

## *Full Length Research Paper*

# Priority sector advances: Trends, issues and strategies

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**An enunciation of the need to channelise the flow of credit to certain sectors of the economy, known as the priority sectors, in the largest interest of the country, can be traced to the Reserve Bank's credit policy for the year 1967 - 1968. The government initiated measures for social control over banks in 1967 - 1968 with a view to securing a better adaptation of the banking system to the needs of economic planning and it is playing a more active role in aiding sectors like agriculture and small scale industries (SSIs). The present study is an attempt to study the priority sector advances by the public, private and foreign bank groups. This study is based on the parameters like lending to priority sector by public, private sector and foreign bank groups, targets achieved by public, private sector and foreign bank group NPAs (Non-performing assets), while lending to priority sector. On the basis of these parameters, the study concludes that public sector banks have not achieved the target of 40% while private sector banks have achieved the overall target. No private sector bank could achieve the 10% target by lending to weaker section. On the other hand, foreign banks have achieved the small scale industries' export credit and overall target. NPAs of public sector banks have increased because of high priority sector advances. The paper also throw light on the problems or issues which arise due to priority sector advances and also suggest some strategies to sought out these issues. All the parameters have been analyzed for the period, 2006 - 2007.**

**Key words:** Priority sector advances, targets achieved, issues, strategies.

## INTRODUCTION

It has been in the post 1969 period that priority sector lending and social banking concepts have been crystallized and adopted for the purpose of credit deployment (Gupta S and Kumar S 2004). The term 'priority sector' indicates those activities which have national importance and have been assigned priority for development. Hence, the adoption of priority sector concept for the purpose of bank lending reflects the effort to synchronize the lending activities of each bank with the national priorities. These sectors, in particular agriculture, small industries and other small business were the neglected sectors and for the purpose of bank credit, they have been categorized as priority sector.

The priority sector advances has undergone several changes, since then, several new areas and sectors has being brought within the purview of this sector. While

there has been continuous demand to include new areas such as infrastructure within the ambit of priority sector, there have also been suggestions that the focus on the needy sectors of economy and weaker sections of the society is getting lost because of such inclusions. A need has therefore, been felt to review the concept and the segments of priority sector. Consequently, in paragraph 89 of the Annual Policy Statement of Reserve bank of India for the year 2005 - 2006, it was stated that prescriptions relating to priority sector lending have been modified from time to time and generally, the eligibility criteria have been enlarged to include several new areas. In December 2004, it was decided that direct advances to priority sector will be encouraged, thus beginning a phased withdrawal of eligibility in special bonds of specified institutions.

At the second meeting of the national credit council in July 1968, the priority sector was defined to include only two activities, agriculture and small scale industries. A list indicating the type of advances which would be eligible for compliance with the lending targets for these sectors was sent out by RBI to the banks. For small scale

**Abbreviations:** NPA, Non Performing Assets; RBI, Reserve Bank of India; Public sector banks includes SBI and Associates banks and Nationalized banks; Indian private sector banks include old private sector banks and new private sector banks.

industries, no separate guidelines were issued, but it was indicated that direct loans granted to road transport operators would qualify for compliance with lending targets along with small scale industries. Financing of industrial estate was also to be included under small scale industries. Over a period of two decades, the composition of priority sector has undergone some modification in the activities covered, such as the addition of housing for weaker sections and pure consumption loans under the priority sector. (Vashisht, 2004) suggests Economic Reforms in the real sectors of an economy fail to realize their full potential without a parallel reform in the financial sector. The financial sector refers to a general improvement in the functioning and efficiency of the financial system as a whole and the removal of impediments to its long term developments. (Samal B, 2002) As a result of financial sector reforms, there is a shift in the focus from quantitative to qualitative growth and Indian banking should be subjected to rigors or prudential norms of operations and competitive environment. (Mujumdar NA, 2001), the deregulation, the vital component of the financial sector reforms, has increased the overall profitability of the banking industry. (Passah, 2002) analyzed the Indian financial system comprising the commercial banks, the financial institutions and the capital markets. He concluded that Indian banking has undergone a very rapid transformation in the past three decades. There is a sea change in the Indian banking sector in the post financial sector reforms'.

