A Study on Priority Sector Lending by Andhrabank in Guntur District

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ABSTRACT *The study attempts to analyze the trend and pattern of overall as well as priority sector lending by the Andhra Bank in Guntur District. The overall performance of Andhra Bank advances to agriculture witnessed an increase during the period 2004-05 to 2014-15.The study finds that the problems faced by the majority of the farmers are delays in sanctioning and releasing of funds, cumbersome procedures, security etc. The study highlights that a large number of small farmers have been benefitted by additional earnings for their additional investment borrowed from the bank.*

1.1. INTRODUCTION:

In the era of liberalization, privatization and globalization, financial sector reforms have become inevitable. The Narasimham committee constituted for strengthening the financial institutions particularly the banking industry, has suggested bringing down the priority sector targets from 40 per cent to 10 per cent. This however as expected was not approved by political masters. Target of 40 per cent was not touched but monitoring of the fulfillment of targets and whether the funds allotted for priority sector are reaching the genuine and the needy people are not taken seriously in the post reform period. Reserve Bank of India in August 2011 has set up a Committee under the chairmanship of M.V.Nair to re-examine the existing classification and suggest revised guidelines with regard to Priority Sector lending classification and related issues (Chairman: M V Nair). The recommendations of the committee were placed in the public domain inviting public comments. The recommendations of the Committee were examined based on the interface with various stakeholders and in the light of the comments / suggestions received from Government of India, banks, financial institutions, Non-Banking Financial Companies, Associations of industries, public and Indian Banks' Association; and revised guidelines were issued on July 20, 2012 in supersession of guidelines mentioned in the master circular on priority sector lending dated July 2, 2012.The revised guidelines are operational with effect from July 20, 2012. The priority sector loans sanctioned under the guidelines issued prior to this date will continue to be classified under priority sector till maturity/renewal.

I. Categories under priority sector
(i) Agriculture
(ii) Micro and Small Enterprises
(iii) Education
(iv) Housing
(v) Export Credit
(vi) Others

1.2. Trends in Priority Sector Lending During Post Reforms Period:

Both Public and Private sector banks played a vital role in economic development by financing the priority sector of the economy. The outstanding credit provided to priority sector by Public, Private and Foreign Banks was shown in the following table 1.1

Table 1.1.Outstanding Credit to Priority Sector (Rs.crore)

Year	PSBs	As % of ANBC	Pvt Bks	As % of ANBC	Foreign Bks	As % of ANBC	All banks
2001	146,546	43.0	21,549	38.2	11,835	34.1	179,930
2002	171,185	43.1	25,709	40.8	13,414	46.7	210,308
2003	203,095	42.5	36,705	44.2	14,848	33.8	254,648
2004	245,672	44.0	52,860	47.4	18,276	34.8	316,808
2005	310,093	43.2	69,384	43.3	23843	35.3	403320
2006	410,379	40.3	106,566	42.8	30,439	34.6	547,384
2007	521,180	39.6	143,768	42.7	37,835	33.4	702,783
2008	608,963	44.6	163,223	47.5	50,301	39.8	822,487
2009	719,497	42.5	190,303	46.8	55,483	34.2	965,283
2010	864,562	41.7	215,551	46.0	60,290	35.1	1,140,403
2011	1,028,615	41.3	248,828	46.6	66,618	39.6	1,344,061
2012	1,129,990	37.4	286,420	39.4	80,538	40.9	1,496,949
2013	1,284,880	36.4	327,317	37.5	85,011	35.2	1,697,208
2014	1,618,971	39.4	464,456	43.9	90,723	36.0	2,174,150

