CHAPTER -1

INTRODUCTION

AND

METHODOLOGY
**Introduction and Methodology**

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1.1 The Problem:

Commercial banking in India, during pre-nationalized era, were being owned by certain industrial houses resulting in use of public deposits for private gains and consequently gave only scant attention to the flow of credit to priority sector areas. It was against this backdrop, the concept of “Social Control” over commercial banks as a policy was introduced during 1967. The policy of social control, according to a statement made in the parliament on 14th December, 1967, was intended to ensure that particular clients or groups are not favoured in matter of distribution of credit. Accordingly, the National Credit Council (NCC) came into existence to look into this aspect in February, 1968.

The specific objectives of this council relating to the priority sectors were to assess the demand for bank credit for the various sectors of the economy, to determine the priorities for the grant of loans and advances or for investment, having regarded to the availability of resources and requirements of the priority sector in particular of agriculture, small-scale Industries, self-employed persons, artisans in rural and urban areas and export.

The nationalization of the major commercial banks done on July, 19, 1969 gave a specific shape to the priority sector concept by identifying the sectors/activities and sections for the banks to accord priority in their lending programmes.
The target allocation of priority sector lending was systematically perceived in the "Report of the working group on the Modalities of Implementation of the Priority Sector Lending and the 20-point Economic Programme by Banks" popularly known as the krishnaswamy committee. The committee observed that the concept of priority sector lending was mainly intended to ensure that the assistance from the banking system flows in an increasing measure to those sectors of the economy which through account for a significant proportion of the national product have not received adequate support of the institutional finance in the past. Further three other committees assume importance in the context of priority sector lending policy. They are:-

1. Agricultural Credit Review Committee popularly known as the Khusro Committee (1991) set up by the Reserve Bank of India.

2. The committee on financial Reforms popularly known as the Narshimham committee (1991) appointed by the Government of India.

3. The committee appointed by the Reserve Bank of India to look into the credit related programmes of the small-scale Industries popularly known as the Naik Committee (1992).

While the Khusro Committee advocated two category solutions to rural credit, Narshimham committee recommended the redefining of the priority sectors and then doing away with the directed credit programmes altogether. According to Khusro Committee only the weaker section in the priority sector who could not stand the pressure of market forces should be kept in the revised priority sector credit policy. Both the committees laid emphasis on the reducing the percentage share of priority sectors in the total bank credit on
one hand and the extent of subsidiary in the cost of credit, i.e. rate of interest on the other. Naik Committee however made the credit policy further tightened particularly by emphasizing the specific quota for the tiny sector in the total credit advanced to the Small scale industries by the banks. Due to this, the nature and attitude of Indian banking functioning/working upto June 1992 was to some extent as follows:

(i) The development of commercial banking in India after the introduction of social control and nationalization of major banks has certain unique characteristics. (ii) The debut into what is called "Social banking" shifted the Indian banking system from classes to masses and social banking implies mass banking to realize socially-oriented objectives stipulated for the banking system under the policy directives of the government that promotes growth social equality and justice and, (iii) The main trust is on the promotional and developmental role of banks within the frame work of their financial intermediation function namely as vehicles for mobilization of deposits from savers for deployment among those who need them.

It means financing of priority sector of the Indian economy has been one of the main strategies of the banking system in their development role but after 1992 the new economic policy was introduced, the free control was introduced, new reform was introduced in financing and in banking sector and public ownership was also reduced. It is important, therefore, to study what had happened after introducing banking reforms in India about concept,
progress and structure of priority sector lending as a major development banking activity.

Moreover, the whole pattern of lending has undergone a significant change after introduction of new economic reforms in 1991-92 due to changes in banking structure. Policies on spread of branches, deposits mobilization, credit disbursement and introduction of private banking sector and expanding policy of foreign banking sector. It is essential to study credit pattern of priority sector and its extent and bank-wise, and state-wise variations.

It is stated that social banking credit pattern leads lopsided credit structure in India. The story of credit pattern in India before 1992 is one of contrasts. On the one hand, there are some sectors or areas who received very large credit and on the other hand, vast area or sector who received least attention and credit.

Therefore it would be interesting and valuable to study

(1) To what extent priority sector credit has been achieved?
(2) Have the growth and change in priority sector credit occurred evenly?
(3) What change has occurred in priority sector credit?
(4) What is the progress and trend of priority sector credit?
(5) What are the inter-bank, inter-state and inter-region variations in priority sector credit distribution?
(6) Whether the credit in priority sector remained the same across the state, region and bank during the study period.
Whether concept of priority sector and its lending norms and guidelines remained same over the period of time, if no, what changes have taken place in it?

This study seeks to answer some of these questions.