The scope and extent of priority sector lending has undergone a significant change in the post-reform period with several new areas and sectors being brought under its purview while there had been demands to include new areas, such as infrastructure, within the ambit of priority sector, there is apprehension that it will dilute the definition of the priority sector with the focus on the needy sectors of the economy and weaker section of society getting completely lost. Against this background, an internal working group was set up in the Reserve Bank (Chairman: Shri C.S. Murthy) to examine the need for continuance of priority sector lending prescriptions, review the existing policy on priority sector lending, including the segments constituting the priority sector targets and sub-targets and to recommend changes, if any, required in this regard. Based on the draft technical paper submitted by the internal working group and the feedback received thereon, the guidelines were revised. The sectors of the society economy that impact large segments of the population, the weaker section and the sectors which are employment-intensive such as agriculture and micro and small enterprises, have been retained as priority sector in the revised guidelines, which came into effect from 30 April, 2007. Agriculture, small enterprises, micro credit, retail trade, education loans and housing loans up to 20 lakh are the broad categories included in the priority sector.

In the olden days, poor people borrowed money from

indigenous banks to fulfill their needs. But as the time passes, banking as an institution, dealing with lending and collection of money came into existence. This type of banking is called simple banking. According to the changing requirements of time, simple banking transformed itself into commercial banking (Gujral N, 2003). Commercial banking, itself, has undergone numerous changes all over the world, during the last five decades. Now, the present day banking does not restrict itself to traditional deposit collection and money lending, encompassing a wide sphere of financial activity; lending still remains the primary activity. Most credit needs of the society, for carrying commercial activities are fulfilled by the banks (Prasad M., Sinha KK and Prasad KM, 2004). The conventional credit from the banking system to the commercial sector comprises bank loans and advances in the form of term loans, demand loans, cash credit, overdrafts, inland and foreign bills purchased and discounted as well as investments in instruments issued by non-government sector. But lending is not an easy task for the banks because it creates a big problem for the banks which is called non-performing assets (Chhimpa J, 2002). Non-performing asset generally refers to those assets which cease to provide any return to the bank. In the present time, NPAs is a big problem for the banks as it has ever been a major concern for the bank promoters and government. But efficient banks have no need to frighten from the NPAs because they can find some other sources of income to match these NPAs in the era of LPG.

### **Categories of priority sector advances**

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

#### **Agriculture (Direct and Indirect Finance)**

Direct finance to agriculture includes short medium and long term loans given for agriculture and allied activities directly to individual farmer, self-help groups (SHGs) or joint liability groups (JLGs) of individual farmers without limit and to others (such as corporate partnership firms and institutions) upto Rs. 20 lakh for taking up agriculture allied activities. Indirect finance to agriculture includes loans given for agriculture and allied activities.

#### **Small scale industries (Direct and Indirect Finance)**

Direct finance to small scale industries (SSIs) includes all loans given to SSI units which are engaged in manufacture, processing or preservation of goods and whose investment are in plant and machinery (original cost) excluding land and building.

### Small business/service enterprises

It includes small business, retail trade, professional and self employed persons, small road and water transport operators and other enterprises.

### Micro credit

Provision of credit and other financial services and products of very small amounts not exceeding Rs. 50,000 per borrower to the poor in rural, semi-urban and urban areas, either directly or through a group mechanism, for enabling them to improve their living standards, constitutes micro credit.

### Education loans

Education loans include loans and advances granted to individuals for educational purpose, upto Rs. 10 lakh for studies in India and Rs. 20 lakh for studies abroad and do not include those granted scholarship by the institutions.

