

## Regionwise Priority Sector Advances in India

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### Abstract

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*In this paper we look at the geographical distribution of PSA (Priority Sector Advances). After nationalisation of the Banks directed lending to certain sectors, such as, Agriculture, Small Scale Industries and weaker section and others, collectively known as Priority Sector was emphasized. Under this Sectoral and Sub-sectoral targets have been laid down from time to time, with the aim of upliftment of these sectors and to bring about a balanced development of the country. PSA was not uniformly distributed. In some parts of the country the advances to priority sector is above the required level, while in some other parts of the Country, it is less than the required level. For this purpose we make a regional analysis. In the regional analysis the Country has been divided into six regions namely Northern region, North Eastern region, Eastern region, Central region, Southern region, where we look at PSA in all regions, this has been done for four points of time namely 1996-97, 2000-01, 2006-07 and 2011-12. Thus how the performance of the regions has been changing has also been revealed.*

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**Key Words:** Priority Sector Advances, Nationalisation, Weaker Sections, Agriculture, Small Scale industries.

### 1. Literature Review

Joshi (1972) has suggested to RBI to give clear & specific definition of the different components of priority sector as some of the bankers are not clear about the scope of agricultural lending.<sup>1</sup> The Working Group on the Modalities of Implementation of the Priority Sector Lending recommended that out of the advances to priority sector, at least 40 per cent should be extended to agriculture sector by each bank. It also specified that out of total direct lendings under agriculture; at least 50 per cent should be to the weaker sections (small and marginal farmers and landless labourers and persons engaged in allied activities with borrowal limits not exceeding Rs 10,000). Housing loans up to Rs 5000 for construction of houses for SC/ST and weaker sections, assistance to any governmental agency for construction of houses for SC/ST and low-income groups (where loan component does not exceed Rs 5000 per unit) and pure consumption loans granted under the Consumption Credit Scheme was recommended for inclusion in priority sector. It also recommended that decision to increase the share of priority sector targets for public sector banks, should be applicable for private banks in the same way.<sup>2</sup>

The working Group on the Role of Banks suggested that the existing target of 40 per cent of total credit to priority sector should remain unchanged.

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The Group suggested a target of 14 per cent of total bank credit for direct finance to agriculture and allied activities against the existing target of 16 per cent for both direct and indirect finance.

It suggested that definition of weaker sections should include artisans, village and cottage industries and beneficiaries of IRDP and DRI scheme and SCs/STs and advances to weaker sections should account for 25 per cent of priority sector lending by March 1985.<sup>3</sup> Angadi (1983) analyses that because of rapid branch expansion, deposit mobilization, privileged cropped area, and adoption of high yielding variety, the concentration of PSL and agriculture advances is more in some states.<sup>4</sup> Joshi (1986) identified weak fund management capacity of banks due to SLR, CRR & PSL. He found that the low yield rate & rising cost contributed a lot to the declining trend in profitability of banks.<sup>5</sup> Singh (1987) identified many exogenous and endogenous factors contributed a lot to the declining trend in profitability of banks. Continuous increase in the SLR, CRR, emphasis on social goals, growing incidence of industrial sickness, rapid branch expansion in under banked areas are the factors responsible for low profitability of banks.<sup>6</sup> Muhammad Yunus (1988) identified that instead of blaming the defaulters the emphasis should be on proper loan recovery mechanism.<sup>7</sup>

Chawala (1988) in his book has revealed that the pace of PSL of commercial banks has received impetus since nationalization. As per the analysis of 20 states, the aggregate PSA in Punjab went up more than 40 times during 1969-80. During the same period total credit in the state rose eleven times. The growth rate during the reference period turned out to be 40.16 percent p.a. The comparative position of Punjab state in the P.S. vis-à-vis other states in Indian union were fairly good. The percent share of Priority Sector Advances to total advances in Punjab was the third highest, the first two being Jammu & Kashmir and Haryana in India. In 1980, Punjab relative position continued to be the same. Lending to Priority Sector in Punjab has got an important place since nationalization of 14 commercial banks. It has continued to grow at a fast rate even after crossing the target of 40 percent.

