

Priority Sector Lending Pattern of Commercial Banks in Jammu and Kashmir

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ABSTRACT

India being one of the fastest developing economies of the globe and going by the estimates of United Nations report, which states that India will grow by a robust 7.2 percent in 2018, it is crystal clear that India is all set to scale stellar pinnacles. But ascending the heights of economic growth is only possible when there is a holistic growth, wherein the timely and adequate access to finance has to play a vital role. Easy access to sources of finance is to be an important tool for poverty alleviation and inclusive growth. Priority sector lending has become a key part of national agenda after the nationalization of banks. It is a structure which is proposed for the vital sub-sectors of the economy i.e. agriculture, renewable energy, small-scale industries, education loan, housing, weaker sections etc. The purpose of this study is to analyze the trends of priority sector lending by commercial banks. This study is based on the parameters like lending pattern to priority sector by commercial banks as well as on the targets achieved while lending to these sectors. On the base of these factors, the study concludes that both public sector and private sector banks could not achieve the target which was fixed by Reserve Bank of India for development of priority sectors. This study extends the literature of the performance of priority sector lending by empirically estimating the efficiency of bank lending to the priority sector and target achievement.

Keywords: Commercial Banks, Credit, Finance Access, Lending Pattern, Priority Sector.

I. INTRODUCTION

Priority sector lending was introduced in the 1970s. The Government of India has taken a number of initiatives like two rounds of nationalisation of major commercial banks in 1969 and 1980, lead bank scheme, co-operative banks etc. to provide the desired credit in a continuous manner to the needy sectors of the economy. In consequent to that, priority sector lending, social inclusion etc. become an integral part of the monetary policy of Reserve Bank of India. Even as the interest rate channel has gained more prominence in the recent past, the credit channel remains active, with credit targets being stipulated from year to year.

Adequate and low-cost credit is a pre-requisite for the economic progress of any country. Economic development can be easily attained by providing indispensable and affordable credit to farmers, industries, traders and businesses people. Gill (2000) holds that the availability of timely and adequate finance has a bearing on the economies of not only developed but also developing countries at all stages of its growth. Priority sector lending has been advanced and adopted for the purpose of credit deployment to the needy and vital sectors of the economy. Priority sector lending allocation for the commercial banks has provided a major instrument for provision of financial resources to agriculture, small-scale enterprises and to the schemes for self-employment. Commercial banks play an imperative role in financing the priority sectors of the economy. Since inception priority sector lending has gone through changes in several new areas and sectors being brought under its ambit. There is a view that enlargement of areas has resulted in the loss of focus.

Effective and adequate banking has been crucial for the socio-economic development of any region including the state of Jammu and Kashmir. Sahaf (1984) emphasized the importance of finance in apple industry of Jammu and Kashmir, the need of finance to help producers to meet their working capital requirements and marketing related expenses. Commercial banks have played a vital role in lending to priority sector but, there are significant sector-wise variations in credit disbursement.

In the state of Jammu and Kashmir, it is also held that credit growth in agriculture and small industries has been strong while it has been slow in education, housing, social infrastructure and other sectors. Further, it is worth to mention that debate is that only sectors that impact the large population, weaker sections and agriculture, small industries should be eligible for priority sector. Since several issues began to gain importance. Therefore, it is imperative that there is a need for revisiting the priority sector in Jammu and Kashmir for reprioritizing such targets in conjunction with the parallel policy developments under financial inclusion. In this study, an attempt is made to examine the priority sector lending in Jammu and Kashmir by commercial banks.