### Housing loans

Loans upto Rs. 15 lakh for construction of houses by individuals, (excluding loans granted by banks to their own employees) and loans given for repairs to the damaged houses of individuals upto Rs. 1 lakh in rural and semi-urban areas and upto Rs. 2 lakh in urban areas.

### Policy measures by RBI

The description of the priority sector was formalized in 1972 on the basis of the report submitted by the informal study group on statistics relating to advances to the priority sector, constituted by the Reserve Bank. Although, initially, there were no specific targets fixed in respect of priority sector lending in November, 1974. Public sector banks were advised that their priority sector lending should reach a level of not less than one-third of the outstanding credit by March 1979. In November, 1978, the private sector banks were also advised to send a minimum of 33% of their total advances to the priority sector by the end of March 1980. Subsequently, the target was enhanced to 40% of aggregate advances. In achieving this overall target, sub-target for lending to agriculture sector and weaker section were also stipulated for the banks. At present, banks are required to lend at least 18 and 10% of their net bank credit (NBC) to the agriculture sector and weaker section of society, respectively.

Foreign banks operating in India were also advised to progressively increase their advances to the priority

sector to reach a level of 15% of their NBC by end-March 1992. In April 1993, this ratio was further raised to 32% of NBC to be achieved by March 1994. Within the enhanced target of 32%, two sub-targets of 10% in respect of SSI and 12% for export were fixed. On the basis of revised guidelines on lending to the priority sector, the priority sector lending target/sub-target have now been linked to adjusted net bank credit (ANBC) or credit equivalent amount of off-balance sheet exposures, whichever is higher, with effect from 30 April, 2007.

## OBJECTIVES AND RESEARCH METHODOLOGY

### Objectives

- 1) To study and analyze the priority sector lending by various bank groups.
- 2) To analyze targets achieved by various bank groups.
- 3) To study the issues and prepare strategies to enhance the priority sector advances.

### Research methodology

The research design of the study is priority sector advances of various banking groups. RBI has given several targets to banks to enhance loans in priority sector but out of these targets, banks have been succeeded to achieve only a few targets. Lending to priority sector has created the fear of NPAs among the banks. Profitability of the banks has also been adversely affected by the priority sector advances, because of low rate of interest on the priority sector advances.

The universe of the present study is banking industry of India. The Indian banking industry has been divided into three major bank groups namely: 1) Public Sector Bank Group (28)\*; 2) Private Sector Bank Group (26); 3) Foreign Bank Group (30). \* including IDBI Bank.

The study attempts to accomplish its objectives by making analysis on the basis of seven parameters: 1) Priority Sector Lending by Public Sector Bank Group; 2) Priority Sector Lending by Private Sector Bank Group; 3) Priority Sector Lending by Foreign Bank Group; 4) Targets Achieved by Public Sector Banks Under Priority Sector; 5) Targets Achieved by Private Sector Banks Under Priority Sector; 6) Targets Achieved by Foreign Banks Under Priority Sector; 6) NPAs while lending to Priority Sector.

All the parameters have been analyzed for the period, 2006 and 2007.

## RESULTS AND DISCUSSIONS

### Priority sector lending by public sector banks (G-I)

Table 1 indicates the priority sector advances by the public sector banks. The outstanding advances granted by public sector banks to the priority sector were at Rs. 5, 21 and 180 crore as on March 2007. Advances to agriculture constituted 15.6% of NBC during 2007, of which Indian Bank (21.0), State Bank of Saurashtra (18.8), Bank of India (18.4) gave more advances to agriculture (Appendix 1). Advances to small scale

**Table 1.** Priority sector lending by public sector banks (Amount in Cr).

Sector	2006		2007		Growth rate (%)
	Amount	Percentage to net bank credit	Amount	Percentage to net bank credit	
Priority Sector Advances	4,09,748	40.3	5,21,180	39.6	27.19
Agriculture	1,55,220	15.3	2,05,091	15.6	32.13
Small-Scale Industries	82,434	8.1	1,04,703	8.0	27.01
Other Priority Sector	1,63,756	16.1	2,01,023	15.3	22.76

Source: Report on Trend and Progress of Indian Banking, RBI, Mumbai, 2006 - 2007.