Sector-wise growth of commercial banks credit to Priority Sector revealed that bank credit to various constituents of Priority Sector during 1972-82 in Punjab grew significantly, but among all the constituents of Priority sectors like agriculture, the self employed and professional and transport operators grew faster than sectors like small industry and retail trade. During the study period the advances to agriculture and allied activities grew almost 37 times and those to the transport operators 54 times. Although advances to small scale industries grew 6.5 times only, this was slightly better than the growth of advances to the total industrial sector which was only five times.<sup>8</sup> Rangarajan (1991) efficiency of banking system can be improved with the improvement in the quality of loan assets.<sup>9</sup>

## ***2. Region wise Priority Sector Lending in India***

In Table 1, Region wise lending to Priority sector shows that the growth rate of lending in Northern Region was highest in 2006-07 at 27 percent and lowest at 12 percent in 2011-12 as compared to other years. It reveals that in Northern Region rate of lending to Priority Sector was more in 2006-07 and less in 2011-12.

In North Eastern Region rate of lending to Priority Sector was highest at 27 percent in 2006-07 as compared to 5 percent in 2001-02. In 2011-12 rate of lending reduced to 16 percent as compared to 2006-07. In Eastern region growth rate of lending remained highest at 28 percent in 2006-07 and lowest at 12 percent in 2001-02. The absolute amount to Priority Sector has increased to Rs 123611 crore in 2011-12 as compared to 62523 crore in 2006-07 but the rate of lending in 2011-12 was only 15 percent when compared at 28 percent in 2006-07. In Central Region the absolute amount of lending to Priority Sector has increased from 1996-97 till 2011-12 but the growth rate of lending was highest at 28 percent in 2006-07 and then at 15 percent in 2001-02 and lowest at 14 percent in 2011-12.

In Western Region lending to Priority Sector has increased in absolute terms from 1996-97 to 2011-12 but the rate of lending remained highest at 28 percent in 2006-07 as compared to 2001-02 when it was only 19 percent and the rate of lending to Priority Sector was lowest at 13 percent in 2011-12 when compared to 2006-07. In Southern Region also PSA has increased in absolute terms from 1996-97 till 2011-12 but the rate of lending remained highest in 2006-07 at 28 percent in Southern region also and lowest at 14 percent in 2011-12 (Table 1)

Table 2 reveals that percentage share of Population in total Population of India was highest in Central Region of 25 percent in total but lending to Priority Sector remained highest in Southern Region.

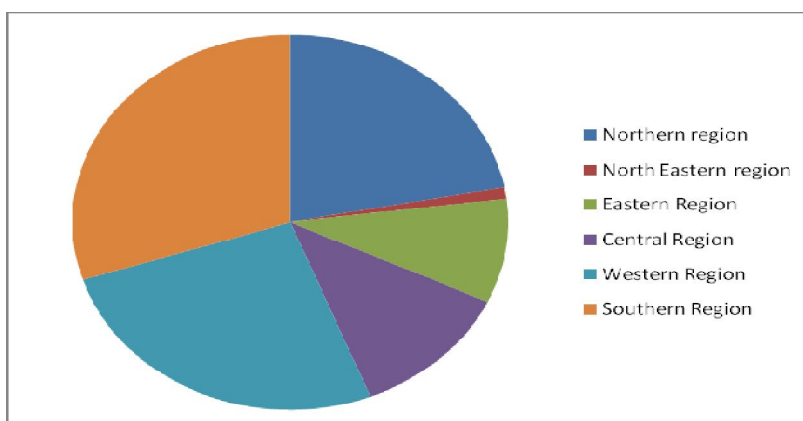
In Western Region percentage share of population is third highest in total but lending to Priority Sector was second highest in Western Region. In the Central Region percentage share of population to total population is highest but the share of lending to Priority Sector was fourth highest. The percentage share of population to total is same for both Southern and Eastern Region but lending to Eastern Region was on fifth number for Priority Sector. In North Eastern Region percentage shares of Population as well as share in PSA both are low.

