



SECTORAL ANALYSIS OF INSTITUTIONAL CREDIT TO PRIORITY SECTOR IN INDIA

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ABSTRACT:

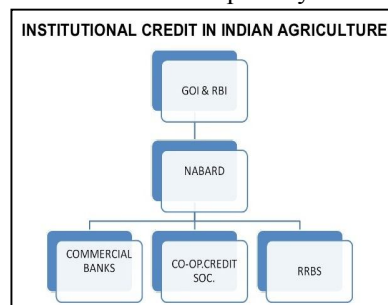
Some sectors face the issue of inadequate and untimely credit supply for dispensing to the developmental activities such as agriculture, medium and small enterprises (MSE) etc. India adopted the policy of priority sector lending approximately half of a century ago to conduit credit at favoured rates to strategic sectors of the economy that have been relegated by institutional credit so that the imbalances can be corrected. In this paper an attempt to analyze the performance of broad sector wise loan disbursement to priority sector in India is made by using one sample *t* test. The analysis is made for 12 states of India for the period ranging from 2012 to 2015.

KEY WORDS: Agriculture credit, NABARD.

I. INTRODUCTION

Agricultural credit may be explained as the amount of investible funds made available for the purpose of development of farm productivity. The credit may be called as an important factor of integrated approach in respect of advisory services for improving production and productivity, marketing, land tenures, farmer's organizations and other aspects, which are dependent on each other. It is an established fact that agricultural credit is one of the most important inputs in all agricultural development schemes. In the old days, the major sources of rural credit were money lenders and these sources of credit were inadequate, expensive and exploitative. Since independence, a multi-agency approach has been adopted to provide adequate credit to agriculture. The major policy in the field of agricultural credit has been towards the progressive increase with adequate and timely flow of credit to assist the vulnerable sections of the society.

For this the concept of 'Priority sector lending' is introduced which focuses on the idea of directing the lending of the banks towards few specified sectors and activities in the economy. One belief, which forms the cornerstone behind the philosophy of priority sector lending is that the banks are believed to be the movers of economic growth and that by regulating them the whole economy can be given a different shape and texture. The term 'priority sector' indicates those activities which have national importance and have been



assigned priority for development. These primarily include agriculture, small industries etc. The case has further been that these sectors and activities were neglected ones for the purpose of bank credit and therefore for the purposes of accessibility of credit, these neglected ones are considered to be at priority for providing credit. The Reserve Bank of India, which is the supervisory body of the banking sector in India, also referred to as the Apex Bank of the country, has from time to time issues instructions/guidelines/directives to the banks in India with regard to the priority sector lending. The scope and extent of the 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 has been demands to include new areas, such as infrastructure, within the ambit of priority sector, there is an apprehension that it will dilute the definition of priority sector with the focus on the needy sectors of the economy and weaker section of the society getting lost.

Here, in this paper, the broad sector wise loan disbursement to the priority sector in 12 states of India under the annual credit plans of NABARD for the period from 2012-13 to 2014-15 is analyzed. NABARD has classified the priority sector, for the purpose of disbursing the loan, into three sector:- agriculture sector, non-farm and other priority sector. Non-farm sector includes the small and medium enterprises, where as other priority sector includes export credit, education, housing, renewable energy etc. NABARD is providing two types of loans to the agriculture sector: - crop loan and term loan. The crop loan which (also known as short term loan) is provided for 15 months period and is meant for meeting the needs like seed, fertilizer, labour, cattle feed, etc. The farmer can repay the harvest of the crop. The term loan consists of two types of loans, medium term loan and long term loan. The period from medium term loan is from 15 months to five years. These loans are provided for meeting the expenses on land improvements, digging of well, purchase of implements, machinery and farm animals, etc. these items require relatively more investment and as such the period for repayment is kept upto five years. The long term credit as the name indicates is for longer period than five years. This type of credit is given for activities requiring heavy investments. At this background, the present paper aims at the analysis of the performance of the broad sector wise loan disbursement to the priority sector in India in the recent period from 2012-15.

The rest of the paper is organized in the following sections. Section II reviews the existing literature on this issue. Section III presents the brief overview of the research methodology applied for this study. Empirical findings are discussed in Section IV. Section V concludes and suggests some important policy implications.

