CHAPTER 9

SUMMARY AND SUGGESTIONS

9.1 Summary

9.2 Findings and Inferences

9.3 Suggestions

9.4 Conclusion

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9.1 SUMMARY

The financial system of any country performs the role of intermediary between the saver and investors. It is a symbol of sound economy. Banks are an integral part of the financial system and their role is critical to a nation’s economic development. Bank credit to the needy sectors is important to achieve the objectives of nationalization. Priority sector lending is introduced to achieve the objectives of nationalization i.e., equality with social justice.

Priority sector lending is a scheme which is intended to give loans to the important sectors of the economy (agriculture, small scale industries etc.) in such a way to ensure maximum credit flow to hitherto neglected sectors.

The present study is concerned with the priority sector lending in Srikakulam district. The district is considered as backward district with the lowest in per capita income in Andhra Pradesh state. As on 31.03.2011, 114 public sector bank branches, 11 private sector bank branches, 63 Regional Rural Bank branches and 13 District Co-operative Bank branches are operating in Srikakulam District. The present study is made to know the extent of priority sector advances made by commercial banks under district credit plans/ annual credit plans for a period of 11 years and their impact on development of the district. The Reserve Bank of India advised all State Level Bankers Committees to select one district in each state to achieve 100 per cent financial inclusion and Srikakulam
district is one among them. In State Level Bankers Committee meeting, it has claimed that it has achieved 100 per cent financial inclusion in the district. In this context, an analysis is made on the priority sector advances through financial inclusion programmes.

The following are the basic objectives of the study:

6. To examine the concept and evolution of priority sector lending in India
7. To assess the operational performance of commercial banks in general and Srikakulam district in particular
8. To evaluate the priority sector advances under district credit plans and to assess the impact of priority sector advances on the development of the Srikakulam district
9. To review the priority sector advances in the context of financial inclusion programmes in Srikakulam district
10. To identify the gaps and to suggest remedial measures to overcome them

The study covered the operational performance of commercial banks in terms of deposit mobilization, credit deployment, credit deposit ratio and the priority sector advances of commercial banks. Further, the scope of priority sector lending under district annual credit plans in Srikakulam district covers crop loans, agriculture term loans, allied activities, non-farm sector and other priority sector. The scope of the study on financial inclusion is limited to know the number of accounts opened by banks from the year 2006 to 2010 and population group-wise deposits and advances made by commercial banks in the district during the above period. The study also covered the functions of Business Correspondents (BCs) and Business Facilitators (BFs) and eligible
entities to act as BCs/BFs. The need and functions of Financial Literacy and Credit Counselling centre are also covered. Self Help Group lending is an important activity which promotes greater financial inclusion and the progress of SHG lending in the district is also studied.

For the purpose of the study, secondary data is used. The collected data is analyzed by using the following tools.

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The major developments in the banking in India during the early years of independence were setting up of Deposit Insurance Corporation and nationalization of State Bank of India and its other sectors especially in associated banks. A new branch
licensing policy was framed to expand the banking facilities in unbanked areas. Despite
the above measures, pattern of branch expansion remained unchanged and credit to
agriculture also increased by only 0.1 per cent between 1951 and 1967. Major portion of
the credit went to industries and the agriculture sector was totally neglected. The
Government has adopted stringent methods to expand the outreach of the banks to the
hitherto neglected areas of the society during the period 1967 to 1990. The major steps
in this direction were social control over the banks and nationalization of banks. Another
significant development was introduction and formalization of priority sector lending
(giving definition to priority sectors).

The above measures had a significant impact on the outreach of banking facilities
to the rural and semi-urban areas as the rural banking spread reached to nearly 60 per cent
of the bank branches. Owing to the over emphasis on directed lending during the period
1967 to 1990, non-performing assets were on an increase. This has affected the
profitability and health of the banking system to a great extent. In order to correct the
situation, RBI introduced prudential norms to increase the profitability as well as the
health of the banks. The post reforms decade was marked for strengthening the base of
the banks to align them with the international standards. However, another distressing
event in the banking during this period was reduced credit flow to various sectors due to
stringent norms.

The banking developments during the period 2001 to 2011 reveal that the main
focus was made on priority sector lending and financial inclusion. The priority sector
norms were revised with regard to credit limits and calculation in 2005. MSMED act was
revised in 2006. It has also gone in favour of setting up of better recovery mechanism. Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act was introduced to recover the dues without intervention of the courts. New private sector banks were permitted to enter into the market for infusing competition among the banking sector. Banks adopted technology based solutions to serve the customer in a better way. Financial inclusion has become a mission or goal of the government and Reserve Bank of India (RBI) permitted the use of services of Business Correspondents/Business facilitators for providing banking services to all the citizens in the country. The operational performance of commercial banks in India and Andhra Pradesh in the areas of deposit mobilization, advancing loans and priority sector advances are measured by using compound growth rates. The growth rates of these variables revealed that the banks have exhibited a similar trend at the state national levels.