A comparative analysis between population and PSL among different regions in 2001-02 shows that the highest Population was in Central region but lending to priority sector was highest in Southern region i.e. Rs. 60790 crore. Second highest population was in Eastern region but Lending to this region was Rs 18135 crore only. In western region the population was third highest but PSL to this region was second highest Rs. 52001 crore (see Graph 1)

In Graph 2, A comparative analysis of PSL in different years among different regions of the country shows that lending to Priority Sector remained more or less same at 33 percent of total PSA in India in Southern region, 23 percent to 26 percent in western region, 18 percent to 22 percent in Northern region, 13 percent and 11 percent in Central region, 11 percent and 9 percent in Eastern region and lowest at 2 percent to 1 percent in North Eastern region. Similar picture is revealed in the following Chart 1.

In Northern region lending to Priority Sector had increased in 2001-02 as compared to 1996-97 and then came down in 2006-07 and 2011-12. In North Eastern region lending to Priority Sector had become half of what it was in 1996-97 and remained at 2 percent in 2001-02, 2006-07 and 2011-12. In Eastern region lending to Priority Sector was highest in 1996-97, after which it continuously decreased till 2011-12. In Central region lending to Priority Sector was highest in 1996-97, came down in 2001-02, remained constant in 2006-07 and remained lowest in 2011-12 In Western region the lending was lowest in 1996-97, which increased in 2001-02 and came down in 2011-12 .In Southern Region lending to Priority Sector was 33 percent in 1996-97 which came down to 30 percent in 2001-02 and then increased to 32 percent and 33 percent in 2006-07 and 2011-12 respectively ((Graph 2). At last point of time all the regions have witnessed a fall in PSL, the reason might be the worldwide recession being experienced since 2007, which has also impacted the real sectors, resulting in less banking activities.

The region wise share of PSL to all India figures reveals that Southern region qualifies for highest share at all the four selected points of time.(see chart 1)

**Chart 1: Region wise Percentage Distribution of Priority Sector Advances****Table 1: Region wise Amount and Growth Rate of Priority Sector Lending**

Regions	1996-97	2001-02	Growth rate (percent)	2006-07	Growth rate (percent)	2011-12	Growth rate (percent)
	(Rs crore)	(Rs crore)	1996-97 to 2001-02	(Rs crore)	2001-02 to 2006-07	(Rs crore)	2006-07 to 2011-12
Northern region	17140	44022	21	148131	27	264144	12
North Eastern region	1475	1839	5	6036	27	12515	16
Eastern Region	10326	18135	12	62523	28	123611	15
Central Region	12031	23867	15	80875	28	153038	14
Western Region	21496	52001	19	179336	28	336993	13
Southern Region	31458	60790	14	223138	30	447033	15
<b>All India</b>	<b>93926</b>	<b>200654</b>	<b>16</b>	<b>700038</b>	<b>28</b>	<b>1337333</b>	<b>14</b>