Source: RBI, The Report of Progress of Banking in India and as reported by banks

It can be concluded from the above table 1. 1., that bank nationalization in India and the priority sector lending are the important components of social banking designed specifically for the social economic development of rural India. The disbursements of loan are sector oriented and the banks were successful to a large extent in meeting the targets and standards established by the Government of India right from the inception. It is inferred that commercial banks in India have been performed under the stipulate National norms. The priority sector advances of Public sector banks increased from Rs. 1,46,546 Crores in March 2001 to Rs.16,18,971 Crores in March 2014 with the growth rate of and that of private sector banks increased from Rs. 21549 Crores in March 2001 To Rs.464,456 Crores in march 2014.An analysis of their performance reveals that the share of priority sector advances as on March 2014stand at 39.4 percent by public sector banks as against the target of 40 per cent of Adjusted Net Bank Credit and Private sector Banks have achieved a target of 43.9 per cent well above the National norm of 40 percent.

2.1. OBJECTIVES OF THE STUDY

The chief objective of the present study is to evaluate the impact of Priority Sector lending in Guntur District with special reference to Agricultural Crop Loans.

The specific objectives of the present study are:
1. To analyze the trend and pattern of overall as well as priority sector lending by the Andhra Bank in Guntur District
2. To review the performance of District Credit Plans in the implementation of Priority sector Lending Scheme in Guntur District
3. To study the impact of priority sector credit on the socio-economic conditions of the borrowers.
4. To study the problems and difficulties experienced by borrowers and banks in the implementation of the scheme in the study area.

2.2. Methodology:

The study is conducted in the District of Guntur of Andhra Pradesh. The study is based mainly on primary data backed to some extent by available secondary data. As the beneficiaries have been located in 57 rural mandals of the district, nine mandals are chosen. The mandals are selected by the application of "Multi-Stage Sampling Technique". The nine mandals are selected in such a way that three are developed, three are moderately developed and the remaining three mandals are relatively backward. An attempt is made to cross check some of the information gathered from the samples, with that obtained from the banks, which provided the loans. One village from each of the sample mandals were selected randomly for this purpose .A detailed socio-economic survey of the concerned beneficiaries has been conducted to study the impact of priority sector lending on the sample members. The secondary data is drawn mainly from RBI Bulletins, Currency and Finance, Cirdulars of Rural Planning &Credit Department of RBI, District Credit plans and publications of Economics & Statistics Department etc., were collected and critically analyzed. Relevant information has been collected through discussions with Lead Bank Managers, DRDA Project Officers and Agriculture Officers.

2.2.1. Sampling Framework:

Random sampling has been used to select samples for study from Guntur District. Out of the 57 Mandals in the district, a 15 percentage of sample comprising nine mandals have been picked up. One village from each of these nine selected mandals were selected randomly and a total of 11.76 per cent of the sample borrowers have been picked up at random and a total of 600 borrowers are studied using primary data. The officials consist of 10 Bank Managers from Andhra Bank , 5 from DRDA Project Office, and the 5 from Agricultural Department.

2.2.2. REVIEW OF LITERATURE:

Pandhy in his book "Commercial Banks and Rural Development" attempts a critical study of the rural development experiment of the Indian Commercial Banks. It examines the theory of their association with most important yet underdeveloped sector of our economy in all ramifications. It analyses threadbare the problems of developing their presence in rural areas and their possible solutions from different angles for the much needed development and modernization of rural India.

Rajkishore Pany in his book on "Institutional Credit for ag-

riculture in India" discusses inter and intra-regional variations in the flow of credit in the state of Orissa. His study revealed that the credit gasps were found to be higher in the least developed regions than in the developed regions. However, it is observed that within each region the credit gap was higher in irrigated areas as compared to un-irrigated areas. Then study also reveals that large overdues made the institutional agencies weak and unviable. Among the operational weaknesses of the institutional agencies, the loan procedures of investment credit were found to be cumbersome and dear.