**Appendix 1.** Advances of public sector banks to priority sector percent.

Name of the Bank	Total agricultural advances	Weaker section	Total priority sector advances
	Percent to NBC	Percent to NBC	Percent to NBC
Public sector banks	15.6	7.2	39.6
Nationalized banks*	16.0	7.1	39.9
Allahabad Bank	18.3	6.6	39.6
Andhra Bank	18.5	9.5	41.1
Bank of Baroda	15.9	7.5	40.6
Bank of India	18.4	10.1	47.1
Bank of Maharashtra	14.0	5.2	41.7
Canara Bank	15.7	6.0	40.2
Central Bank of India	15.8	7.2	43.6
Corporation Bank	9.2	3.3	40.6
Dena Bank	15.2	5.0	42.0
Indian Bank	21.0	11.5	49.4
Indian Overseas Bank	18.7	10.2	40.9
Oriental Bank of Commerce	11.1	4.5	36.5
Punjab National Bank	18.9	11.0	41.9
Punjab and Sind Bank	16.0	5.6	42.8
Syndicate Bank	17.4	10.1	39.9
Union Bank of India	16.8	6.9	44.4
United Bank of India	12.0	8.0	41.7
UCO Bank	13.9	4.0	40.4
Vijaya Bank	12.4	5.8	41.0
IDBI Ltd.	2.2	0.3	15.2
State bank group	14.8	7.3	38.8
State Bank of India	14.5	7.6	38.4
State Bank of Bikaner and Jaipur	18.3	10.3	41.0
State Bank of Hyderabad	13.7	7.1	40.8
State Bank of Indore	17.2	10.0	40.0
State Bank of Mysore	13.8	9.7	38.3
State Bank of Patiala	15.8	1.1	36.3
State Bank of Saurashtra	18.8	6.8	42.2
State Bank of Travancore	12.6	5.4	41.0

Source: Same as Table 1.

industries by public sector banks were only 8.0% while advances to other priority sector were 15.3% during 2007.

#### Priority sector lending by private sector banks (G-II)

Priority sector lending by private sector banks can be

**Table 2.** Priority sector lending by private sector banks (Amount in Cr).

Sector	2006		2007		Growth rate (%)
	Amount	Percentage to net bank credit	Amount	Percentage to net bank credit	
Priority Sector Advances	1,06,586	42.8	1,43,768	42.7	34.88
Agriculture	36,712	13.6	52,056	12.8	41.80
Small-Scale Industries	10,421	4.2	13,063	3.9	25.35
Other Priority Sector	57,777	23.2	76,925	22.9	33.14

Source: Same as Table 1.

**Appendix 2.** Advances of private sector banks to priority sector percent.

Name of the Bank	Total agricultural advances	Weaker Section	Total priority sector advances
	Percent to NBC	Percent to NBC	Percent to NBC
Private Sector Banks	12.82	1.55	42.71
Axis Bank	14.09	1.11	42.58
Bank of Rajasthan	6.05	1.12	31.49
Bharat Overseas Bank	11.08	1.63	41.05
Catholic Syrian Bank	12.49	1.69	45.35
Centurian Bank of Punjab	14.63	0.53	38.35
City Union Bank	7.12	1.54	40.01
Development Credit Bank	13.67	3.29	41.57
Dhanalakshmi Bank	16.02	6.43	46.55
Federal Bank	15.80	6.50	44.37
Yes Bank	18.84	-	42.74
HDFC Bank	14.24	0.70	44.21
ICICI Bank	11.65	0.80	44.87
Indusind Bank	13.86	0.09	41.52
ING Vysya Bank	8.74	3.86	41.01
Jammu and Kashmir Bank	4.73	3.13	24.57
Karnataka Bank	8.16	1.37	35.11
Karur Vysya Bank	15.90	4.17	40.56
Kotak Mahindra Bank	16.26	-	41.25
Lakshmi Vilas Bank	18.19	6.59	41.08
Lord Krishna Bank	9.80	1.03	44.92
Nainital Bank	13.93	1.24	50.33
Ratnakar Bank	14.60	2.23	43.08
Sangli Bank	24.30	7.63	93.86
SBI Commercial and International Bank	8.76	-	42.37
South Indian Bank	17.23	4.05	41.56
Tamilnad Mercantile Bank	15.62	6.27	48.85