II. REVIEW OF LITERATURE

Many studies have been conducted about financing of agriculture in the country. In the earlier studies, the learned researchers have tried to reveal some of the hitherto unrevealed aspects of the subject. It is but natural that their findings have paved the way for further studies and research. Every researcher is, therefore, deeply indebted to his/her predecessors in the field. Therefore, an attempt has been made to provide an overview of various aspects and issues concerning the supply of agricultural credit through the review of existing literature. Some of the main studies selected for review have been discussed below:

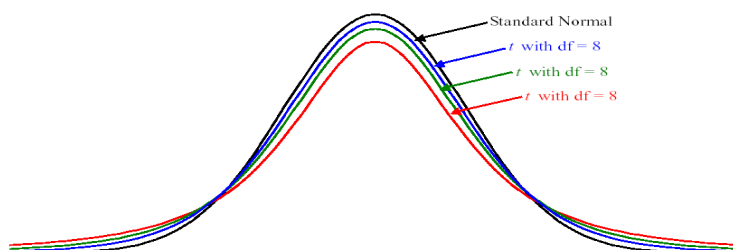
Jugale (1992) in his book 'Co- Operative Credit in Indian Agriculture' discussed the socio-economic impact of co-operative credit on agriculture sector. Further, Kapoor (1999) in his committee report on the agenda of 'Revival of Cooperative Banks' recognized the relevance and catalytic role of cooperative banks in the development of agriculture and non-agriculture sector of Indian rural economy. Satyasai and Badatya (2000) analyzed the performance of rural co-operative credit institutions based on borrowings and lending operations, cost structure, financial viability, etc. Further, Viswanath (2001) in his study concluded that there was a direct and positive link between over dues and membership on the one hand, and over-dues and working capital, amount of loans advanced on the other. Veni and Sah (2005) on the other hand in their paper concluded that the growth rate of Cooperative Banks is relatively lower than the SCBs and RRBs in terms of short-term, long-term and total credits. However NABARD (2009) in its study report on 'doubling of agricultural credit' has reported there is a need to orient agriculture credit policies in a manner that is more conducive for the marginal and small farmers, tenant farmers, share croppers and oral lessees in accessing credit from formal institutions. Contemporary to NABARD Mishra, Das and Pradhan (2009) in their work report concluded that economic growth in India as a direct positive effect on credit market development of the country. The study infers that the growth of GDP in India influences the growth of bank credit. Although Sen (2010) in his study suggested that policy makers should encourage financial innovation that favours the poor. New technology, such as internet, smart cards and mobile phones can greatly increase financial inclusion. For the financial inclusion of the poor farmers, a scheme was introduced (1998) known as Kisan Credit Card Scheme. A number of studies have been come across for evaluating the performance of the scheme. Among those studies one is given by Bista, Kumar and Mathur (2012), approximately after one and a half decade of the introduction of the scheme recommended that, in Bihar, to bring more farmers under the scheme, the

process of opening bank accounts should be simplified. The farmers were reported to have the fear of being a defaulter.

III. RESEARCH METHODOLOGY

The secondary data collected from NABARD State Focus Papers, RBI trends, reports and annual reports have been considered for the purpose of this study. The study covers the period of three years from 2012 to 2015. Performance of the Commercial Banks, Regional Rural Banks, Cooperative Banks and others is analyzed by applying the one sample student's t test.

Student's t-distribution



There are three main types of t-test: (1) Independent Samples t-test compares the means for two groups. (2) Paired sample t-test compares means from the same group at different times (say, one year apart). (3) One sample t-test tests the mean of a single group against a known mean.

The following formula for the one sample student t test is used:

$$t = \frac{\bar{X} - \mu}{\frac{s}{\sqrt{n}}}$$

Where,

\bar{X} = Mean of set of values, μ = Mean of second set of values

s = Standard deviation of first set of values

n = Total number of values in the set.

The formula for standard deviation is given as:

$$s = \sqrt{\frac{\sum(X - \bar{X})^2}{n - 1}}$$

Where,

X = Values given

\bar{X} = Mean

n = Total number of values.

IV. ANALYSIS OF BROAD SECTOR WISE LOAN DISBURSEMENT TO PRIORITY SECTOR

Credit plays a crucial part in development of agriculture, employment generation, increasing the purchasing power of the farmers and ultimately leading to the prosperity of the area and economic growth of the nation. Priority sector financing is essential and while fulfilling the social responsibility, banks should try to make the basic banking business as successful as possible, reduce cost, improve banking system and increase the overall profitability. The implementation of the technically advanced inputs needs the huge amount of credit. Due to that to identify the actual demand of credit, the purpose of demand for credit is classified into four main categories i.e. crop loan (short term loan), Term loan (long term agriculture loan), Non-farm sector and other priority sector. Here the basis for the classification of the purpose of loan is

duration of time for which the credit is demanded. The achievements are percentage of total funds, which are meant for disbursing the loan to the agriculture sector.