Agricultural sector has received its due attention since 1904 with the enactment of co-operative act in 1904. Reserve Bank of India has been playing a special role in agricultural credit from 1934. Several committees were appointed by RBI to review the credit flow to agriculture.

The term ‘priority sectors’ came into usage from 1967 and it was formalized in 1972. Initially, as per the recommendations of the several Committees, many insertions were made to the priority sector lending scheme from its inception. Thus, its scope has widened with the passage of time giving orientation to the needs of the economy. The following are the developments in priority sector advances during 2000-01 to 2010-11:
New targets for priority sector are linked to annual net bank credit or the credit equivalent amount to off-balance sheet exposures, whichever is higher as on March 31 of the previous year.

- Setting up of financial literacy-cum-counselling centre in any one district on a pilot basis and extending it to all other districts in due course. Opening of 25 per cent of the branches in unbanked centres to promote financial inclusion.

**Major changes made to agriculture sector:**

- Advances to non-banking finance companies as on-lending advances for agriculture
- Micro credit granted by banks to individual borrowers either directly or through any intermediary
- Advances to small and marginal farmers for setting up of agri-clinics and agri-business centres and purchases for agricultural purposes
- Waiver of margin requirements for agricultural loans up to Rs.50,000 and in the case of agri-business and agri-clinics for loans up to Rs.5 lakh.
- Investments by banks in securitized assets representing direct (indirect) lending to agriculture
- Loans to distressed urban poor to prepay their debt to non-institutional lenders, against appropriate collateral or group securities
- Fifty per cent of the credit outstanding on loans issued under General Purpose Credit Cards (GCC) scheme in rural and semi-urban areas
• Loans issued to power distribution corporations/companies for reimbursement of expenditure already incurred by them for providing electricity connections to individual farmers for their wells,

• Loans above Rs.1 crore sanctioned to big Corporates will get only one-third weightage for being counted as direct agriculture advances.

• The limits for advances for distribution of inputs for allied activities such as cattle feed, poultry feed, etc. was increased from Rs. 15 lakh to Rs.40 lakhs.

• Credit limits for marketing of crops was increased from Rs. 1 lakh to Rs. 5 lakh and the repayment period for such loans was enhanced from 6 months to 12 months.

• The limit on advances granted to dealers in drip irrigation / sprinkler irrigation system / agricultural machinery was increased from Rs.10 lakh to Rs.30 lakhs.

• Ceiling on credit limit to farmers against pledge/hypothecation of agricultural produce (including warehouse receipts) was increased from Rs.5 lakh to Rs.10 lakh.

**Major changes in small scale industries sector:**

• Revised definition of MSMED Act, 2006 will be considered for SSI units. As per the revised definition, small scale industries sector was divided into two main categories: Manufacturing enterprises and Service enterprises, with further subdivisions of Small (manufacturing) Enterprises and Micro (manufacturing) Enterprises, Small (services) Enterprises and Micro (services) Enterprises.
Loans granted by banks to non-banking finance companies for on-lending to small scale industries sector

Loans to storage units and cold storage units which are designed to store agricultural produce/products, irrespective of their location.

Investment limit in plant and machinery for seven items belonging to sports goods, which are reserved for manufacture in the SSI sector, was enhanced from Rs.1 crore to Rs.5 crore.

The composite loan limit for SSI entrepreneurs enhanced from Rs.50 lakh to Rs.1 crore.

The limit for dispensation of collateral requirements has been raised to Rs.25 lakh to SSI units having good track record.

RBI instructed the commercial banks on May 6, 2010, to issue collateral free loans up to Rs.10 lakh to the units in Micro and Small Enterprises sector.

The existing overall limit of Rs.10 lakh in respect of setting up of small business was increased to Rs.20 lakh without any ceiling for working capital.

Individual credit limit to artisans, village and cottage industries was raised to Rs.50,000 from the existing limit of Rs.25,000.

**Major changes in other priority sector:**

- The limit for housing loans for repairing the damaged houses was increased from Rs.50,000 to Rs.1 lakh in rural and semi-urban areas and to Rs.2 lakh in urban areas.
- Housing loans limit increased to Rs.20 lakhs, irrespective of location.
The performance of commercial banks in Srikakulam district in terms of deposits and advancing loans and priority sector advances is measured by using simple growth rates and compound growth rates. The trend shows that private sector banks have exhibited a better performance than the public sector banks in collection of deposits and it is vice versa in case of advancing loans. The results of the analysis indicate that there is no significant difference in the performance of the banks in the above areas. The advances towards differential rate of interest scheme and weaker sections advances were also found to be increased during the study period. The better recovery methods adopted by banks led to recovery of 80 per cent of the dues by the end of the study period. Non-performing assets were also declined from 15 per cent to 4 per cent.

The priority sector lending under district credit plans has shown the public and private sector banks' efficiency in meeting the targets. The priority sector covered crop loans, agriculture term loans, allied activities, non-farm sector and other priority sector. Targets and achievements were critically analyzed sector-wise and bank-wise. The results revealed that banks could not achieve the targets in some sectors in some years. But there is no significant difference in achieving the targets in different sectors by different bank groups. The impact of priority sector advances on the development of the district was measured and found that it has a positive impact on the gross domestic product of the district.