1.2 Priority Sector: Meaning

Financing of priority sector of the economy has been one of the strategies of the commercial banks in their developmental role in India. Most of the banks had been allocating large part of their loans and advances to giant industrial and trading institutions. The policy of social control marginally tightened the position, but a major shift in commercial banks lending policy took place with the nationalization of the major commercial banks. The task of nationalized banks was stated to be to restore vitality to the rural economy build up the future prosperity of common man and remained force both agricultural and rural industry. It is mentioned earlier that social control over banks was launched in 1968, to make the banking system serve social and economic objectives and prevent misdirection resources. Previously, though there were certain regulations, they did not help in optimization of production and blossoming of new entrepreneurship in the country as millions, of small scale producers, farmers, transport operators, small business etc. could not progress for want of availability of inputs particularly that of credit. It is important, therefore to discuss the concept of priority sector lending as a major developmental banking activity.
When we talk priority sectors the emphasis is on the needs of the common man the man who is engaged as is willing to be engaged in a productive endeavor which is socially useful and economically viable but is handicapped for lack of finance reasonable terms. Priority sector means all those sectors of the economy and sections of the society which are crucial for the development of his nation but were inherit to neglected sectors by the commercial banking institutions.

The priority sector lending as stand today includes agriculture, small scale industries, tiny industries, other village and cottage industries, retail trade, small business, professional and self-employed, small road and water transport operators. State sponsored organizations for sc/st, education, consumption, housing, funds provided by the RBI's loans given to the self help groups and investments in special bonds floated by NABARD, NHB and export etc.

The scope of activities included in the term priority sectors has been generally enlarged over the years. At present different segments who received credit under the priority sectors are as follows:

- Agriculture
- Small Scale Industries
- Small Road and Water Transport Operators.
- Retail Trade
- Small business
- Professional and self employed persons.
- State Sponsored bodies for Schedule Castes and Tribes.
• Education
• Housing
• Consumption loans.

Thus the priority and neglected sectors include lose areas of economic activities which are socially desirable but have been inadequately financed or wholly, neglected by the commercial banks earlier. Agriculture, small scale industries and other priority sectors credit is called credit to priority sector.

1.3 Priority sector Lending Policy:-

1.3.1 General Policy :-

Priority sector lending policy, as adopted in India, essentially covers the following dimensions.

1. It identifies those sectors of the economy and sections of the society which crucial for the development of the nation but were hither-to-neglected by the commercial banking institutions. The entire rural sector and certain activities which have the potential of providing self employment to the people of modest means in urban sector thus became the thrust area of the credit policy. They were accorded priority for credit development because they were nationally important and socially relevant.

2. It directs the commercial banking institutions, both Public and private, domestic and foreign, to give preferential treatment and priority in their credit operations to the sectors and sections identified for this purpose.
3. It stipulates certain minimum allocation of credit for the target groups by the banks in an obligatory manner.

4. It insists on the extension of credit facilities to the target groups with liberalized terms and conditions including the rate of interest, norms of margin and security, repayment system etc.

5. It directs the banks to advance a certain proportion of its net bank credit to the priority sector in direct form.

6. It desires a pro-active approach on part of the banker wherein he is involved in the overall development of his service area and the residents of the same.

7. It integrates the credit with other non-credit inputs needed for the development in a planned manner.

8. It makes the banker a participant in the implementation of the credit linked development programmes sponsored by the Government. Some relevant details regarding the sectors, sections, participating banks and their obligations targets, terms and conditions of the credit, etc.

**1.3.2 Thrust Areas of the priority sector:-**

The following are the components and the thrust areas of priority sector.
1.3.2.1. Agriculture

1.3.2.1.1. Direct finance to farmers for Agricultural purposes.

1) Short term loans
   a) Short term loans for raising crops, i.e. for crop loans including plantations and horticulture.
   b) Short term loans for allied activities such as dairying, fishery, piggery, poultry, bee keeping, etc.
   c) Produce marketing loans up to Rs. 1 lakh and the loan repayable in six months.

2) Medium and long term loans (provided to farmers for financing production and development needs).
   a) Purchase of agricultural implements and machinery.
   b) Development of irrigation potential.
   c) Reclamation and land development schemes.
   d) Construction of farm buildings and structures, etc.
   e) Construction and running of shortage facilities.
   f) Production and processing of hybrid seeds of crops.
   g) Payment of irrigation charges.
   h) Development loans to all plantations, horticulture, forestry, etc.
   i) Development loans for allied activities to agriculture.
   j) Bio gas plants.
   k) Loans granted to farmers for establishing cold storage units which are for storing their own produce and
   l) Loans for agro-processing industries and food industries.
1.3.2.1.2. Indirect Finance to Agriculture:-

The indirect agricultural finance is basically given to the agencies and organisations which supply certain inputs and services to the farmers. These include:

a) Dealers and operates in fertilizers, pesticides, seeds, electricity, farm machinery, cattle feed, poultry feed, etc.

b) Suppliers of custom services in farm machinery, shortage facility, plant protection services and cooperative processing units.

c) Loans to farmers through PACS, FSS AND LAMPS, and State sponsored for weaker sections.

d) Loans to NBFC for on lending to Agriculture.

e) Contribution to RRBs, NABARD, REC in the form of refinance, deposits, bonds, etc.

f) Loans to Co-operative marketing and processing units for providing services to the farm producers.

g) Advances up to Rs. 15 lakhs granted for financing distribution of inputs for activities to agriculture such as cattle feed, poultry feed, etc.