Table 1: Broad Sector wise Loan Disbursement under NABARD’s annual credit plans (achievements as the percentage of target), 2012 to15

Year	State	Crop Loan	Term Loan (Agr)	Total Agri. Credit	Non-Farm Sector	Other Priority Sector	Total Priority Sector
2012-13	KERELA	135.69	84.31	125.43	78.07	109.72	114.54
	UTTARAKHAND	53.97	162.54	91.55	79.62	87.95	87.79
	ANDHRA PRADESH	135.09	148.26	139.03	120.46	73.70	121.14
	ASSAM	36.10	75.42	49.15	127.03	95.21	72.23
	CHHATTISGARH	81	53	71	130	56	74.87
	BIHAR			84.90	127.21	88.99	89.77
	HIMACHAL PRADESH	100.69	74.67	88.96	100.31	67.85	86.62
	GUJARAT	88.53	78.43	85.69	143.13	87.73	93.82
	TAMILNADU	134	52	111	88	101	105
	PUNJAB	107.61	87.87	103.79	128.49	102.61	107.50
	UTTAR PRADESH	80.62	100.61	86.12	120.10	67.71	87.89
	HARYANA	94.00	114.00	98.00	116.00	116.00	102.00
2013-14	KERELA	145.06	64.67	123.5	110.74	100.94	111.54
	UTTARAKHAND	27.05	212.90	91.37	113.45	89.05	95.02
	ANDHRA PRADESH	104.25	110.88	105.86	134.68	42.71	96.67
	ASSAM	50.57	77.32	60.40	46.67	84.26	60.67
	CHHATTISGARH	84	29	65	91	38	62.78
	BIHAR			95.00	129.40	86.98	97.93
	HIMACHAL PRADESH	116.45	80.25	100.91	106.38	72.71	95.15
	GUJARAT	NA	NA	74.53	156.58	72.20	86.47
	TAMILNADU	133	50	108	101	104	106
	PUNJAB	72.24	523.13	105.77	115.98	108.20	107.78
	UTTAR PRADESH	80.43	81.49	80.71	146.58	72.99	88.52
	HARYANA	84.00	122.00	92.00	128.00	108	100
2014-15	KERELA	146.43	59.65	120.1	107.01	86.61	104.9
	UTTARAKHAND			83.15	89.73	79.49	83.22
	ANDHRA PRADESH	70.65	73.21	71.29	130.27	50.63	76.58
	ASSAM	47.90	48.63	48.16	70.73	79.23	61.21
	CHHATTISGARH	77	37	63	104	51	68.31
	BIHAR	77.37	143.37	96.33	104.40	86.45	96.23
	HIMACHAL PRADESH	89.35	80.19	85.67	110.33	54.15	86.07
	GUJARAT	80.71	57.05	74.30	132.28	83.11	85.12
	TAMIL NADU	126	59	105	97	105	104
	PUNJAB	99	120	103	105	83	100
	UTTAR PRADESH	88.10	95.02	89.75	150.74	72.19	95.03
	HARYANA	88.00	81.00	86.00	127.00	117	98

Source: Author’s Calculation based on NABARD’s data.

Figure shown in the table are mean achievements of the targets in percentage terms.

Table 1 shows the broad sector wise loan disbursement to the priority sector in 12 states of India under the annual credit plans of NABARD for the period from 2012-13 to 2014-15. The figures in the table are the mean achievements and expressed as the percentage of the target. If the mean achievement of a particular

sector is 100 then it means that target is fully achieved in this sector. If the achievements are greater than targets, it indicates that the supply of funds for investment in priority sector is available in adequate amount, which is a good symbol for the sustained agriculture growth. Table shows that in providing the crop loans to the farmers, the achievement surpassed the target during the entire period which indicates the adequate supply of the short-term loans to the farmers in Bihar, Haryana, Tamil Nadu and Himachal Pradesh. But in Haryana the achievements show the significant variations in the disbursement of the crop loan. The Crop loan in 2012-13 was at 94% of the target, which reduced to 84% of in 2013-14 and increased to 88% of the in 2014-15 indicating the fluctuations in the loan disbursement by the different financial institutions under the ambit of NABARD. For the sustainability of agriculture growth, the adequate and timely supply of funds for heavy investment is an essential pre-requisite. But some states like Uttarakhand, Assam, Chhattisgarh, Bihar and Gujarat performed poorly in providing the short-term credit to the farmers indicating the inadequacy of the supply of funds in the short term.