Source: Same as Table 1.

seen in Table 2. It is clear from the Table that priority sector advances extended by private sector banks in 2007 were at Rs. 1,43,768 crore, constituting 42.7% of NBC. Lending by private sector advances to the agriculture sector improved from 8.3% of NBC at the end of March, 2000 to 13.6% at the end of March, 2006, before declining to 12.8% of NBC as on March 2007. Lending to agriculture sector was more in Sangli Bank (24.30%), Yes Bank (18.84%) while it was least in Bank of Rajasthan (6.05%) and in City Union Bank (7.12%) (Appendix 2). Of the overall advances, advances to small scale industries were the least that is 3.9% in 2007.

### Priority sector lending by foreign banks (G-III)

Table 3 indicates that priority sector advances by foreign banks, having offices in India, increases from Rs. 30,439 crore to 37,835 crore as at 2007 which constituted 33.4% of net bank credit. The share of export credit in total net bank credit was 18.3% which is higher than the share of small scale industries in 2007.

Export credit was more in Mashreq bank (102.5%), Societe Generale Bank (177.1%) and least in American Express Bank (6.3%) and Mizuho Corporate Bank (9.5%) (Appendix 3).

**Table 3.** Priority sector lending by foreign banks (Amount in Cr).

Sector	2006		2007		Growth rate (%)
	Amount	Percentage to net bank credit	Amount	Percentage to net bank credit	
Priority Sector Advances	30,439	34.4	37,835	33.4	24.30
Export credit	17,326	19.6	20,714	18.3	19.55
Small-Scale Industries	8,430	9.5	11,648	10.3	38.17

Source: Same as Table 1.

**Appendix 3.** Advances of foreign banks to priority sector percent.

Name of the bank	SSI advances	Export credit	Total priority sector advances
	Percent to NBC	Percent to NBC	Percent to NBC
Foreign banks	10.3	18.3	33.4
ABN Amro Bank	10.2	27.8	33.6
Abu Dhabi Commercial Bank	10.7	14.3	30.9
American Express Bank	43.0	6.3	48.6
Antwerp Diamond Bank	26.0	96.9	96.9
Arab Bangladesh Bank	23.4	16.1	39.5
Bank International Indonesia	719.7	-	719.7
Bank of America	10.6	20.5	32.4
Bank of Bahrain and Kuwait	13.9	42.0	75.6
Bank of Ceylon	20.5	55.0	70.0
Bank of Nova Scotia	8.3	29.6	41.4
Bank of Tokyo-Mitsubishi	9.0	16.4	31.9
Barclays Bank PLC	12.2	22.8	35.0
BNP Paribas	11.3	13.0	33.8
China Trust Commercial Banks	15.8	16.4	37.3
Calyon Bank	12.9	17.9	38.7
Citi Bank	8.7	16.0	31.8
Deutsche Bank	10.3	23.3	34.1
Development Bank of Singapore	21.9	17.2	39.1
HSBC Ltd.	7.6	14.0	29.6
JP Morgan Chase Bank	9.5	23.3	32.8
Krung Thai Bank	38.9	16.1	85.7
Mashreqbank	14.2	102.5	116.8
Mizuho Corporate Bank	6.1	9.5	25.8
Oman International Bank	26.5	73.3	99.8
Shinhan Bank	9.5	13.1	33.2
Societe Generale	13.9	177.1	190.9
Sonali Bank	25.4	54.5	54.5
Standard Chartered Bank	11.4	14.6	34.1
State Bank of Mauritius	15.3	12.7	46.4