1.3.2.2 Small Scale Industries:-

Small scale industrial units are those engaged in the manufacture, processing or preservation of goods and whose investment in plant and machinery should not exceed Rs 1 crore to be classified under small scale industry. Loans directly given to such units are considered as direct loans for
SSI sector. This includes software industry with credit limit up to Rs. 1 crore and also ancillary industries up to Rs. 1 crores.

Advances to Industry/Small Scale Service/Business enterprises (SSSBEs) having investment in fixed assets excluding land and building up to Rs. 10 lakhs and registered as such, are also to be treated as direct advances to SSIs. Composites loans given to SSI up to Rs. 25 lakhs and also included in priority sector.

Indirect finance in the small scale industrial sector will include the credit extended to:

1) Agencies involved in assisting the decentralized sector in the supply of inputs and marketing of outputs of artisans, village and cottage industries.

2) Government sponsored corporations/organisations, providing funds to the weaker sections in the priority sector.

3) Term finance/loans in the form of lines of credit made available to State Industries Development Corporations/State Finance Corporations for financing SSIs.

4) Credit provided by banks to KVIC under the scheme for provision of Credit to KVIC by Consortium of Banks for lending to viable Khadi and Village industrial Units.

5) Funds provided by banks to SIDBI/SFCs by way of rediscounting of bills.
6) Subscription to bond floated by SIDBI, SFCs, SIDCs and NSIC exclusively for financing SSI units.

7) Subscribing to bonds issued by NABARD with the objective of financing exclusively to non farm sector.

8) Subscribing to bonds issued by HUDCO for on lending to craftsman handloom, weavers, etc. under tiny sector.

9) Industrial Estates.

1.3.2.3 Other Priority Sectors

1.3.2.3.1 Small road and water transport

Advances to small road and water operators owing a fleet of vehicles not exceeding ten vehicles, including the one proposed to be financed.

1.3.2.3.2 Retail Trade:

Advances granted to (i) private retail traders dealing in essential commodities (fair price shops) and consumer cooperative stores and (ii) other private retail traders with credit limits not exceeding Rs 10 lakhs. (Advances to retail traders in fertilizers will form part of indirect finance for agriculture and those to retail traders of mineral oils under small business).
1.3.2.3.3 Small Business:

Small business would include individuals and firms managing a business enterprise established mainly for the purpose of any service other than professional service whose original cost price of the equipment used for the purpose of business does not exceed Rs 10 lakh with working capital limits of Rs 5 lakhs or less. Further, the aggregate of term loan and working capital limits sanctioned to a small business unit should not exceed Rs 10 lakh. Advances for acquisitions, construction, renovation of houseboats and other tourist accommodation will be included here. Distribution of mineral oils shall be included under small business.

1.3.2.3.4. Professional and self employed persons:

Loans to professional and self employed persons include advances given for purpose of purchasing equipment, repairing or renovating existing equipment and / or acquiring and repairing business premises or purchasing tools and for working capital requirements to medical practitioners including Dentist, Charted Accountants, cost Accountants, lawyers or Solicitors, Engineers, Architects, Surveyors. Construction Contractors or Management Consultants or to a person trained in any other art or craft who holds either a degree or Diploma from any institution established, aided or recognized by the government or to a person who is considered by the bank as technically qualified or skilled in the field in
which he/she is employed. The limit fixed is Rs 10 lakhs with working capital limit of Rs 2 lakh and for doctors in rural and semi-urban areas Rs 15 lakh with Rs 3 lakhs towards working capital.

1.3.2.3.5 State Sponsored Organization for SC/ST:

Advances sanctioned to state sponsored organizations for SC/STs for the specific purpose of purchase and supply of inputs to and/or the marketing of the output of the beneficiaries of these organizations.

1.3.2.3.6. Education:

Educational loans should include only loans and advances granted to individual for educational purposes and not those granted to institutions and will include all advances granted by the banks under special schemes. If any, introduced for the purpose. The limit fixed is Rs 5 lakhs for studies abroad and Rs 2 lakh for indigenous studies.

1.3.2.3.7. Housing:

a) Direct Housing Finance:

i Loans up to Rs 5 lakhs for construction of houses granted to all categories of borrowers except to own employees of the banks.
ii. Loans up to Rs 50,000 for repairs to damaged houses granted to all categories of borrowers except to own employees of the banks.

b) Indirect Housing Finance:
   
i. Assistance given to any Government agency or to a Non-government agency, approved by the National Housing Bank for provision of refinance for purpose of constructing houses and also for slum clearance and rehabilitation of slum dwellers where the loan component does not exceed Rs 5 lakh per housing unit.
   
ii. Subscription to bonds issued by NHB and HUDCO exclusively for financing of housing as defined under the priority sector irrespective of loan size.