Assessing the performance of Regional Rural Banks vis-à-vis the cooperatives and commercial banks S.S.Sinha (1991) in his article titled "Origin and Objectives of Regional Rural Banks" observed that the Regional Rural Banks operations typically aim to correct the income inequalities in rural societies as their resources for lending (in the form of deposits) are being mobilized largely from relatively better off people of the rural areas and these givers of resources are usually not eligible to draw resources from Regional Rural Banks by way of credit. Thus the Regional Rural Banks by and large have played their distinct assigned role well and have developed from a "marginal system" to a "mainstream system" within the mammoth banking structure of the country.

A Study by Shetty seeks to juxtapose the amount of institutional credit used by individual sectors and industries against their output and the price trends relevant to them. The commercial bank credit and other institutional credit have some relationship with real output in any sector. Further, he emphasized that there is a scope for enhancing credit to allow farmers to achieve further commercialization and modernization of their operations. He opines that there is a greater scope and need for the redistribution of existing institutional credit in favour of small and marginal farmers and agricultural labourers.

3. Annual credit plan in Guntur district:

The Annual credit plan for the year 2014-15 aggregated to Rs. 12491.43 crores comprising Rs.10563.84 crores under priority sector and Rs.1927.59 crores under non-priority sector lending. Priority Sector allocations constitute 84.57 per cent of the total outlay. Allocations to Agriculture finance is Rs. 7662.94 crores which constitutes 61.35 per cent of the total plan outlay. Under Agriculture Short term production credit was 6328.57 crores, a growth of 21.90 per cent over the previous year. Under Agriculture Term Loans Projections are made to the tune of Rs.235.99 crores, whereas for Agriculture allied activities Rs.1098.38 crores have been allocated.

4. Major Findings of the study:

The analysis of primary data i.e., problems faced by beneficiaries revealed the following information.

1. A Majority of the borrowers i.e., 40 per cent are in the age group of 25 to 35 years. In the age group of 35-45 years 32 per cent of borrowers can be observed. In the age group of below 25 years21 (per cent) borrowers can be observed and 43 borrowers (per cent) are of 45-55 years. A close observation of the table reveals that from the age group of 25-35 years a fall in the number of borrowers can be seen as age increases. It is also noticed that nearly 22 of the total borrowers from all the 3 regions have crossed even 55 years
2. It is observed that nearly 51 per cent of borrowers are illiterate owing to poor socio-economic background.

Thus, their literacy indicates their so poor socio-economic background, and 132 borrowers have an opportunity to get primary education. Since all respondents belong to poorer families their access to education in general and higher education in particular will naturally be lesser. Therefore, of the 600 sample, 54 respondents got higher education and only 42respondents got an opportunity for college education.

3. It is found that the sample respondents belonging to the scheduled caste and backward classes are getting their due share under priority sector lending. About 37 per cent out of the total 600 borrowers belong to scheduled caste, 32 per cent belong to backward classes,20 per cent belong to forward caste, 7 per cent are scheduled tibes and the remaining 4 per cent are minorities.

4. It is also revealed that a large majority of borrowers have an average family size of more than 5 members. Out of the total 600 samples, the size of the family is less than 3 for 30 respondents and it ranges between 3-5 for 234respondents. It is noticed that a large majority of respondents have an average family size of more than 5 members.

5. It is also found that majority of borrowers posses little land. The Land Holding size-wise classification of respondents is concerned that about 41 per cent of the respondents i.e, Tenants with rights are found possessing no land in the study area.In the other hand only 23 per ent of respondets are found holding a land size of the 2 to 5 acres. It can be concluded that those appear in the first two classes in the table are in the poverty line before getting financial assistance.

6. It is inferred from the analysis that 60 per cent of the respondents are willing to spend loan taken from bank to perform agricultural operations, 29 per cent of samples have expressed their willingness to spend the sanctioned loan for family consumption purpose. 11 per cent of the respondents are of the opinion to spend the sanctioned loan to pay-off old debts.

7. Majority of the respondents are well aware and shown keen interest in shifting from traditional source of credit to institutional source of credit. 74 per cent of the samples are able to perceive the shift. 22 per cent are not able to perceive the shift. A close examination of the table reveals that a higher per centage of respondents in Developed region are aware of shift towards institutional sources when compared to respondents of the other two regions.