II. LITERATURE

Priority sector lending is driven by a policy of increased access to finance, but such lending might distress banking system stability if beneficiary sectors undergo asset quality difficulties. Most of the bankers indicated that high cost in managing priority sector accounts is the most crucial factor that obstructs banks to lend to priority sectors. In addition to that adding new sectors for lending like social infrastructure and renewable energy under priority, the sector is challenging. Joshi (1972) suggested Reserve Bank of India (RBI) give the clear and specific definition of the different components of priority sector as some of the bankers are not clear about the scope of agricultural lending. The Working Group on the Modalities of Implementation of the priority sector lending and 20-point programme (1980) report recommended that out of the advances to priority sector, at least 40 percent should be extended to agriculture sector by each bank. Moreover, the position of the poorer states in bank credit to priority sectors seems to have worsened because of linking the priority sector targets to total bank credit rather than to bank deposits. Fixing and achieving targets is one of the most important aspects of priority sector lending.

As per Reserve Bank of India guideline, it is mandatory to lend 40% of Adjusted Net Bank Credit (ANBC) to priority sector (Source: Reserve Bank of India Master Circular 2015). Accordingly, banks performing poorly in this matter attract penalty from Reserve Bank of India and government. Krishnan Rao (2012) studies the priority sector credit across the state and banks. It is a detailed study on priority sector credit of each state and each and every bank and focused mainly on the state Andhra Pradesh. In the study, he found that priority sector credit is increasing over state and banks, but they did not achieve the target. Raman (2013) studied the performance of commercial banks towards priority sector advances in Tamilnadu, India. According to him, the rate of change in advances to priority sector both planned as well as achieved led to phenomenal growth not only in quantity but also quality. priority sector lending is an important component of social banking for the social and economic development of rural India. Rani et al (2015) in their study of the priority sector lending trends, issues and strategies in India found that both public and private sector banks could not accomplish the target and foreign banks reached the target fixed by Reserve Bank of India. Pandya (2015) analyzed the impact of Priority Sector Advances in the profitability of Indian scheduled commercial banks. The study concluded that priority sector advances highly influences the profitability of scheduled commercial banks in India.

From the above review of prior studies, it is revealed that not many studies are based entirely on the priority sector lending pattern. Most of the studies relate to the financing, nature and problems of priority sector. However, the studies concerning the pattern of commercial banks for priority sector remained negligible.

III. OBJECTIVES

- ✓ To study the priority sector lending pattern of commercial banks in Jammu & Kashmir.
- ✓ To study the target achievement by commercial banks in Jammu & Kashmir.
- ✓ To suggest measures to improve priority sector lending by banks.

IV. METHODOLOGY

The methodology of the study would be both qualitative and quantitative in nature and will make use of secondary data. The qualitative part is used to describe the role-played banks in lending to priority sector and quantitative part measures the performance of commercial banks over the years. The proposed study analyses the priority sector lending by banks in the Jammu and Kashmir.

Sources of Data

For the study, secondary data is used. The sources of data are mainly databases of RBI, National Bank for Agricultural and Rural Development (NABARD), Jammu and Kashmir State Level Bankers Committee (JKSLBC), Individual Bank Reports, Annual Credit Plans published by Lead Bank in Jammu and Kashmir, Annual Reports of RBI and NABARD and Economic Surveys of the Ministry of Finance.

Tools of Analysis

For purpose of analysis, several tools are used in order to make it more constructive and compact. Simple and visual interpretation of data columns. Statistical tool percentage analysis is also used to analyze and interpret the results.

V. RESULTS AND DISCUSSIONS

Priority sector lending by commercial banks in the state is analyzed and compared them with annual targets fixed by banks. The study shows that over the year's funds to priority sector has increased manifold in terms of allocation. Fund allocation to sub-sectors has also increased incrementally over the years as shown in individually by the sub-sector tables.

Table 1: - Priority Sector Advances of Commercial Banks in Kashmir (Amount in Crores)

| Financial Year | Target (Annual) | Achievement | %age of Achievement |
|----------------|-----------------|-------------|---------------------|
| 2013-14 | 9642.21 | 5439.17 | 56.41 |
| 2014-15 | 11789.99 | 8755.85 | 74.27 |
| 2015-16 | 14031.61 | 8479.48 | 60.43 |
| 2016-17 | 17410.98 | 9098.41 | 52.27 |

Source: JKSLBC Reports

Table 1 depicts in priority sector commercial banks increased Rs. 14031.61 crores in 2015-16 to Rs. 17410.98 crores in 2016-17. But despite concentrated efforts of banks in the state, the performance of overall priority sector has remained comparatively low, as compared to annual credit plan out of 17410.98 almost half of the amount 9098.41 was disbursed with the 52.27% target achievement.