1.3.2.3.8. Consumption Loans:

   Pure consumption loans granted under the consumption credit scheme should be included in this item. This purpose and ceilings per family in respect of consumption loans are Rs. 150 each for general consumptions, funeral, birth, etc., and certain religious ceremonies, Rs 200 for educational needs and Rs 500 each for medical expenses and marriage ceremonies.
1.3.2.3.9. Funds Provided to RRBS:

The amount of funds provided by the sponsoring banks to the RRBs for the purpose of on lending are treated as priority sector lending of the sponsor banks. Fifty per cent of the amount of refinance granted to RRBs will be treated as indirect finance to agriculture and 40% of the amount of refinance as advances to weaker sections.

1.3.2.3.10. Loans to SHGs/NGOs:

Loans provided by the banks to self-help groups and Non-governemental organizations/members of SHGs/discreet individuals or small groups which are in the process of forming into SHGs will be reckoned as priority sector lending.

1.3.2.3.11 Special Bonds:

Banks investments in special bonds of NABARD, NHB, HUDCO, state financial corporations, Rural Electrification corporations will be treated as indirect priority sector advances.

1.3.3 Targets under priority sector lending

The target fixed for the priority sector lending and prevalent at present are as follows:
1. 40% of the domestic Indian commercial banks (Public as well as private) should go to priority sector.
2. 10% of net bank credit of the domestic Indian commercial banks (Public as well as private) will be for the weaker sections.
3. Foreign banks operating in India should lend a minimum of 32% of their net bank credit to priority sector.
4. Foreign banks should reach 12% sub-targets each in export credit and credit to SSI sector.
5. Any shortfall in priority sector targets by the foreign banks should be placed in the form of deposits with SIDBI for an year at the rare of 10% per annum.
6. Total lending to agriculture (both direct and indirect) should not less than 18% of the net bank credit of the domestic Indian commercial banks. However, agricultural lending under the indirect category should not exceed 1/4th of the sub-target of 18%, i.e. 4.5% of net bank credit.
7. Any shortfall in achieving the sub-target of 18% for agriculture targets as on 31.12.94, subject to the maximum of 1.5% of the net bank credit should be deposited with NABARD in the turn of the contribution to Rural Development infrastructure Fund subsequently the short fall in overall targets of 40% was also linked to the contribution to be made by the banks to the RIDF.
8. With the investment limit for SSI and ancillary units at Rs 1 crore and for the tiny sector from Rs 5 lakhs to Rs.25 lakhs, the banks should ensure that out of the total funds earmarked for SSI, 40% is made available for the units with investment upto Rs 5 lakhs, 20% for the units between Rs 5-25 lakhs and the remaining for other SSI.
9. Those banks which fail to fulfill their priority sector target of 40% even after their contribution to the RIDF of NABARD will constitute a consortium of banks to lend money to national level KVIC and state level KVIBs. This will be treated as indirect lending to SSI under priority sector lending. This loan will be provided at 1.5% below the average Prime Lending Rate (PLR) of major banks in the consortium and will carry Government guarantees.
10. At least 1% of the previous year's net bank credit outstanding should go to DRI and 40% of it should go to SC/ST
11. Banks minimum allocation for housing finance should be at 3% of the previous year's incremental deposit.

12. After widening the target beneficiaries of the RRBs, they are also brought under priority sector lending and the targets are similar to commercial banks.

13. 60% of the net bank credit of Urban Co-operative Banks should be in the form of priority sector advances.

1.4 RBI Norms/Guidelines for Advances to the Priority Sectors:

These guidelines relate to the loan procedure, rate of interest, margin money, security norms, other charges to be levied, etc and cover all categories of priority sector.

1.4.1 Loan procedures:

The emphasis is laid on the simplified procedure which facilities quick sanction and disbursement of credit for various purposes. The simplified application forms have been recommended by various committees. For instance, the Baldev Singh committee had devised a simplified form for agriculture loans. Similarly, the Naik committee had prescribed a thumb rule method for arriving at the working capital loans for the SSI sector. The forms are to be printed in the regional languages and should be easily made available in the concerned branches. For the SSI units four types of forms are prescribed for loan of various sizes. Recently the application for agriculture loans have been simplified/modified based for the guidelines from IBA.
As regards the borrowers other than agriculture and SSI, the application and interview-cum-appraisal forms as finalized by the Bankers Group appointed by the IBA should be adopted. For housing loans application have been prescribed by National Housing Bank.

