



**DOES SOCIAL BANKING MATTERS? : A COMPARATIVE PROBE IN INDIAN BANKING SECTOR**

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**Abstract**

Priority sectors form the foundation and base-structure of an economy. Providing adequate financial aid to these important sectors can lead to development of an economy in real terms. These sectors include Agriculture, Micro Small and Medium Enterprises, Housing, Education and other weaker sections of an economy. Reserve Bank of India, since 1968 have specified separate targets and sub-targets for priority sector lending, falling short of which funds are transferred to Rural Infrastructure Development Fund (RIDF). The present study aims to analyse trends and performance patterns of priority sector lending at national level. Comparative analysis of public and private banks has been done in India and impact of crisis period on priority sector lending is also studied sector-wise. Steady CAGRs and increasing growth rates indicate positive environment in banks with respect to lending. But lack of social intent in private banks need to be catered. Priority sector lending has manifold benefits to uplift an economy and therefore this study analyses the trends and performance, pin-point the problem areas and suggests some policy implications to improve the lending to priority sectors.

**Keywords:** Banking, Economy, Priority Sectors, Private Banks, Public banks.

**Introduction**

Priority sectors are the segments of society which form the backbone of an economy and can help in economic development of nation if financially supported. This term Priority Sector Lending was coined by Late Shri Morarji Desai, India’s then Deputy Prime Minister and Finance minister. As these sectors are funds deprived and neglected, so government has referred these as priority sectors, thereby giving them priority in credit disbursement and ultimately priority to national development and achievement of national goals (Bhatt, N.S., 1986). These

segments include agriculture sector, small scale industries, housing, education, export credit and other weaker sections of society. Providing loans to these priority sectors at concessional rates, in timely manner and with liberal policy framework help them flourish and improve the national parameters of development like national income, GDP, employment level etc. as they are the foundations of primary, secondary and tertiary sectors of an economy (Kaur, 1999). This kind of lending is also called Directed Lending or Social Banking i.e. banking with social intentions.

**Targets of Priority Sector Lending by RBI**

Categories	Domestic scheduled commercial banks and Foreign banks with 20 branches and above	Foreign banks with less than 20 branches
Total Priority Sector	40 percent of Adjusted Net Bank Credit	40 percent of Adjusted Net Bank Credit to be achieved in a phased manner by 2020
Agriculture	18 percent of ANBC	Not applicable

Micro Enterprises	7.5 percent of ANBC	Not Applicable
Advances to Weaker Sections	10 percent of ANBC	Not Applicable

*Source:* Master Circular - Lending to Priority sector, Reserve Bank of India, July 1, 2014.

### Review of Literature

Priority Sector Lending is the concept which is being studied from decades in India with different contexts, different areas and different time frames. Comparative performance of public and private banks in terms of priority sector lending has been examined in small scale industries by **Swaroop (1969)**. The study reported upward trend of priority sector loans but a low growth in agriculture and MSMEs. Further, purpose based financing to priority sector was taken into account by **Bhat (1986)**. **Chawla et. al. (1988)** found that the more importance was given to agricultural sector only and industrial sector lagged behind. This study stressed on improving all sectors to get maximum benefit of priority sector lending. **Rao (2006)** summarised the complete priority sector trends, progress and reported a sector-wise analysis. The study concluded with better position of agricultural lending than other sectors. **Dadhich (2004)**, **Gupta and Kumar (2008)**, **Sharma (2008)** and **Uppal (2009)** revealed wide variations in public and private banks in terms of priority sector lending where public sector banks lagged behind the private banks in terms of target achievement, growth percentages but were far better in terms of reach and quantum of loans. **Selvarajan and Vadivalagan (2013)** and **Shabbir N. and Mujoo D. (2014)** highlighted the problem of NPAs and overdues in Priority Sector Lending. **Mishra A. K. (2016)** made a critical analysis on rising NPAs in priority sectors in public sector banks.

### Objectives of study

1. To examine the lending pattern of banks in regard to Priority Sectors in India.

2. To compare performance of priority Sector Lending in public and private banks in India.

### Research Methodology

The study covers the period from 2004-05 to 2017-18 which covers three phases of economy i. e. before the crisis, during the crisis and after the crisis period. Data has been primarily based on secondary sources which include various issues of Report on Trends and Progress published by Reserve Bank of India, various issues of Statistical Tables Relating to Banks in India published by Reserve Bank of India, Abstracts of State Level Bankers' Committee Meetings of Punjab. Primary data has been collected by filing RTI with RBI for the banking statistics. Statistical techniques such as Percentage analysis, CAGR has been used to analyse the lending pattern of Priority Sectors in India and Punjab. Kruskal-Wallis test has been used to analyse bank-group wise differences and clearly distinct between performance of public and private banks in India.