As the financial inclusion is intended to bring the common man in to the banking fold, the number of no-frills accounts opened and the population group wise deposits and advances are analyzed and found that rural and semi-urban banking business constitute
nearly 60 percent of the total business. The district is actively engaging in the promotion of self-help groups in the district. This reflects that the banks’ attitude towards priority sector lending through financial inclusion programmes. Banks are coming forward to give linkage to these groups due to better recovery and cost effective.

9.2 FINDINGS AND INFERENCES

- The branch expansion in India during the period 2001 to 2010 shows that the growth of rural branches was quite insignificant (They had increased from 32503 to 32528).

- The compound growth rate (CGR %) of deposits of commercial banks in India was 18.07 per cent and the compound growth rate of deposits of the state was 17.94 per cent. The CGR of deposits of commercial banks in India was higher by 0.13 per cent than the CGR of deposits of commercial banks in Andhra Pradesh. This implies that banks at the national level exhibited a better performance than the banks at the state level during the study period.

**H1**: There is no significant difference between the growth rates of deposits in India and Andhra Pradesh.

It is proved that there is no significant difference between the growth rates of deposits in India and Andhra Pradesh.

- The compound growth rate of advances of commercial banks in India was 22.24 per cent and the CGR of banks in the state was 25%. The higher compound growth rate of advances at the state level indicates that funding by commercial
banks for productive sectors in the state was significant. It is inferred that commercial banks in India had played a significant role in mobilizing deposits than the banks at the state level and the banks at the state level had done a good business in advancing loans. The CGR% of advances was higher than the deposits of banks both at the national level and state level which signifies the bankers’ interest towards contribution to economic growth.

**H₂:** There is no significant difference between the growth rates of Advances in India and Andhra Pradesh.

It is proved that there is no significant difference between the growth rates of advances in India and Andhra Pradesh.

- The Credit deposit ratio of commercial banks in All India was below the target level of 60 per cent till March end 2004 and they had exceeded the target in seven years commencing from 2005. The CD ratio of commercial banks in the state was well above the targets during the entire period of the study. Incremental CD ratio has been observed in 2010 and 2011. This implies that they have actively deployed the funds in the state in all the years during the reference period. Further, the credit deposit ratio of commercial banks in Andhra Pradesh was higher than the credit deposit ratio of commercial banks in India in all the years of study period. Commercial banks’ performance in Andhra Pradesh has appreciated over the years as compared to the commercial banks in India during the study period.
• All the bank groups in India had achieved the priority sector targets of 40 per cent during the entire period of study. Commercial banks in Andhra Pradesh had also surpassed the targets in all the years during the study period.

\(H_3\): There is no significant difference between the growth rates of priority sector advances in India and Andhra Pradesh

It is proved that there is no significant difference between the growth rates of priority sector advances of commercial banks at the national level and state levels.

• The CGR of deposits of public sector banks in Srikakulam district was 14.56 per cent and the CGR of private sector banks was 15.58 per cent. The CGR of deposits of public sector banks grew at a lesser rate than the private sector banks despite of their number. The private sector banks’ growth rate of deposits was higher than public sector banks in five years of the study period despite of their little presence in the district particularly in 2008-2009.

\(H_7\): There is no significant difference in growth rates of deposits of public sector banks and private sector banks in Srikakulam District.

It is proved that there is no significant difference in the growth rates of deposits of Public Sector Banks and Private Sector Banks in Srikakulam District

\(H_4\): There is no significant difference in growth rates of deposits of commercial banks in Andhra Pradesh and Srikakulam district.
It is also proved that no significant difference has been demonstrated by banks in the growth rates of their deposits in Andhra Pradesh State and Srikakulam District.

- Compound Growth rate of advances of public sector banks in the district stood at 24.92 per cent, while it was 17.14 per cent for private sector banks. Private sector banks have shown significant performance in advancing loans by showing three digit growth rates in two years (Only one Private sector bank could achieve 581 per cent in 2000-01 and 552 per cent in 2007-08 by three private sector banks). A comparison of growth rates of deposits and advances reveals that the compound growth rate of deposits of private sector banks was more than that of public sector banks and it is vice versa in case of advances. This signifies that private sector banks exhibited a better performance in terms of deposit mobilization and public sector banks have outperformed in advancing loans.

**H₈:** There is no significant difference in growth rates of advances of public sector banks and private sector banks in Srikakulam District.

It is proved that there is no significant difference in the growth rates of advances of Public Sector Banks and Private Sector Banks in Srikakulam District.

**H₅:** There is no significant difference in growth rates of advances of commercial banks in Andhra Pradesh and Srikakulam district.
It is also proved that no significant difference has been demonstrated by banks in the growth rates of their advances in Andhra Pradesh State and Srikakulam District.

