from illiteracy ignorance from to be filled up, there are 4 main reasons:-

(1) Prevalence of urban banking
(2) Banker's apathy towards priority sector
(3) Security
(4) Priority and selected sector unorganized.

The objective of Ready's study (22) was to understand the structural changes in the credit deployment policies and practices of commercial banks in India. This is a case study of Andhra Pradesh. A study is based on secondary data. In this study he highlighted changes in credit policy of priority sectors for the period of 1969 to 1982. Further he pointed out as compared to Industrial sector, agricultural sector less credit.

A comprehensive study was undertaken by Shrinivasan (23) with objective to analyze the experience gained by the public sector banks in social banking and priority sector lending during the twenty years since nationalization of major banks, based on secondary data. Further the study analysis the inter-relationship of facts and policies at the national level,
procedures formulated and followed at the institutional level, and the results achieved both by the lending institutions and the beneficiaries of bank lending to priority sectors. The main emphasis of the analysis is on study of qualitative and qualitative impact of various policy measures pertaining to priority sector lending with focus on the costs and benefits there of and efficiency of the credit deliver system, its strengths and weakness and the decisive steps taken for minimizing costs and maximizing benefits from the point of view of both the lending institutions and the borrowers. He found out in his study that the extension of banking facilities and the increase in priority sector lending have been at break neck speed. It has been expedient to fix time bound lending targets for the priority sector at fairly high levels for compelling action by the banks. He also pointed out that the recovery has suffered partly because of excessive concern for target achievement at the expense of quality of the project, deficiencies in the scales at finance and costing of the assets and inadequacies in follow up of advances qualitative changes have not been assessed but quantitative changes are highlighted by various studies. Majority of studies highlighted credit to agriculture but not covering all the schemes. Assessment of impact of nationalization are studied by Researcher but they excluded priority sector lending impact, some are attended this problems and pointed out priority sector lending increase over a period of time. Therefore, this impact is negative. But it is not true. Because the shade of priority sector is so small and very little as compared to over all India credit which can not make much impact on economy. Further one can again say but over rules of the industries may be 99% higher than priority
sector. However the period of this study was between 1969-1989. Therefore such types of studies is required for 1990s and onwards

After 1991 the financial structure of India has completely changed. It is from social banking to open banking system. Therefore, a systematic study is urgently needed. Though there are some studies on priority sector for study period but not on comprehensive one. Some studies are on agriculture finance, But not for whole period from 1991 to 2002. Again there are some studies on small scale industries but not on priority sector for 1998-2002 period. Whole study period. The similar case is for other priority sectors. This call a quantitative and qualitative scientific study require for covering this all the component of priority sectors for liberalized period

2.3 Research Gap, Rational and Significance of the Study:

Reviews of the existing literature on various aspects of the present study showed that the attempt made so far suffer from the following shortcomings.

1. A review of literature indicates that a few studies and reports existed on priority sector credit after the banking reforms, however there is no attempt has been made to study the priority sector credit taking together its three constitutes namely agriculture. Small scale industry and other priority sector. Further there is no attempt to study inter-state credit pattern, inter-regional credit pattern, inter-sector credit pattern and pre and post comparative credit pattern of priority sector.
2. Most of the studies relating to priority sector have a predominant bias of being macro studies and corporate sector oriented. Hence such studies by their nature do not touch the core of reality about social commitment and development since it is not possible to know from the top what is going on at the agriculture (cultivator and landless labour) small scale industry and weaker section base of the mountain of the problem. The correct approach is to make an intensive effort to assess the credit pattern and problems of agriculture, small scale industries and other priority sector and find out the solution to bring them at far level of corporate sector and save from suiciding. An effort is made in this direction to study the credit pattern of priority sector covering agriculture, small scale industry and other priority sector.