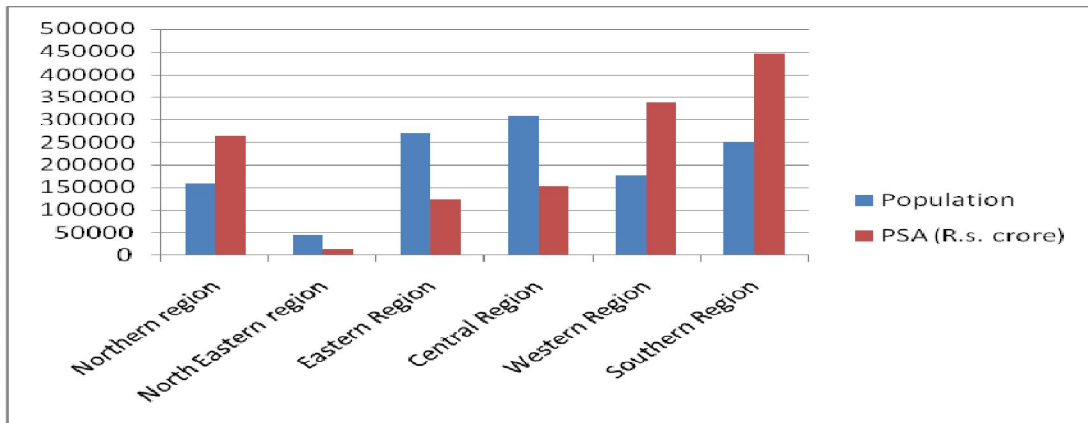
Source: Reserve Bank of India

**Table 2: Percentage Share of Population and PSA among Different Regions of the Country**

Regions	2001-02		1996-97	2001-02	2006-07	2011-12
	Population (in thousands)	Population % in total	% of PSA to total	% of PSA to total	% of PSA to total	% of PSA to total
Northern region	132985	13	18	22	21	20
North Eastern region	38445	4	2	1	1	1
Eastern Region	227823	22	11	9	9	9
Central Region	255869	25	13	12	12	11
Western Region	149276	15	23	26	26	25
Southern Region	224343	22	33	30	32	33
<b>All India</b>	<b>1028741</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

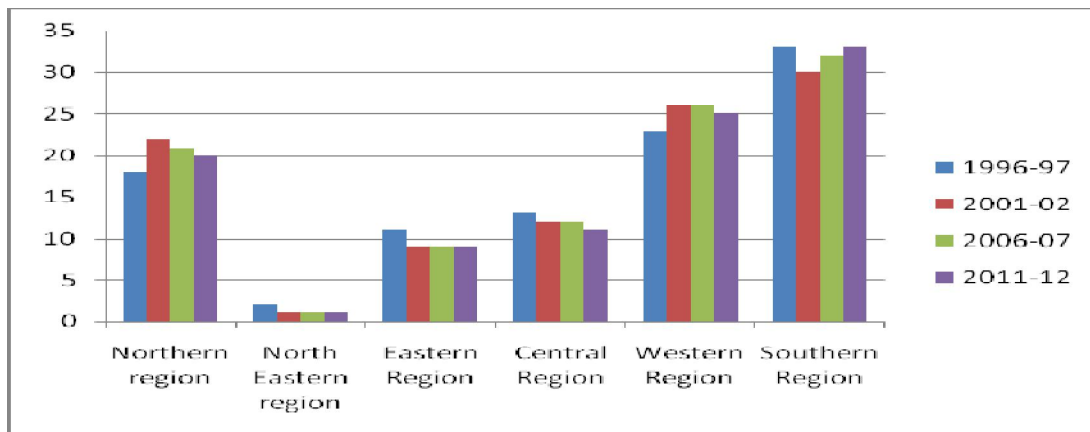
Source: Census Report 2001 and Reserve Bank of India

**Graph 1: Region wise Distribution of Population and Priority Sector Advances**



Source: Based on data placed in table

**Graph 2: Region wise Priority Sector Lending in Different Years by SCBs**



Source: Based on data placed in table 1

### 3. Conclusion

The regional share in total PSL of the country shows that the share was highest in the Southern region at all selected points of time. This was followed by the Western region, the Northern region, the Central region and the Eastern region. The North Eastern region occupied the lowest position.

At last point of time all the regions have witnessed a fall in PSL, the reason might be the worldwide recession being experienced since 2007, which has also impacted the real sectors, resulting in less banking activities.

From the analysis following facts emerge, the PSA have witnessed a deceleration in the growth rate between 2006 to 2012, across the board in all the regions of the country. As has been indicated already there are two reasons for this (I) Worldwide recession in the financial sector from September 2007 onwards, and (II) increased NPAs in the Sector has forced the bankers to cut down the advances to this sector, in wake of the prudential norms and to enhance the productivity levels.

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