8. Majority of the respondents are expressed dissatisfaction over insufficient amount of loan sanctioned by the bank. 25 per cent of the sample farmers are of the opinion that the process followed by Andhra Bank in sanctioning agricultural loans is time consuming and 4 per cent of the total borrowers have stated that the loans sanctioned iss not according to their needs. The borrowers who had opined that the capacity of repayment is not taken into account are 5 percent. Further inadequacy of assistance is felt by 60 per cent of the borrowers. 6 per cent of the borrowers have stated that they have suffered from indifferent attitude of bank officials in sanctioning the loan.

9. Even though majority of the respondents are well aware of institutional source of credit, still they are dependent on the other source of credit to fulfill their financial requirements. It can be observed that although 74 per cent of the respondents have acknowledged the shift from traditional to institutional sources, only 52 per cent of the respondents are approaching the various institutional sources in times of financial need. It signifies that the hold of the traditional sources still continues as about 48 per cent of the respondents are dependent on them. Among the two major institutional sources 21 per cent of the respondents are approaching the commercial banks while 31 per cent are approaching the co-operative banks.

10. It is found that 25 per cent of the respondents are of the opinion that the process followed by Andhra Bank in sanctioning loans are time consuming, 4 per cent of the respondents are of the opinion that the loan sanctioned is not according to their need. 60 per cent of the respondents felt that the assistance given to them is inadequate.

11. It is found that 89 per cent of respondents have prior knowledge about agriculture operations before taking loan. It is also noticed that 11 per cent of respondents do not have any previous knowledge about agricultural operations.

12. It is found that 20 per cent of the borrowers have been repaid the loan amount fully . 210 respondents have opined that low capacity to generate income of the cultivation is an obstacle for their repayment while 90 borrowers have stated that they belong to lower income families and the income generated from cultivation is not even sufficient for their livelihood. Another 48 respondents have felt that they get positive incomes, but they are unable to clear the loan under the scheme due to high cost of credit from the money lenders.

13. The main reasons attributed by majority of the respondents for nonrepayment of loan are losses incurred by them from cultivation and lack of sufficient income to meet both ends. It is to be observed that 75 borrowers (25 per cent) have repaid the loan amount not from the income generaqted by their cultivation but from other sources. Another 57 (19 per cent of the total sample) could repay through income derived from cultivation as well as from other sources.

14. It is found that 35 per cent of the respondents revealed that they have 20 per cent to 30 per cent hike in their incomes because of the additional investment which theuy have borrowed from Andhra Bank. 10 to 20 per cent raise in their incomes has been experienced by 16 per cent of the respondents and 10 per cent of the respondents have an increase of 40 per cent to 50 per cent in their incomes.

15. It is found that the problems faced by the majority of the farmers are delays in sanctioning and releasing of funds, cumbersome procedures, security etc.

16. Fifty Six per cent (56 per cent) of the borrowers save an amount of less than Rs.1000 per month, 15 per cent Rs.1000 to Rs.3000 and 1 per cent above Rs.5000.28 per cent of the borrowers are not having any saving at all.

5. Conclusions:

The highest priority has been accorded to the priority sectors by the Andhra Bank during the period 2004-05 to 2014-15.The overall performance of Andhra Bank advances to agriculture witnessed an increase during the period 2004-05 to 2014-15. A large number of small farmers have been benefited by additional earnings for their additional investment borrowed from the Bank.Farmers have faced certain problems in raising funds from the bank. The important problems being faced by them are problem of security, delays in sanction and release of funds, cumbersome procedures and inadequate sanctions etc.The important problems expressed by the officials of the bank in

dealing with agricultural finances are demanding of more credit by farmers, lack of knowledge of repayment of loans, lack of proper planning among farmers and diversion of funds etc.

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