Table 2: - Agriculture (Amount in Crores)

| Financial Year | Target | | Achievement | | %age of Achievement |
|----------------|---------|---------|-------------|---------|---------------------|
| | Account | Amount | Account | Amount | |
| 2013-14 | 352248 | 29.98 | 156100 | 19.63 | 65.00 |
| 2014-15 | 370817 | 3693.59 | 184835 | 2704.92 | 73.23 |
| 2015-16 | 452260 | 4319.69 | 157592 | 2874.59 | 66.55 |
| 2016-17 | 517969 | 5353.42 | 227891 | 4869.30 | 90.96 |

Source: JKSLBC Reports

Table 2 depicts that the credit to agriculture has increased year by year in terms of annual credit plan. The target for agricultural advances of commercial banks increased drastically from Rs. 4319.69 crores in 2015-16 to Rs. 5353.42 crores in 2016-17. As against sanctioned credit plan of 5353.42 only 4869.30 crores were disbursed which is 90.96% target achievement in this particular sector and is comparatively good with respect to other sectors. So, not only did credit to agriculture sector improve faster, but banks were able to achieve the targets to a greater extent.

Table 3: - MSME (Amount in Crores)

| Financial Year | Target | | Achievement | | %age of Achievement |
|----------------|---------|---------|-------------|---------|---------------------|
| | Account | Amount | Account | Amount | |
| 2013-14 | 124966 | 34.12 | 64259 | 19.50 | 57.00 |
| 2014-15 | 132959 | 4001.80 | 106891 | 4428.31 | 110.66 |
| 2015-16 | 159609 | 4674.46 | 103039 | 4590.48 | 98.20 |
| 2016-17 | 179453 | 6377.79 | 81314 | 3223.89 | 50.55 |

Source: JKSLBC Reports

Table 3 depicts that the credit to MSME has also improved years. The target for MSME advances of commercial banks increased considerably from Rs. 4674.46 crores in 2015-16 to Rs. 6377.79 crores in 2016-17. As against sanctioned credit plan of 6377.79 only 3223.89 crores were disbursed which is 50.55% target achievement in this particular sector and this sector is also performing good. It worth to mention that this year's (2016-17) plunge in target achievement can be contributed to socio-political disturbances prevalent during the said year.

Table 4: - Education (Amount in Crores)

| Financial Year | Target | | Achievement | | %age of Achievement |
|----------------|---------|--------|-------------|--------|---------------------|
| | Account | Amount | Account | Amount | |
| 2013-14 | 10277 | 3.92 | 4342 | 0.80 | 20.00 |
| 2014-15 | 13295 | 508.15 | 4355 | 93.24 | 18.35 |
| 2015-16 | 16328 | 610.49 | 4742 | 88.93 | 14.57 |
| 2016-17 | 15772 | 673.00 | 4413 | 673.00 | 12.59 |

Source: JKSLBC Reports

Table 4 depicts that the credit to education has not augmented in annual credit plan. The target for education advances of commercial banks increased drastically from Rs. 610.49 crores in 2015-16 to Rs. 673.00 crores in 2016-17. As against sanctioned credit plan of 673.00 meagre amount of 673.00crores was disbursed which is 12.59% target achievement in this particular sector and is reasonably performing poorly in comparison to other sectors. It is pertinent to note that the banks under said sector failed to improve their performance but also low allocation another matter to be taken care of while deciding annual credit plan.