1.4.2 Mode of Disbursement of Loan:

Earlier due emphasis was laid on the disbursement of a certain proportion of loan in kind. As there were problems like restriction in borrower's choice and submission of false bills, as per the recommendations of Gupta Committee (1998), full cash disbursement for purchase of agriculture inputs has been recommended by RBI and the terms are flexible for banks. However, some banks go in for disbursement direct to suppliers in case of machineries and inputs over and above certain limitations. Though the banks have been advised to delegate adequate powers to the managers, it has been specifically indicated that the rejection of applications should not be done without the approval of higher authority in case of SC/STs.

1.4.3 Completion of Application Forms:

In areas covered by the special schemes such as SGSY, SJSRY, the concerned authorities like the DRDAs, DICs should arrange for completion of application forms from the borrowers. In other areas, the bank staff should help the borrowers for this purpose.
1.4.4 Issue of Acknowledgement for the Loan Applications:

The banks should give acknowledgement for loan applications received from the weaker sections.

1.4.5 Disposal of Applications:

All the applications up to credit limit of Rs 25,000 should be disposed off within fortnight and those above Rs. 25,000 within 8-9 weeks.

1.4.6 Repayment Schedule:

Repayment programme should be fixed taking into account the sustenance requirements, surplus generating capacity, the break even point, the economic life of the asset, etc., and not in an ad hoc manners in respect of composite loans up to Rs. 50,000 to artisans, village industries, the repayment schedule may be fixed for the term loan component only (n subject to the SIDBI’s requirements being fulfilled). The repayment periods of SGSY loans should be fixed in realistic manner and that in any case it should not be less than 5 years. In case of default on account of natural calamities, the crop loans may be converted into medium-term loans for 3-5 years and extension or rephasing may be allowed in case of term loans.
1.4.7 Security Norms:-

Security norms stipulated for the borrowers of priority sector include:

(i) DPN/Loan Agreement.

(ii) Hypothecation of the crops and other immovable assets created out of the loan amount.

(iii) Pledge/hypothecation/mortgage of assets created out of the loan.

(iv) Collateral security/third party guarantee.

(v) Mortgage of land/property.

(vi) Government guarantee.

These norms are applied to various categories of borrowers depending upon the type and amount of loan, type of assets created/possessed and the programme under which the borrower is covered. Again these norms are fixed depending upon the nature of asset, create whether movable or immovable assets. While for movable assets up to Rs. 25,000 no additional security is insisted upon, for immovable assets for loans exceeding Rs. 10,000 additional security is insisted upon.

1.4.8 Lending Norms for weaker Sections:-

As stated earlier, the concept of weaker sections was introduced by the working Group on the Modalities of Implementation of the Priority Sector Lending and 20-Point Economic Programme (1980). The object of doing so was to ensure that the more underprivileged sections of the priority sections
are given proper attention by the banks in the matter of allocation of credit. The concept of weaker section was specifically introduced within the two main priority sectors, viz., agriculture and small-scale industries and fix suitable sub-targets were fixed for them.

Accordingly, the weaker sections are identified as under:

- Small and marginal farmers
- Share croppers
- Tenant croppers
- Agricultural labourers
- Non-agricultural labourers
- Rural artisans engaged in village and cottage industries
- Tiny industries
- SC/ST beneficiaries
- All IRDP, DRI, DWCRA, SJSRY, SABSY, DWCUA and other beneficiaries benefited by Government schemes for poorer sections
- Beneficiaries of the Scheme for Liberation and Rehabilitation of Scavengers
- Women members of the Self-Help Groups

1.5 Prominent changes in the priority sector credit policy:-

In the course of implementation of the priority sector credit policies certain changes were made form time to time in view of the changing perceptions and environment. In this context recent three committee need to
mention who suggest such changes namely Khusro Committee 1991, Narshimham Committee 1991 and Naik committee 1992. The prominent changes are indicated below:

1. The exports which were included in the priority sectors in the beginning were later deleted. However, in the era of liberalization and globalization, the expert was again accorded priority status for the purpose of bank credit particularly for the foreign bank operating in India.

2. The list of participating institutions in the implementation of priority sector credit policy has expanded over time. To start with, it was specifically meant for public sector commercial banks. Later in 1978, the private sector banks were also desired to follow suit. From March, 1992 onwards, the foreign banks operating in India were also given the specific targets to fulfill in the priority sector.

3. There have been noticeable changes over time in the overall targets and sub-targets of priority sector credit obligations of the banks. For instance, the overall target for domestic banks in the beginning was fixed at one third of their net bank credit. From 1985 onwards, these have been revised upwards at 40 percent. Similarly, the priority sector credit operations for the foreign banks were initially fixed at 15% of their net bank credit obligations. The same has been enhanced to 32% at present.

4. As regards the sub sector targets, the domestic commercial banks were advised to lend 15% of their net bank credit in the form of direct agricultural advances in 1983. The same was revised bifurcated into
13.5% (minimum) as direct advances and 4.5% (maximum) in an indirect advances. This was a part of overall liberalization in the economic policy. After involving the foreign banks in priority sector, the separate targets for the SSI and export credit were fixed at 10% to start with and then were revised upwards at 12.5%.