- Credit deposit ratio of Public Sector Banks was above 60 per cent continuously for a period of seven years. Credit deposit ratio of Private Sector Banks was above 60 per cent in only six years. Incremental CD ratio has been observed in 2007-08 with 123.64 per cent for Private sector banks.

- The priority sector advances of public and private sector banks had increased throughout the study period except in two years. Compound growth rate of priority sector advances of public sector banks (17.03 per cent) was higher than the CGR of private sector banks (6.25%). This higher growth rate of public sector banks reveals their rural orientation.

**H_9:** There is no significant difference in growth rates of priority sector advances of public and private sector banks in Srikakulam District

The hypothesis that there is no significant difference in the growth rates priority sector advances of Public Sector Banks and Private Sector Banks in Srikakulam District has been proved.

**H_6:** There is no significant difference in growth rates of priority sector advances of Commercial banks in Andhra Pradesh and Srikakulam district.
It is also proved that no significant difference has been demonstrated by banks in the growth rates of their priority sector advances in Andhra Pradesh State and Srikakulam District.

- Public sector banks had deployed 20-70% of their deposits (locally mobilized resources) towards priority sector advances during the study period. Initially their share was only 20 to 40 percent till the end of 2005. A steep increase (59%) has been observed by the end of 2006 and went up to 67 percent by March end 2009. Private sector banks also deployed 20 to 70 percent of the deposits. However, private sector banks share has gradually decreased over the years except from 2001 to 2003. From 2004 onwards, their share has drastically declined from 15 per cent to 32 percent by the end of the study period (Only one private sector bank had deployed 40-70% of its deposits, whereas six private sector banks could pump only 20-30% of their deposits.). This implies that Public sector banks are investing the locally mobilized deposits for local development, whereas private sector banks are investing the funds elsewhere.

- Public Sector Banks’ advances to priority sector had exceeded the target of 40 per cent in ten years continuously during the study period. Private sector banks’ share of advances to priority sector had exceeded 40 per cent in eight years. They could not achieve the bench mark level of 40 per cent in three annual plans. Particularly this was low after 2007, despite of increase in the number of private banks in the district. Only 18 per cent of total advances were disbursed in 2007-08 towards this sector despite of presence of five private sector banks in the district. All
commercial banks (both public and private sector) in the district have played a crucial role in meeting the needs of the district by giving priority sector advances above the target level during the entire period of study. This shows the interest of the banks in the development of the district.

- The banks have increased their share in advancing loans under differential rate of interest scheme from Rs.30 lakhs in 2001 to Rs.170 lakhs in 2011. Their disbursements towards weaker sections also increased during the study period. These advances increased from Rs. 4332.12 lakhs in 2001 to Rs.38607 in 2009. The recovery performance of the banks had improved over the years from 57 per cent to 80 per cent. Percentage of Non-performing assets was declined from 15 percent to 4 per cent by the end of the study period.

- The targets for all mandals were not uniform. Abnormal increase or decrease in allocation of credit has been observed for some mandals in some years. In 2010-11 annual credit plan, allocation of credit has been reduced for eight blocks i.e., for 50 per cent of the blocks. Crop loans’ share was maximum i.e., 21 per cent to 36 per cent in all the credit plans. Next to crop loans, priority has been given to other priority sector in the allocation of credit (share ranges between 11 to 18 per cent). Agriculture Term Loans’ share ranges between 4 per cent and 10 per cent and allied activities share ranges between 3 and 5 per cent. Non-farm sector’s share ranges between 3 and 13 percent. Agriculture being the main occupation in the district, lion’s share was given to crop loans sector in all the credit plans. Targets for non-farm sector were doubled in 2008-09. Priority for 2009-10 credit
plan was financial inclusion and Medium enterprises. Separate allocation for small and medium enterprises was made in the annual credit plans from 2007-08 credit plans. Total share of commercial banks under district credit plans ranges between 48 per cent and 62 per cent. Hence, it is inferred that more than 50 per cent of the responsibility in district development lies with the commercial banks.

- The banks’ advances to crop loans had shown a compound growth rate of 26.52 per cent. The average crop loans disbursed during the period under study was Rs.14480 lakhs. Agriculture Term Loans Sector registered a compound growth rate of 35.43%. The average loan given to this sector was Rs.4061.99 lakhs during the study period. In allied activities sector, 10% compound growth rate has been registered and the average loan given to this sector was Rs. 3294 lakhs during the study period. Non-farm sector had registered a compound growth rate of 20.83 per cent. The average loan disbursed to non-farm sector was Rs. 5116 lakhs during the period of study. Other priority sector has recorded a compound growth rate of 9.18 per cent. The average loan disbursed to this sector was Rs.8274 lakhs. A comparison of sector-wise compound growth rates of various sectors shows that the CGR percent was the highest in agriculture term loans sector and crop loans occupy next position. Least CGR percent has been registered for other priority sector due to non-achievement of targets only in 2010-11 credit plan period. However, there is huge potential for this activity in the district and this has led to achievement of targets by banks in nine credit plans. This infers that the targets for the other priority sector have to be redefined or
increased due to the potentiality in the district. It is also important to note that the credit allocation for this sector also occupies second place due to its high potential in the district. The CGR percentage of non-farm sector shows the promotion of small scale industries in the district. The CGR per cent of allied activities was less compared to other sectors. However, this activity is gaining momentum due to its importance in generation of employment and income during off-seasons.