Source: Same as Table 1

**Table 4.** Targets achieved by public sector banks under the priority sector.

<b>Name of the bank</b>	<b>Overall</b>	<b>Agriculture</b>	<b>Weaker section</b>
Public Sector Banks			
Nationalized Banks			
Allahabad Bank			
Andhra Bank	√	√	
Bank of Baroda	√	√	
Bank of India	√		
Bank of Maharashtra	√	√	√
Canara Bank	√		
Central Bank of India	√		
Corporation Bank	√		
Dena Bank	√		
Indian Bank	√		
Indian Overseas Bank	√	√	√
Oriental Bank of Commerce	√	√	√
Punjab National Bank			
Punjab and Sind Bank	√	√	√
Syndicate Bank	√		
Union Bank of India			√
United Bank of India	√		
UCO Bank	√		
Vijaya Bank	√		
IDBI Ltd.			
<b>State Bank Group</b>			
State Bank of India			
State Bank of Bikaner and Jaipur			
State Bank of Hyderabad	√	√	√
State Bank of Indore	√		√
State Bank of Mysore	√		
State Bank of Patiala			
State Bank of Saurashtra	√	√	
<i>State Bank of Travancore</i>	√		

Source: Same as Table 1.

### Targets achieved by public sector banks under the priority sector

Table 4 exhibits the targets achieved by public sector banks under the priority sector. The public sector banks, as a group, continued to meet the target till 2005 - 2006. Priority sector lending by the public sector bank group however marginally fell short of the target of 40% by 0.7% as at March, 2007. Seven PSBs (Allahabad Bank, Oriental Bank of Commerce, Syndicate Bank, IDBI Ltd., State Bank of India, State Bank of Mysore and State Bank of Patiala) did not achieve the priority sector lending target of 40% during 2007. Out of 28 PSBs, only eight banks (Allahabad Bank, Andhra Bank, Bank of India, Indian Bank, Indian Overseas Bank, Punjab National Bank, and State Bank of Bikaner and Jaipur and State Bank of Saurashtra) could achieve the agricultural lending target of 18%. In the case of lending to weaker

sections, only seven PSBs (Bank of India, Indian Bank, Indian Overseas Bank, Punjab National Bank, Syndicate Bank and State Bank of Bikaner and Jaipur and State Bank of Indore) achieved the sub-target of 10% as at March 2007.

### Targets achieved by private sector banks under the priority sector

Table 5 reflects the targets achieved by private sector banks under the priority sector. The private sector banks, as a group, were able to achieve the overall priority sector lending target in 2007. Out of 26 private sector banks, four banks (Bank of Rajasthan Ltd., Centurian Bank of Punjab Ltd., Jammu and Kashmir Bank Ltd. and Karnataka Bank Ltd.) did not achieve the target as at March 2007. Only three banks (Yes Bank, Lakshmi Vilas

**Table 5.** Targets achieved by private sector banks under the priority sector.

<b>Name of the bank</b>	<b>Overall</b>	<b>Agriculture</b>	<b>Weaker section</b>
Private Sector Banks	√		
Axis Bank	√		
Bank of Rajasthan			
Bharat Overseas Bank	√		
Catholic Syrian Bank	√		
Centurian Bank of Punjab			
City Union Bank	√		
Development Credit Bank	√		
Dhanalakshmi Bank	√		
Federal Bank	√		
Yes Bank	√	√	
HDFC Bank	√		
ICICI Bank	√		
Indusind Bank	√		
ING Vysya Bank	√		
Jammu & Kashmir Bank			
Karnataka Bank			
Karur Vysya Bank	√		
Kotak Mahindra Bank	√		
Lakshmi Vilas Bank	√	√	
Lord Krishna Bank	√		
Nainital Bank	√		
Ratnakar Bank	√		
Sangli Bank	√	√	
SBI Commercial and International Bank	√		
South Indian Bank	√		
Tamilnad Mercantile Bank	√		

Source: Same as Table 1.