3. These studies inspite of numerous difficulties were successful in bringing out, though not uniform, not for all states of India and not for all public sector banks, process, extent of and change in credit pattern and its trend, progress and pattern for the pre-reform period. However, this problem has not been adequately studied for the post-reform period. Moreover, more than 14 years are passed out after implementing liberalization, privatization and globalization policy in India. The social sectors replaced by profit and privatization sectors, has nothing to do with social objectives and social polices framed by Planning Commission of India. Therefore, there is extensive gap in studying such aspects like credit pattern and its direction during post-reform period under priority sector and to know what had happened in priority sector credit during new economic policy system. Further as nationalization control is reducing and liberalization, along with
private ownership is increasing in banking sector, investment pattern in banking is changing, at the same time government ownership is decreasing, therefore, credit pattern of commercial and non commercial banks are changing. Due to these, what is happen in case of inter-bank credit, inter-state credit, inter region credit under priority sector are not adequately studied for post reform period. Thus these studies clearly revealed that none of them had attended the problems of inter-state, inter-bank and inter-region variations in credit pattern of priority sector for post reform period.

4. In the present development context in India, rapid changes are taking place on the economic scene which brings in their far reaching changes in social, cultural, environmental and political aspects of India. Rural banking market is segregating very fast. Therefore even if number of micro studies were existing initiating of a new study an priority sector would have undiluted importance and will bring out several new facts which have a bearing on policy issues.

5. The significance of agricultural sector has not reduced even in the liberalization, privatization and globalization period. Infact it is increased as global economy is approaching fast to develop agriculture on profit basis. At the same time the importance of small scale sectors also not reduced in employment generation and foreign exchange earning. It generating large number of employment as compared to large scale industries. Moreover, the large scale industries are interested to jump in global economy by mergering and acquisition and increasing profitability by avoiding social and national objectives of the country. The significance of other priority sector
like education, transportation, export, housing, retail business etc. has tremendously increased during the last 15 years. Its contribution in G.D.P and employment has increased. Therefore, their share of credit must be increased. Whether share of priority sector credit is increased or not covered by these studies. Therefore it is valuable to study inter-banks, inter-state and inter-region credit pattern in priority sector. What had happened sector-wise in advancing priority sector? Whether credit was evenly distributed or not? Within the sector what extent variation is there in credit distribution? Similarly within the bank and within region to what extent change is took place in distribution of credit to priority sectors. Therefore, the present study is taken up with a view to filling up some of the above mentioned gaps.

6. The significance of this study lies in the fact that:

i) It's coverage of the time period though 1992-2002, is quite long because this study take into accounts pre-reform period 1982-1991 as base, hence in practice the period of study is 1982-2002.

ii) It attempts the inter-bank, inter-state, as well as inter-regional variations in credit pattern of priority sector and

iii) It explains the inter-sectorial variations also.

Thus the review of the literature on banking credit in India helped the researcher to understand the various aspects of credit pattern in priority sector studied and the gap available in the existing literature. Therefore here an attempt has been made to asses the available literature to study the credit pattern in priority sector which is undoubtedly a unique contribution in the field of credit to priority sector. At the same time one of the main aims of the study
was to test whether the outstanding patterns in priority sector remained the same across the region, state and bank group during the 1992-2002. Therefore an attempt is made here to study and assess the extent of and changes in priority sector credit pattern.

One of the important features of Indian banking is the specification that a proportion of total net bank credit of each bank has to be for priority sectors. Priority sector consist of agriculture small scale industries and other activities undertaken by self employed and professional and small borrowers. This proportion at present stands at 40% with sub target 18.0% for agriculture. This allocative device is applicable only for banks. As the bank offices have spread far and wide and as most scheduled commercial banks have all India presence, along with all India level co-operative and RRB network, it is possible to view the allocative device from the view point of its effect on different regions of the country. This study is an attempt to provide a clue to an understanding of inter-regional, inter-state and sectorial credit pattern. This study represents a shift of policy stance from an administered one to a somewhat flexible liberalized one.


5. Dr. Awadh Bihari Prasad Singh: Lead bank scheme with special reference to north Bihar, capital publishing house, Delhi 1987, PP.


22. Vasireddy Chandraleya: Bank credit in India Discovery Publication House New Delhi, 1990, PP. 1-161.