5. In pursuance of the Naik Committee, a specific target for the tiny sector in the SSI sector was fixed. Now it is stipulated at 40% of the total SSI advances by the domestic banks earmarked for the tiny category industries (Loan limit up to Rs. 5 lakhs); 20% to semi-tiny sector (loan limit >5 to <25 lakhs) and 40% to other SSI sector (loan limits>25 to 100 lakhs).

In pursuance of the Krishnaswamy Committee recommendations a separate target for the weaker sections at 10% of the net bank credit or 25% of the priority Sector credit was introduced. The DRI credit was included in the priority sector from the inception in 1972 onwards. It should be noted that the domestic banks are directed to lend 1% of their previous years outstanding at a highly concessional rate of 4% in certain specified categories of weaker sections.

6. With the launching of nation wide poverty alleviation programme in the form of integrated Rural Development in 1980, a new phase of the priority sector credit policy was initiated. The extension of credit support to this programme was included in the bank's obligation towards priority sectors. Later on many such credit linked development schemes were devised, revised and introduced for the banks participation.
7. The Reserve Bank has brought about further relaxations in the coverage of category of advances that would qualify for priority sector by announcing the following measures:

a) The net funds provided by sponsor banks to RRBS will be treated as priority Sector lending of the sponsor banks.

b) In view of the importance of activities allied to agriculture such as dairy, poultry, piggery, fishery and the need to ensure the availability of inputs for such activities, RBI would now permit advances up to Rs. 5 lakhs granted for financing distribution of inputs for the allied activities, such as cattle feed, poultry feed, etc., to be reckoned as indirect agricultural advances under the priority sector.

c) Taking into consideration the higher cost of equipment on account of technological advancement and the importance of the services rendered by professional and self-employed persons, RBI have decided to raise the existing ceiling of Rs. 2 lakh to such borrowers to Rs. 5 lakh, of which not more than Rs. 1 lakh should be for working capita requirements. In the case of professionally qualified medical practitioners setting up practice in semi-urban and rural areas, a higher ceiling of Rs. 10 lakh with a sub-ceiling of Rs. 2 lakh for working capital requirements has now been fixed.

Further, an advance granted to a qualified medical practitioner for purchase of one motor vehicle within the above
mentioned revised ceiling may also be reckoned under the priority sector lending.

The concept of priority sector lending was introduced after the nationalization of banks to give a fillip to agriculture as a whole and some segments of industry and service sector as they primarily contribute not only to the GNP but more so in terms of employment generation. Hence in order to attain equitable distribution of bank advances not only among different sections within a sector but also among different sectors in the priority sector, the policy pertaining to priority sector lending has been modified from time to time. Therefore the public sector banks in India were advised in 1977 to enlarge the flow of credit to the priority sector so as to raise their shares in aggregate credit to 33.3% by March, 1969. Subsequently, in 1980 this ratio was raised to 40% to be achieved over a period of five years i.e. by March, 1985. It has been recognized that the distribution of priority sector advances of scheduled commercial banks has not been equitable among the different sections within the respective sectors. Therefore, banks have been directed that, in agriculture sector not less than 50% of the banks total lending to agriculture should go to the weaker section. In small scale Industry, the weaker sections should get at least 12.5% of the total advances. It has been more than three decade since banks seriously took to the task of priority sector lending. This provides
enough scope to find out the trends and progress in the field of priority sector lending. While at all India level, a very impressive quantitative coverage has been achieved, intra-state picture is still not very encouraging.

For various historical reasons the bulk of bank advances was directed to the large and medium scale industries and big and established business houses, while agriculture, small scale industries and other priority sector did not receive adequate attention inspite of the fact that credit for priority sector is in essence the credit for the development of the Indian economy in totality as survival of the nation and stability of the economy is depend on priority sector existence.

Therefore a modest attempt is made in the present study to study credit pattern of agriculture, small scale industry and other priority sector for 1992-2002 period.

1.6 Objectives of the study:-

The important objective of the study is to know the credit pattern in priority sector outstanding during the 1992-2002 period in India. It assesses sectorial, regional and state-wise disparities in priority sector lending. It examines the performance of credit pattern in priority sector for post banking reforms on the basis of number of accounts and credit in terms of volume.

The specific objectives of the study are:

1. to understand concept of priority sector and its lending norms and guidelines;
2. to assess the extent of and change in credit pattern in priority sector;
3. to study and assess the sectorial, regional, and inter-state credit pattern in priority sector,
4. to study and assess the bank wise credit pattern in priority sector and;
5. To assess the progress and variations of credit pattern in priority sector.