Bank and Sangli Bank) was able to achieve the 18% sub-target for agriculture during 2007. Lending to agriculture by another six banks ranged between 15 and 18%. No private sector bank could achieve the 10% target for lending to weaker section.

#### **Targets achieved by foreign banks under the priority sector**

Target achieved by foreign banks under the priority sector depicts in Table 6. The share of export credit in total net bank credit at 18.3% was significantly above the prescribed sub-target of 12.0%. Foreign banks also reached the sub-target of 10.0% in respect of lending to small scale industries. Out of 29 foreign banks operating in India, five banks (Abu Dhabi Commercial Bank, Bank of Tokyo-Mitsubishi, Citi Bank, HSBC Ltd. and Mizuho Corporate Bank) could not achieve the priority sector lending target of 32% of NBC in March 2007. Seven foreign banks (Bank of Nova Scotia, Bank of Tokyo-Mitsubishi, Citi Bank, HSBC Ltd., JP Morgan Chase

Bank, Mizuho Corporate Bank and Shinhan Bank) could not achieve the small scale industries lending targets at the end of March 2007, while three foreign banks (American Express Bank, Bank International Indonesia and Mizuho Corporate Bank) could not achieve the sub-target of lending for exports.

#### **NPAs while lending to priority sector**

Table 7 listed the NPAs in priority sector by three major bank groups. It clearly indicates that NPAs were more in public sector bank group while the least was in foreign bank group, because advances by public sector bank group to the priority sector were also high. NPAs in the public and private sector bank group were high mainly due to increase in NPAs in the agricultural sector.

Thus, it is concluded from all the tables that lending to priority sectors are higher by the public and private sector banks than the foreign banks. Public and private sector banks have achieved the overall target and sub-target but not as much as foreign banks. Non-achievement of



**Table 6.** Targets achieved by foreign banks under the priority sector.

<b>Name of the bank</b>	<b>Overall</b>	<b>Agriculture</b>	<b>Weaker section</b>
Foreign Banks	√	√	√
ABN Amro Bank	√	√	√
Abu Dhabi Commercial Bank		√	√
American Express Bank	√	√	
Antwerp Diamond Bank	√	√	
Arab Bangladesh Bank	√	√	√
Bank International Indonesia	√	√	√
Bank of America	√	√	
Bank of Baharin and Kuwait	√	√	√
Bank of Ceylon	√	√	√
Bank of Nova Scotia	√		√
Bank of Tokyo-Mitsubishi			√
Barclays Bank PLC	√	√	√
BNP Paribas	√	√	√
China Trust Commercial Banks	√	√	√
Calyon Bank	√	√	√
Citi Bank			√
Deutsche Bank	√	√	√
Development Bank of Singapore	√	√	√
HSBC Ltd.			√
JP Morgan Chase Bank	√		√
Krung Thai Bank	√	√	√
Mashreqbank	√	√	√
Mizuho Corporate Bank	√	√	√
Oman International Bank	√		√
Shinhan Bank	√	√	√
Societe Generale	√	√	√
Sonali Bank	√	√	√
Standard Chartered Bank	√	√	√
State Bank of Mauritius			

Source: Same as Table 1.

**Table 7.** NPA's while lending to priority sector per cent.

<b>Sector</b>	<b>Public sector bank group</b>	<b>Private sector bank group</b>	<b>Foreign bank group</b>
Priority Sector Advances	9.46	31.22	13.5
Agriculture	16.86	9.31	-
Small Scale Industries	15.14	6.98	2.2
Other Priority Sector	27.47	14.93	11.3

Source: Same as Table 1.

agriculture lending target by many public and private sector banks is due to low capital formation in agriculture resulting in poor credit absorption and write-off of non-performing loans leading to reduction in the outstanding advances in the case of some banks.