- Banks had exceeded their targets in crop loans in four credit plans and their performance varied between 90 to 99 percent in five credit plans. Only 70-80 percent of the targets were met in two credit plans. In Agricultural Term Loans Sector, banks had achieved the targets in five annual credit plans. They have shown an inconsistent performance in achieving the targets as the variation in achievement of the targets in this sector was very high. Banks have exceeded their targets in allied activities in all the years except in 2009-10. In Non-farm sector, Banks exceeded their targets in seven annual credit plans. In Other Priority Sector, they have achieved the targets in nine credit plans.

- The analysis shows that banks had achieved their targets in highest number of years in other priority sector followed by allied activities and non-farm sector with seven credit plans. The analysis shows that allied activities also have good potential in the district and banks have utilized this opportunity by disbursing loans in various mandals over and above their targets in all the credit plan periods. However, they could achieve their targets in crop loans in only four credit plans.
despite of crop loans being the major thrust area and predominant occupation in the district. They failed to purvey the credit as per the targets to this sector in seven credit plans though the targets were fixed according to the demand. It is also observed that consistency was maintained in fixing the targets for Crop Loans and the commercial banks had also exhibited consistency in achieving the targets.

\( H_{10} \): There is no significant difference between the target and achievement percentages in Crop Loans sector.

It is proved that there is no significant difference between the targets and achievement percentages in Crop Loans.

\( H_{11} \): There is no significant difference between the target and achievement percentages in Agriculture Term Loans Sector.

It is proved that there is no significant difference between the target and achievement percentages in Agriculture Term Loans Sector.

\( H_{12} \): There is no significant difference between the target and achievement percentages in Allied Activities sector.

It is proved that there is no significant difference between the target and achievement percentages in Allied Activities sector.

\( H_{13} \): There is no significant difference between the target and achievement Percentages in Non-Farm sector.
It is proved that there is no significant difference between the target and achievement percentages in Non-farm sector.

**H_{14}:** There is no significant difference between the target and achievement percentages in Other Priority Sector.

It is proved that there is no significant difference between the target and achievement percentages in other priority sector.

The Study also reveals that the growth rate of targets for all the sectors was not uniform. Targets were increased or decreased without considering the previous year’s achievements of banks in all the sectors, as targets were less than the previous year’s achievements in some years and abnormally increased in some years. This implies that the credit plans in the district were not prepared basing on the previous year’s performance of the banks and the base for credit plans are potential linked plans prepared by NABARD.

**H_{20}:** Are targets for banks fixed by considering the previous year’s performance

It is proved that the credit plans in the district are not prepared basing on the previous year’s performance of the banks and the base for credit plans are potential linked plans prepared by NABARD.

- The share of Public Sector Banks in total priority sector lending under district credit plans/annual credit plans varied between 40.71 per cent and 60.35 per cent. State Bank of India and Andhra Bank disbursed major portion of the loans due to
their wide net work of branches in the district. The other nationalized banks have urban orientation and a very few banks are operating in rural areas. It is observed that the Private Sector Banks’ share of lending to priority sector was very little due to their limited presence in the District. Hence, their share varied between 0.25 per cent and 9.81 per cent during the reference period. It is also noticed that only one bank was able to achieve a share of 9.79 per cent share in 2000-01 credit plan period, whereas six banks were able to achieve a share of only 0.97 per cent in 2009-10. The reasons for this may be attributed to their presence in urban areas or risk aversion in rural lending. While observing the share of Commercial Banks’ advances towards priority sector under district credit plans as a whole, it varied between 48.53 per cent and 61.54 per cent during the period of study.

- The public sector banks had exceeded 100 per cent of their targets in seven credit plans and surpassed 90 per cent in three credit plans. Private sector banks had exceeded 100 percent of the targets in eight credit plans. Observations reveal that there are fluctuations in both the targets and achievements of private sector banks. However, these banks have played a significant role in making the credit plans a success. The CGR of public sector banks was 20.39 per cent, while it was 5.68 per cent in case of private sector banks. The CGR of public sector banks in priority sector advances under annual credit plans was far above than the private sector banks. The average loan disbursed by public sector banks to all the sectors under annual credit plans was Rs. 32053 lakhs, while it was Rs. 1904 lakhs in
case of private sector banks. This implies the better performance of public sector banks in advancing credit to priority sectors under annual credit plans.