### Performance of Priority Sector Lending in India

The origin of the term Priority Sector owes its existence to National Credit Council where the term was coined in 1968. Recommendations of Narsimah committee, Nair Committee, Banking sector reforms made significant alterations in the inclusions of Priority Sectors and the targets set to be achieved by each priority sector. Performance of Priority Sector Lending is analysed in this study to highlight the problem areas and also to examine the effect of crisis period on Priority Sector Lending in different sectors and different banks group types.

Table I: National Scenario of Priority Sector Advances Year-Wise of Public Sector Banks in India

Amount in Rupee billion

Year	Total Priority Sector	% of ANBC/O BE	Agriculture	% of ANBC/O BE	MSME	% of ANBC/O BE	Other Weaker	% of ANBC/O BE	Growth Perce
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	Advances						Sections		nt in PSL
2004-05	3028	42.2	1099	15.3	678	9.5	1251	17.4	-----
2005-06	4019	39.5	1549	15.2	825	8.1	1645	16.2	<b>32.73</b>
2006-07	5119	38.9	2026	15.4	1026	7.8	2067	15.7	<b>27.37</b>
2007-08	6090	43.8	2487	17.4	1487	10.9	2116	15.5	<b>18.97</b>
2008-09	7451	43.9	2994	17.6	1914	11.3	2543	15	<b>22.35</b>
2009-10	9442	45.4	3725	17.9	2769	13.3	2948	14.2	<b>26.72</b>
2010-11	11261	45.1	4149	16.5	3766	15.1	3346	13.5	<b>19.26</b>
2011-12	11640	38.4	4786	15.8	2888	9.5	3966	13.1	<b>3.366</b>
2012-13	13563	38.3	5306	15	4784	13.5	3473	9.8	<b>16.52</b>
2013-14	14107	50.5	4701	16.8	4647	16.7	4759	17	<b>4.011</b>
2014-15	11200	45.1	3579	14.4	3675	14.8	3946	15.9	<b>(20.6)</b>
2015-16	18198	52.9	6244	18.2	5922	17.2	6032	17.5	<b>62.48</b>
2016-17	18133	36	9229	18.3	3151	6.3	5753	11.4	<b>(0.36)</b>
2017-18	18584	35.9	9321	18	3317	6.4	5946	11.5	<b>2.487</b>
<b>CAGR</b>	<b>13.84</b>		<b>16.5</b>		<b>12</b>		<b>11.78</b>		

*Source:* Report on Trends and Progress, RBI (Various issues)

The year-wise public sector banks advances under the priority sector are presented in Table I. From the above table, it is evident that PSL advances show significant variations i.e. ranging from positive 62.48% to negative 20.6%. Most of the fluctuations are positive except in the year 2014-15 and 2016-17. Even the crisis period of 2007-09 has declining but positive growth rate of 18.97% and 22.35% showing that downfall of economy was well cushioned and did not give its

rippling effect to grass root level of economy. Overall CAGR is also calculated for priority sectors from the period of 2004-05 to 2017-18. 13.84% is CAGR for PSL, 16.5% for agricultural lending, 12% for MSMEs lending and 11.78% for weaker section lending which clearly shows and signifies constant effort of RBI and public sector banks to adequately fund the priority sectors of economy.

Table II: National Scenario of Priority Sector Advances Year-Wise of Private Sector Banks in India

Amount in Rupee billion

Year	Total Priority Sector Advances	% of ANBC/OBE	Agriculture	% of ANBC/OBE	MSME	% of ANBC/OBE	Other Weaker Section	% of ANBC/OBE	Growth Percent in