Table 5: - Housing (Amount in Crores)

| Financial Year | Target | | Achievement | | %age of Achievement |
|----------------|---------|---------|-------------|--------|---------------------|
| | Account | Amount | Account | Amount | |
| 2013-14 | 31856 | 19.79 | 33070 | 9.47 | 48.00 |
| 2014-15 | 37254 | 2370.39 | 24550 | 796.08 | 33.58 |
| 2015-16 | 44227 | 2849.32 | 14762 | 584.58 | 20.52 |
| 2016-17 | 46185 | 3102.46 | 8456 | 521.98 | 16.82 |

Source: JKSLBC Reports

Table 5 depicts that the credit to housing has improved incrementally. The target for housing advances of commercial banks increased from Rs. 2849.32 crores in 2015-16 to Rs. 3102.46 crores in 2016-17. As against sanctioned credit plan of 3102.46 only 521.98 crores were disbursed which is 16.82% target achievement in the said sector and is again comparatively low with respect to other sectors. So, credit to housing sector improved, but banks were not able to achieve the targets to specified. This sector is also performing poorly over the years when it comes to target achievement, which is a matter of concern for the developing state like Jammu and Kashmir.

Table 6: - Others (Amount in Crores)

| Financial Year | Target | | Achievement | | %age of Achievement |
|----------------|---------|---------|-------------|--------|---------------------|
| | Account | Amount | Account | Amount | |
| 2013-14 | 40829 | 8.62 | 28842 | 4.99 | 58.00 |
| 2014-15 | 55458 | 1216.06 | 35384 | 733.36 | 60.31 |
| 2015-16 | 69151 | 1577.66 | 9595 | 340.89 | 21.61 |
| 2016-17 | 66081 | 1502.07 | 10357 | 270.24 | 17.99 |

Source: JKSLBC Reports

Table 6 depicts that the sanctioned credit to others has increased but not at a good pace. The target for others advances of commercial banks increased drastically from Rs. 1577.66 crores in 2015-16 to Rs. 1502.07 crores in 2016-17. As against sanctioned credit plan of 1502.07 only 270.24 crores were spent which is 17.99% target achievement in this particular sector and again comparatively low with respect to other sectors. Credit to the sector may have improved but banks are able to perform in terms of target achievement over Span of study period again a matter of concern.

VI. KEY FINDINGS

The banking industry is already going through tough times due to mounting non-performing assets. Priority sector has contributed to large non-performing assets accounts. So, a need arises for a quick resolution. This problem has badly affected the lending and profitability of banks. Jammu and Kashmir which is on a developmental path need finance to meet the requirements for same, so it's better to take a holistic view of priority sector lending in the state in terms of lending and target achievement in sub-sectors. Following are key findings of the study;

- ✓ Banks in the state are not able to achieve the targets fixed for overall priority sector.
- ✓ Banks also are not performing good in achieving targets in physical terms.
- ✓ Lower allocation to education and other weaker sections.
- ✓ Negative impact of socio-political disturbances.
- ✓ Gender-based lending is also missing as little lending to done towards women sections.

VII. IMPLICATIONS

Although commercial banks have secured targets concerning priority sector lending banks could not achieve the target. The implicit of this paper is that banks should set reasonable targets rather than going for the numbers game. Ensuring sufficient and on time credit flows into some of the vulnerable sectors of the economy for acceleration of economic growth and promoting social justice of vulnerable sections in the society. Priority sector can play a much-needed role in developing the said sections and goals of financial inclusion can be achieved accordingly.

CONCLUSION

This study presents an overview of the pattern of priority sector lending and its share by commercial banks in Jammu and Kashmir. The priority sector lending by the commercial banks is regularly increasing in physical and financial terms. From the above analysis and interpretation, it can be concluding that priority sector lending of commercial banks shows an increasing trend. In spite of increasing priority sector lending banks have not achieved the targets fixed by in some areas. In nutshell, neglect of education, weaker sections are some significant serious issues which need immediate consideration of banks and policymakers and same should be looked but not at cost of other subsectors. The inclusion of newly added sectors is also a challenge for banks to lend. Therefore, it is essential that the priority sector lending by commercial banks should be closely supervised in the interest of the state.

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