- Public sector banks had achieved more than 100 per cent of the targets in three credit plans in crop loans sector and the Private Sector banks’ performance was above the targets in credit in six credit plans. Public sector Banks had achieved more than 100 per cent of their targets in five credit plans in Agricultural term loans and Private Sector Banks had surpassed their targets in only three credit plans. Public Sector Banks’ had exceeded their targets in seven credit plans in advancing loans to Allied activities. Private sector banks were able to achieve more than 100 per cent of the targeted credit in only two credit plans. They have shown ‘zero’ performance in 2002-03; 2005-06 and 2009-10, as these banks have not disbursed any loans to these activities despite of the targets given to them. Further, their performance score was only 30 and 40 percent in two credit plans.

In Non-Farm Sector, Public Sector Banks utilized the business opportunity by giving loans above the target level in seven credit plans. Private sector banks have also lent above the target level in three credit plans. These banks had not given any loans to small scale industries in 2003-04 though targets were set to these banks. In Other Priority Sector, the Public Sector Banks’ have shown a fair performance in eight credit plans by lending the funds above target level. Private Sector Banks also have shown considerable interest in lending to this sector. They have played a significant role in eight credit plans by lending the funds well above the targets. The negative growth rate of advances by private sector banks to this
sector may be attributed to low deployment in the last year than the first year. In 2000-01, The Vysya Bank Limited, being the only Private sector bank in the district had achieved 3497 per cent in 2000-01 by disbursing Rs.1482.6 lakhs as against a target of Rs.42.4 lakhs. In the remaining seven credit plans also, their lending was most significant. Nonetheless, their performance was far below the targets in the three credit plans. As a whole, they have performed on par with the public sector banks and utilized the business opportunity by lending actively to other priority sector.

- Public sector banks advances towards crop loans had shown a compound growth rate of 25.82 per cent, whereas the compound growth rate of advances to crop loans for private sector banks was 85 per cent. Public sector Banks’ advances to Agriculture term loans had shown a compound growth rate of 40.59 per cent. Private Sector Banks’ compound growth rate per cent was -18.32. The compound growth rate of advances to allied sector was 11.08 per cent for public sector banks, while it was -4.03 per cent for private sector banks. The compound growth rate was 21.13 per cent in non-farm sector for public sector banks, while it was 17.12 per cent in case of private sector banks. In Other Priority Sector, the compound growth rate of advances was 13.25 per cent for public sector banks, while it was -5.98 per cent in case of private sector banks. The compound growth rate of advances to various sectors suggests that private sector banks have shown a spectacular performance in crop loans. However, they failed to exhibit the same
performance in other sectors. However, public sector banks have shown a balanced performance in meeting the targets in all the sectors.

**H\textsubscript{15}:** There is no significant difference between the performances of Public Sector Banks and Private Sector Banks in lending to Crop Loans.

It is proved that there is no significant difference between the performance of Public Sector Banks and Private Sector Banks in lending to Crop Loans.

**H\textsubscript{16}:** There is no significant difference between the performances of Public Sector Banks and Private Sector Banks in lending to Agriculture Term Loans.

It is proved that there is no significant difference between the performance of Public Sector Banks and Private Sector Banks in lending to Agri-Term loans.

**H\textsubscript{17}:** There is no significant difference between the performances of Public Sector Banks and Private Sector Banks in lending to Allied Activities sector.

It is proved that there is no significant difference between the performance of Public Sector Banks and Private Sector Banks in lending to Allied Activities.

**H\textsubscript{18}:** There is no significant difference between the performances of Public Sector Banks and Private Sector Banks in lending to Non-Farm sector.

It is proved that there is no significant difference between the performance of Public Sector Banks and Private Sector Banks in lending to Non-farm Sector.
H_{19}: There is no significant difference between the performances of Public Sector Banks and Private Sector Banks in lending to Other Priority Sector.

It is proved that there is no significant difference between the performance of Public Sector Banks and Private Sector Banks in lending to Other Priority Sectors.

- The study also revealed that there is a high positive correlation between the priority sector advances and state domestic product. The priority sector advances cause 98 per cent of variation in GDP of the district. The regression coefficient value implies that one rupee increase in priority sector advances leads to an increase in gross domestic product (GDP) of the district by Rs.10.11. Per capita income of the district also showed an increasing trend during the study period. It has almost increased 3 times (increased from Rs.12407 to Rs. 35959) during the reference period. The results of the sector wise analysis shows that there is a high degree of positive correlation between the advances to primary sector, secondary sector, tertiary sector and Gross Value Added to these sectors. The regression coefficient value implies that one rupee increase in primary sector advances leads to an increase in gross value added of agriculture Sector of the district by Rs.4.37 and one rupee increase in secondary sector advances leads to an increase in Gross Value Added of Agriculture Sector of the district by Rs.8.06. The regression coefficient value for services sector indicates that one rupee increase in services sector advances leads to an increase in Gross Value Added of Services sector of the district by Rs.24.93. A comparison of the regression co-efficient suggests that the gross value added exerted by lending to agriculture loans is less (4.37)
compared to industries sector (8.06) and other priority sectors (24.93). The loans given to other priority sectors were more productive as they generate Rs.24.93 for every one rupee loan. Non-farm sector occupy the second position indicating the potential for development of industries in the district. The analysis of loans to various sectors also suggests that targets for other priority sector occupy next position to crop loans and the public sector banks and private sector banks have achieved their targets in more number of years compared to crop loans. This indicates the demand for loans to transport operators, self-employed persons, housing loans and education loans in the district.