## MAJOR ISSUES

Preferences of RBI to priority sector advances have

created various issues for the Indian banking industry which need quick resolution. These issues are discussed below:

### Low profitability

Profitability has been affected by a wide range of factors such as increasing proportion of deposit resources under statutory liquidity pre-emption at lower interest, the shift

of savers' preferences to long-term deposits and the incidence of non-performing assets. Though banking is not a high profit area in most countries, profitability has been particularly low in India. One of the important reasons for declining profitability of banks has been their increasing involvement in providing mandatory credit entailing rigid target setting and the concessionality.

### High NPAs

Persons who borrow from the bank do not repay the loan. This increases non-performing assets of the banks. Thus priority sector credit has created fear among banks and, discourages them to go slow in disbursement of credit.

### Quantitative targets

The concerns for achieving quantitative targets within stipulated time frame irrespective of assessed demand or potential have caused an erosion of the qualitative aspects of lending which have an effect on the viability of the lending institutions.

### Government interference

One of the major problems of bank is that the government interferes in the working of the banks especially in public sector banks. Therefore, loans are delivered in the hands of the rich rather than weaker section of the society.

### Transaction cost

Sanctioning and monitoring of large number of small advances is time consuming and manpower intensive, thus adding to the transaction cost. The problem is further compounded by the deficiencies in pre-sanction and bunching of applications at the last moment by the sponsoring agencies in the case of lending under poverty alleviation programmes. These deficiencies have resulted in the lowering of the overall quality of credit and the effectiveness of its delivery.

## STRATEGIES

### Recovery of NPAs

For the recovery of NPAs, banks should follow the following measures: 1) Debt Recovery Tribunal should implement to recover the NPAs; 2) Banks should be very careful in considering settlement compromise proposals; 3) Banks should try to introduce a system of internal audit of sanction of loans before disbursements for large averages.

### Rate of interest

Bank should follow the following guidelines of RBI for the rate of interest; 1) In respect of direct agricultural advances, banks should not compound the interest in the case of current dues, that is crop loans and installments should not fall due in respect of term loans, as the agriculturalist do not have any regular source of income other than sale proceeds of their crops; 2) When crop loans or installments under term loans become overdue, banks can add interest to the principal; 3) Where the default is due to genuine reasons, banks should extend the period of loan or reschedule the installments under term loan. Once such a relief has been extended, the overdues become current dues and banks should not compound interest.

### Discretionary powers

All Branch Managers of banks should be vested with discretionary powers to sanction proposals from weaker section without interference of the government.

### Qualitative targets

Bank should fix quantitative as well as qualitative targets so that viability of the banks can increase.

## IMPLICATIONS

The main implication is that although RBI has fixed some targets regarding priority sector advances but many banks are not in position to achieve it. The implicit of the paper is that RBI should carry out strict measures against these banks that are not properly providing priority sector advances. In the era of global recession, our country RBI should redefine priority sector advances.

## AREAS OF COMPREHENSIVE FUTURE RESEARCH

The following topics should be given top priority for future research: 1) Extent of NPAs from different components of priority sector advances; 2) Rural-Urban gap in NPAs from priority sector advances; 3) Priority sector advances and efficiency of banks.

## Conclusion

Thus, the study concludes that priority sector advances of all the banking groups are increasing. In spite of increasing advances, Indian banks have not achieved some targets fixed by RBI. Lending to priority sector

creates many problems for the Indian banks like low profitability, high NPAs, transaction cost etc. It is a need of the hour to find out solutions for these problems otherwise progress of the Indian banks will cease. If the proper priority sector advances are given they will be helpful in reducing the poverty level.

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