1.7 Research Methodology of the Study:

The research methodology of the study is divided into 7 subsections namely,
1.7.1 The study design
1.7.2 Basic research questions
1.7.3 Hypothesis of the study
1.7.4 Scope of the study
1.7.5 Sources of data
1.7.6 Statistical tools and techniques used
1.7.7 Chapter plan

1.7.1 The Study Design:

The available published data have been interpreted in systematic and scientific manner with the accepted thesis forms to draw logical conclusions. The adopted study design has been shown in the following chart.
Chart 1.1

- Literature Scanning:
  - RBI, NABARD Experts Committees Reports
  - Books
  - Magazines, Periodicals and Journals
  - Newspapers and Newsletters

- Interview:
  - RBI, NABARD and Banking Personnel

- Discussion and Observation:
  - Academicians
  - Consultants and Professionals
  - Banking Associations and Unions
  - Trade Association and Its Members and General Public
  - Banking Customers
  - Banking Managers and Officers

- Statistical Techniques:
  - Growth Rate
  - Index of Change
  - Average
  - Percentage

Analysis and Interpretation:
- 1. Introduction & Methodology
- 2. Review of Literature
- 3. Indian Banking Scenario: An Overview
- 4. Credit Pattern in Priority Sector: Agriculture
- 5. Credit Pattern in Priority Sector: Small Scale Industry
- 6. Credit Pattern in Other Priority Sector
- 7. Overall Credit Pattern in Priority Sector
- 8. Summary, Conclusion & Suggestions

Bibliography
1.7.2 Basic Research Questions:

1. Whether concept of priority sector and its lending norms and guidelines remained same over the period of time, if no, what changes are taken place in it?
2. What is the progress and trend of priority sector credit?
3. Have the growth and change in priority sector credit occurred evenly?
4. To what extent priority sector credit has been achieved?
5. What change has occurred in priority sector credit?
6. What are the inter-bank, inter-state and inter-region variations in priority sector credit distribution?

1.7.3. Hypothesis of the study:

In the light of the above cited objectives, the researcher for the present study assumes that,

1. Distribution of credit to priority sector was higher in the post reform period than in the pre-reform period and target set for priority sector credit was achieved in post reform period.
2. The progress of priority sector credit was uneven during the pre and post reform period.
3. There was positive change in priority sector credit pattern (distribution) during post reform period as compared to pre reform period. In other words, change in and extent of priority sector credit is positive and
upward direction during post reform period as compared to Pre-reform period but extent was lower

4. Extent of priority sector credit was uneven.

5. The inter-bank, inter-activity, inter-state and inter-regional disparity in priority sector credit was wide and not reduced.

1.7.4 Area and Scope of the study:

For the purpose of the present study 28 public sector banks – State bank of India group bank (08) and nationalized group bank 20 considered as adequate enough for drawing valid inferences, have been selected. The State bank of India group bank constitute following 8 banks:

1. State Bank of India
2. State Bank of Bikaner and Jaipur
3. State Bank of Hyderabad
4. State Bank of Indore
5. State Bank of Mysore
6. State Bank of Patiala
7. State Bank of Saurashtra
8. State Bank of Travancore

The 20 nationalised banks included in study are:

9. Allahabad Bank
10. Andhra Bank
11. Bank of Baroda
12. Bank of India
13. Bank of Maharashtra
14. Canara Bank
15. Central Bank of India
16. Corporate Bank
17. Dena Bank
18. Indian Bank
19. Indian Overseas Bank
20. New Bank of India
22. Punjab National Bank
23. Punjab and Sindh Bank
24. Syndicated Bank
25. Union Bank of India
26. United Bank of India
27. United Commercial Bank and
28. Vijaya Bank

So the sum of state bank of India group bank and nationalized banks are constitute study area to understand regional variations in credit to priority sectors the whole India is divided into 6 regions:

1. Northern region
2. North eastern region
3. Eastern region
4. Central region
5. Western region and
Northern region consist of Haryana, Himachal Pradesh, Jammu & Kashmir, Punjab, Rajasthan, Chandigarh, Delhi, whereas North East Region includes Assam, Manipur, Meghalaya, Nagaland, Tripura, Arunachal Pradesh, Mizoram, Sikkim. States such as Bihar, Jharkhand, Orissa, West Bengal, Andaman & Nicobar are the part of Eastern Region. On the other hand, Madhya Pradesh, Chandigarh, Uttar Pradesh, Uttrachal are included in Central Region. Western Region includes Gujarat, Maharashtra Daman & Diu, Goa, Dadra and Nagar Haveli. Finally, Southern Region includes Andhra Pradesh, Karnataka, Kerala, Tamil Nadu, Pondicherry and Lakshwadeep.

For understanding extent of and change in credit pattern of priority sector between 1992-2002, (study period) an analysis of 1982-1991 period also considered important and it is analyzed and included in this study. So in practice study period is 1982-2002.

The priority sector includes for study purpose credit to direct and indirect agriculture, small scale industry and other priority sectors such as road and water transport operators, retail trade and small business and professional and self employed persons.