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	es						ns		PSL
2004-05	690	43.6	216	13.5	86	5.4	388	24.2	----- -
2005-06	1050	42.8	362	13.5	105	4.2	583	23.4	<b>52.17</b>
2006-07	1420	42.9	520	12.7	131	3.9	769	22.9	<b>35.24</b>
2007-08	1632	47.5	577	15.4	460	13.4	595	17.3	<b>14.93</b>
2008-09	1915	46.2	761	18.7	467	11.8	687	16.9	<b>17.34</b>
2009-10	1407.7	45.8	9.7	19.4	648	13.8	750	16	<b>(26.5)</b>
2010-11	2628	46.6	921	15.7	879	16.4	828	15.5	<b>86.69</b>
2011-12	2536	39.4	1042	14.3	389	5.4	1105	15.2	<b>(3.5)</b>
2012-13	3041	37.5	1119	12.8	1417	16.2	505	9.8	<b>19.91</b>
2013-14	4734	43.9	1478	13.9	1868	17.8	1388	13.1	<b>55.67</b>
2014-15	3713	60.4	1120	12.8	1417	16.2	1176	13.5	<b>(21.6)</b>
2015-16	7899	46.1	2669	18.6	2923	20.3	2307	16	<b>112.7</b>
2016-17	5655	42.5	2762	16.5	1386	8.3	1507	9	<b>(28.4)</b>
2017-18	6605	40.8	3183	16.2	1548	7.9	1874	9.5	<b>16.8</b>
CAGR	<b>17.51</b>		<b>21.19</b>		<b>22.93</b>		<b>11.91</b>		

*Source:* Report on Trends and Progress, RBI (Various issues)

The year-wise advances of private sector banks under priority sector lending are presented in Table II. PSL advances in private sector banks fluctuate from maximum growth rate of 55.67% in year 2013-14 to minimum growth rate of negative 28.4% in year 2016-17. There is positive growth rate except for the years 2009-10, 2011-12, 2014-15 and 2016-17. There is declining but positive growth rate in crisis period of 14.93% and 17.34% which signifies the strength of banks to endure financial stress but the rippling effect of negative growth rate can be seen in year 2009-10 (Uppal, 2009). Overall CAGR percentages of PSL collectively i.e. 17.51% and of each sector i.e. agriculture (21.19%), MSME (22.93%) and weaker section

(11.91%) shows a steady growth from the period 2004-05 to 2017-18.

#### **Comparison of Priority Sector Lending in public and private sector banks in India**

Quantum of lending is far more less in private banks than in public banks. Public banks being more socially oriented take priority sector lending as their moral obligation and reach out to the ground level to cater the problems with maximum facilities they can provide while private banks take it as a business opportunity to earn profit.

Table III gives the results of Kruskal-Wallis Test applied to analyse significant differences in different bank-groups. Following is the hypothesis framework:-

H1<sub>AO</sub>: There is no significant difference in lending pattern of public and private banks in agricultural lending in India.

H2<sub>MO</sub>: There is no significant difference in lending pattern of public and private banks in MSME lending in India.

H3<sub>WO</sub>: There is no significant difference in lending pattern of public and private banks in weaker section lending in India. H4<sub>PO</sub>: There is no significant difference in lending pattern of public and private banks in Priority Sector lending in India.

Table III: Results of Kruskal-Wallis Test

	Mean (S.D.)	Chi square	Sig Val.( P )	Hypothesis decision
Agriculture	2783.38 (2486.32)	14.196	.000	H1 <sub>AO</sub> Rejected
MSME	1949.04 (1587.65)	13.512	.000	H2 <sub>MO</sub> Rejected
Weaker Section	2294.75 (1740.82)	20.276	.000	H3 <sub>WO</sub> Rejected
Total	7027.17 (5562.24)	14.897	.000	H4 <sub>PO</sub> Rejected

\*Significant at 5% level

P value in the table is less than 0.05, it means all the null hypotheses are rejected and there are significant differences in public and private banks' lending quantum in all the sectors i.e. agriculture, MSME, weaker sections and collectively as well.

#### Conclusion

Priority Sectors of economy are those sectors which are neglected but form the foundations of economy. A comparative analysis of priority sector lending from 2004-05 to 2017-18 in public and private banks has been done to study its pattern. Priority sectors in public sector banks has higher quantum of lending than in private sector banks which clearly tells some efforts have to be increased in private sector banks and the urge must be included as a part of their moral obligation rather than only restricting to its target achievement. This can be done through awareness campaigns among bank staff, setting up of some extra perks by RBI for some extra-ordinary achievements in this field, so that this can have more of carrot approach than stick approach. Secondly, a sound buffer must be ensured by each and every bank so that their lending pattern and therefore priority sectors are not affected during the times of financial turbulence. Because if economy is already in crisis and priority sectors which form the base of economy, suffer due to that, it can give multi-fold downfall to the economy. Steady growth rates and CAGRs are observed which depicts that economy is working hard to provide adequate funds to its most-needed sectors which have the potential to give manifold benefits like employment generation, capital formation,

industrial development, poverty reduction and ultimately provide prosperity to the nation.

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