- **H21**: Priority sector advances have significant impact on the development of the District.

The priority sector advances have a positive impact on the development of the district.

- The average population covered per branch and the number of villages covered per branch is much higher than the national average i.e. 14000 per branch. Though banks have actively engaged in the financial inclusion job, the existing branches are not sufficient to cover the unbanked villages.

- The cumulative number of households covered under the formal financial stream has reached to 574636 in the district as per the records (98.67%). The total number of households left to be covered was 7741. Banks expressed their inability to cover these households due to migration of 5194 (0.89 percent).
families and lack of interest in opening accounts by 2547 (0.44 per cent) households. However, the evaluation report says that only 79 per cent of the population desirous of having bank accounts was provided with banking facilities and 21 per cent of the population still needs the banking facilities. Half of the below poverty line (BPL) households are left uncovered even today. Thus, financial inclusion in the district is still a distant goal in the district.

- The rural deposit accounts constitute above 40 per cent of the total accounts, their share of deposit amounts accounts for only 23 to 27 per cent due to small size of the transactions. The urban deposit accounts constitute only 15 to 17 percent of the total accounts and their share of deposit amounts accounts for 33 to 38 per cent implies the large size of the transactions in urban areas. The semi-urban areas are a mix of rural and urban population and the urban trend reflected in their deposits accounts and amounts. The analysis shows that the rural and semi-urban bank accounts constitute more than 60 per cent of banking business in the district. This signifies the importance of the rural and semi-urban presence of banks rather than limiting to urban areas. However, the trend shows that the share of rural and semi-urban deposit accounts and amounts exhibited a declining trend, while it is vice versa in case of urban deposits accounts and amounts.

- The rural and semi-urban loans occupied a major share (nearly 70 percent) in Banks’ loan portfolio when compared to urban areas. Banks have concentrated their business in both rural and semi-urban areas of the district, as their share was high. Increase in number of loans accounts over the period and increase in
amount of loans disbursed to rural and semi-urban areas indicates a good sign of promoting financial inclusion.

- There are fifteen villages having population of above five thousand. Hence, there is a need to open new branches in those villages. There are 235 villages having population above two thousand and below five thousand in the district. A road map has been designed to appoint business correspondents in 235 villages on the basis of service area of the villages.

- To facilitate greater financial inclusion, Andhra Bank had established ‘Financial Literacy-cum-Credit Counselling’ centre in this district. In an oral interview, the Officer-In charge of the Centre stated that they are conducting awareness camps in rural areas by organizing ‘burrakathas’ or small play lets and conducting counselling programmes for the villagers to open bank accounts.

- The district has stood second in the state in implementation of SHG bank linkage. Number of SHGs is increasing year after year and the amount disbursed is also relatively increasing. However, the number of new groups formed during the year is showing a decline year by year. The total women having membership in SHGs account for 4.74 lakh as on 31.03.2011. Mandal Velugu Training Centres were established for conduct of regular training programmes for self-help group (SHGs) members and leaders in the capacity building and skill development. The district bagged ‘Best Performance Award’ for 3 years in SHG bank linkage programme commencing from 2002. Mandal Mahila Samakyas are equipped with KU band television sets, DVDs, Computers and audio visual equipment for
training programmes. Twenty nine Indira Kranthi Patham-Mandal Training Centre buildings are constructed with a cost of 182.70 lakhs to impart training to SHG women on Institutional Building and Micro Credit Plans. Bank linkage will be routed through Village Organizations for better recovery and reduction of operational charges at Bank level. Community Based Recovery Mechanism (CBRM) was introduced. Swarozgar Credit Card System will be extended to Village organizations/SHGs/members. Point persons are placed at every bank branch for coordinating with Community Based Organisations and banks. Case Managers are placed for desk work relates to Self-Help Groups and Village Organization to each bank branch. It is proposed to establish Village Nirmita Kendras to speed up Indiramma Housing Programme. For better monitoring of the SHGs, federations of SHGs i.e., Village Organisations, Mandal Samakhyas and Zilla Samakyas are functioning in the district. Bank Mitras are placed in all bank branches for desk work relates to SHGs and Village Organisations. Web based software has been introduced for better monitoring of SHGS. For quick and effective monitoring of SHGs, SMS based data updating was introduced from March 2010. Under this system, all disbursements and repayment particulars will be sent to central server by SMS message. Community Resource Persons (CRPs) were deployed for effective functioning of SHGs. The CRPs are working for Institutional Building, Total Financial Inclusion (TFI), Marketing activities and recovery programmes. It is also proposed to introduce SHG-e-Bookkeeping to record transactions and meeting of SHGs, connect to website, so that the functioning of SHG can be viewed in web site and monitor the performance.
Joint Liability Groups (JLGs) formed under Non-Pesticide Management (NPM) programme were eight hundred and seventy five. Bank accounts were opened for 465 groups and Linkage should be provided to the JLGs on par with regular SHGs.
9.3 SUGGESTIONS:

- As the rural business accounts for sixty percent of the total banking business, the nationalized banks and private sector banks should extend their services to rural areas to make good the business opportunity.