The time period considered for the present study covers years from 1992-2002. Considering the new economic policy reforms including finance and banking reforms, sea changes have been occurred in credit norms and in distribution pattern. A great impetus was given to banking service sector since 1992-93. The debut into what is called social banking shifted the Indian
banking system from classes to masses upto 1991 and from 1992 and onwards again banking system shifted from it to private sector(or classes). Hence it is justifiable to study the changes in the field of priority sector(i.e. social sector) due to emergence of new reforms from 1992. Therefore the scope of this study

Therefore the scope of this study includes studying and assessing the changes in and extent of concept, progress and trends of credit pattern in priority sector; and its lending norms and guidelines, sectoral, regional, inter-state, plan wise, bank group wise changes, variations and progress along with trend are also included in this study. The objectives of the study were reached through various research work based on data, charts, diagrams, tables, annual average rate, compound growth rate from various secondary sources.

1.7.5. Sources of Data:

This study attempt to assess the inter-regional, inter-state, bank group wise and yearwise credit pattern in priority sector during post banking reform period. That is 1992-2002 period. This study is mainly based on secondary data as very scanty information is called from personal interviews, through observations and discussions with officers, managers, employees and customers of banking, Reserve bank of India and NABARD as well as discussions with academicians and experts in the field and banking associations and trade unions. The required data is collected from
1. Reserve bank of India and NABARD-Reports, Bulletins, the Journals and Websites,
2. Books, magazines, Newspapers, and Periodicals,
3. Technical and Trade National and International Journals and

All the data collected has been integrated in flow of the study in a planned manner for easy understanding and interpretation and for bringing out the requisite summary of the findings and suggestions. Data has been presented in a documented forms; charts and diagrams are included to emphasis and highlight this study. The data collected for this study includes the period 1981 to 2002. Every effort has been taken to present the data pre1981 and post 2002 also.

1.7.6 Statistical tools and techniques used:

The following statistical tools were used as and when necessary for the analysis of the data:

1. Percentage
2. Average
3. Growth rate
4. Index of change
5. Index of change on previous years.
1.7.7 Chapter plan:

The thesis is divided into eight chapters. They are as follows;

1. Introduction and Methodology.
2. Review of Literature
3. Indian banking scenario: An Overview
4. Credit pattern in priority sector: Agriculture
5. Credit pattern in priority sector: Small Scale industries.
6. Credit pattern in other priority sectors.
7. Overall credit pattern in priority sector
8. Summary of conclusions and Suggestions.

Chapter 1: Introduction and Methodology:

Chapter one has described the statement of problem, meaning of priority sector, lending policy and RBI guidelines for advances in priority sector, prominent changes in priority sector credit policy and objectives of the study. Further it also outlines the detailed methodology of study which includes the study design, basic research questions, hypothesis of the study, sources of data, area and scope of the study, statistical tools and techniques used for the study purpose and chapter plan.
Chapter 2: Review of Literature:

The second chapter reviews the literature on priority sector. It also indicates the gap in existing literature and discusses the rational and significance of present study.

Chapter 3: Indian Banking Scenario: An overview:

In chapter three an attempt is made to introduce Indian banking scenario by taking an overview. It emphasis the role of bank, structure of banks, spread of branches, deposit mobilization and credit pattern of India.

Chapter 4: Credit pattern in Priority Sector: Agriculture:

The chapter four assesses the credit pattern of agriculture under priority sector which includes the role of agriculture in Indian economy, the problem of agriculture credit in India, determinant of supply of agricultural credit and the progress pattern of agriculture credit in India. Further this chapter assesses direct and indirect credit pattern of agriculture for pre and post banking reform period. This chapter also examines year-wise, bank-wise, inter-state and region-wise credit pattern of agriculture for pre and post banking reform period.
Chapter 5: Credit pattern in Priority Sector: Small Scale Industries:

The chapter five deals with credit pattern in priority sector – small scale industries, which covers changes in concept, progress and policies of small scale industries over the period of time and the pre and post banking reform period credit pattern of small scale industries. The year-wise, bank-wise, state-wise, and region-wise assessment of small scale industry’s credit pattern for pre and post bank reform period is in detail analyzed in this chapter.

Chapter 6: Credit pattern in other Priority Sectors:

Apart from agriculture and small scale industry, other sectors recognized for priority treatment in bank lending were road and water transport operators, retail trade and small business, professional, small artisans and self employed persons, educational loans, consumption and housing loans to weaker sections. An attempt is made in this chapter to study change in and extent of credit pattern of these priority sectors.

Chapter 7: Overall Credit Pattern in priority sector:

This chapter focuses on to understand and assess overall year-wise, bank-wise ,state- wise, and region-wise credit pattern in priority sector for the
pre and post banking reform period which includes changes in credit pattern and progress in credit pattern.

**Chapter 8: Summary, conclusions and Suggestions:**

It summarizes the study and presents the conclusions that can be drawn and make some suggestions for the development of priority sector credit pattern.