- The newly entered public sector banks and private sector banks are enthusiastic to collect deposits in the district but reluctant to advance loans. Hence, Reserve Bank of India should direct them to start their branches in any one of the unbanked villages having population of five thousand and above instead of opening branches in district headquarters. They can make use of the services of Business correspondents or use mobile banking in rural areas where it is not possible to open bank branches.

- The priority sector advances to total deposits of private sector banks is gradually declining and hence proper monitoring by Reserve Bank of India is required in directing the banks to use the locally mobilized deposits for local development.

- The District Consultative Committee should make proper appraisal of non-adherence to targets by certain banks and proper monitoring and reporting system is to be devised for this purpose.

- The study reveals that banks have failed to meet the targets in crop loans in more number of years though there is demand potential. Hence, this should be dealt with immediately.
• Industrial awareness programmes are to be conducted for the development of small and medium enterprises (SMEs)

• Use of the services of Business correspondents is essential to promote financial inclusion. The road map was already prepared and it should be translated into action quickly.

• Targets under district credit plans should be increased as the credit extended by banks covers only thirty to forty percent of the credit needs of the district.

• It is of great use if banks maintain separate record for no-frills accounts opened by them as it is an evidence of their interest in promotion of financial inclusion.

• Private Banks should also take part in penetrating the rural business on par with the public sector banks.

• Banks have to improve their recovery performance by adopting appropriate methods, as the recovery performance indicates the efficiency of the banks.

• Lead bank should organize loan melas in rural areas to create awareness about the various deposits schemes, interest rates on deposits and loans. Banks should devise suitable schemes taking into account the needs of the area. Financial Literacy-cum-Credit Counselling centre has to play a lead role in credit counselling aspect. They have to create awareness about use of formal finance than taking loans from local money lenders at high rates.
• Awareness of banking concept in rural areas should be redefined for rural population. It can be visualized by using different communication methods like play lets, burrakathas, puppet shows, folk songs and short films etc. which will be appreciated by the rural folk.

• Banks have to conduct awareness camps in rural areas to inculcate the habit of thrift among the poor. The same may be of useful in the areas where urban poor are residing.

• The analysis shows that the advances to agricultural sector yield less income compared to other sectors. Though loans to agriculture sector yield low productivity, it is important to provide loans to this sector in view of the nation’s food security.

• The share of rural and semi-urban deposit accounts and amounts exhibited a declining trend. Banks should initiate measures to improve this share by using appropriate technology and various modes of delivery channels.

• Adequate bank linkage should be provided for social development through various schemes.

• Reserve Bank of India may appoint monitoring committees to verify whether the banks are giving loans to small scale industries as per the guidelines or not as the nationalized banks are not sanctioning loans for these industries on the pretext of piling up of overdues.
Government may organize ‘Parishramika Baata’ on the lines of ‘Pallebata or Nagarabata’.
9.4 CONCLUSION

Priority sector lending is intended to improve the standard of living of the people by proving adequate credit flow to various sectors like agriculture, small scale industries and other priority activities which generate income to the poor for their livelihood. The private sector banks exhibited a better performance in terms of deposit mobilization and the public sector banks had played a key role in advancing loans to priority sectors in the district. The market share of commercial banks in priority sector lending constitutes sixty percent of the total business in the district. Advances to other priority sector are exerting high yield compared to other sectors. Particularly this is low for agriculture sector. Yet, advances to crop loans are important in view of the food security and also due to its predominance in India.

The advances given to priority sectors exerted considerable value addition to gross domestic product of the district and the per capita income has almost increased 3 times (increased from Rs.12407 to Rs. 35959) during the period of ten years. Hence, the objectives of priority sector lending are fulfilled. The efforts that are made by the banks and district authorities in strengthening SHGs are appreciable. Better recovery and greater financial inclusion are the two advantages that make the SHG lending definitely a good proposition for the banks. SHGs should be made more outreacheable and sustaining by better guidelines from Reserve Bank of India as this is the best method for both financial inclusion and banking to rural areas.
Rural banking hence achieves the twin objectives of the Indian constitution by bringing about growth through raising the GDP in the area and the social objective through financial inclusion of the underprivileged.

9.5 SCOPE FOR FURTHER RESEARCH:

The research can be extended by using primary data on the trends in priority sector lending and its end use. Study may be conducted to know the weaker section advances or differential rate of interest scheme extended by banks in the district. There are other areas which are important for conducting a detailed study in the district. They are:

- Role of Non-Governmental Organisations in the development of the district.
- Role of bank linkage in social development schemes
- Role of District Rural Development Agency in rural development
- Impact of technology on rural lending.