As far as Term loans are concerned Kerala, Punjab and Uttarakhand performed good but Uttarakhand is showing huge variations in the disbursement of the long-term loan and Punjab performed satisfactorily but is showing declining fluctuation over the period of time. Long term loan disbursement in Punjab is 87.87% in 2012-13 which increased more than five times to 523% of the target but significantly reduced afterwards. Assam and Chhattisgarh show poor performance in the disbursement of the long-term loans. Which indicate the shortage of the supply of funds to the agriculture sector. The states need to improve its supply of agriculture credit so that it can improve the health of agriculture sector by inducing the farmers for heavy investment by improving the term loan scenario.

It is worth mentioning that non-farm sector includes the small and medium scale enterprises. These enterprises provide the employment to the unskilled labor force the agriculture sector. By releasing the funds to these enterprises, the problem of disguised unemployment can be solved effectively. On the other hand, the surplus man power in the agriculture sector can be a better source of capital formation in these enterprises since it can employ the workers from the farm sector on low wage rates. Some states witnessed the good performance in the loan disbursement to the Non-farm sector such as Andhra Pradesh, Kerala, Gujarat and Haryana for the entire period of the study. Non-farm sector achievement, in Gujarat, surpassed the target with fluctuations over the time (In 2012-13, 143% was achieved, which increased to 156% of the targets in 2013-14 and further reduced to 132% in 2014-15). It indicates the lack of consistency in achieving the targets which certainly a symbol of poor loan disbursement system in this state. Instead Bihar is showing the poor performance in overall terms in providing the supply of funds to the non-farm sector. Assam witnessed the sudden fall in the loan disbursement to the disbursement of long term loan to the agriculture sector. This sudden fall in the supply of the long-term credit to the agriculture sector may ponder some adverse impact on the capital formation in this sector and may have reduced the productivity. In meeting the loan requirements of the farm sector Andhra Pradesh performed good from 2012-14 but fall short of the achievements in the year 2015.

Considering the loan requirements of the Other Priority Sector, the demand for credit is met in Kerala and Haryana for the entire period of the study. But Himachal Pradesh is found inefficient in meeting the demand of credit to the other priority sector on overall basis. On the other hand, if Total Agriculture Credit is concerned, Himachal Pradesh is performing good in terms of making available the funds to the agriculture sector. But Tamil Nadu and Uttar Pradesh performed poorly for the entire period of study on overall basis. It is worth mentioning that high level achievement always cannot be regarded as the symbol of good performance. Since, it may be the result of low targets set by the NABARD.

Table 2 Broad Sector wise loan disbursement at aggregate level (one sample t-test)

Broad Sectors	t-value	Df	p-value	X̄	X̄ - 100
Crop Loan	-1.515	31	0.14	91.71#	-8.286
Term Loan (Agr)	0.076	31	0.94	101.15	1.152
Total Agri. Credit	-2.723	35	0.01	90.65	-9.349
Non-Farm Sector	3.319	35	0.002	112.98	12.982
Other Priority Sector	-5.009	35	< .001	82.84	-17.156

Total Priority Sector	-3.231	35	0.003	91.95	-8.045
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Source: author’s calculation based on NABARD’s data

#Figure shown in the table are mean achievements of the targets in percentage terms.

Table 2 shows the performance of institutional agencies in disbursing the loan to the priority sector at the aggregate level. The figures in the table are the mean achievements and expressed as the percentage of the target. The performance is analyzed on the basis of one sample t test. If the mean achievement of a particular sector is 100 then it means that target is fully achieved in this sector. As far as crop loan to the agriculture sector is concerned, the mean achievement level is reported 91.71% of the target. However, the difference between the achievement and target is insignificant as indicated by high p value. It means that short term loan disbursement is at satisfactory level. As far as long-term loan to the agriculture is concerned, achievements are totally equal to the target. Therefore, the supply of funds for the long-term investment in agriculture sector is adequate, which is a good symbol for the agriculture growth. In case of non-farm sector the loan disbursed to this sector significantly exceeds the targets, which indicates the excellent performance of financial agencies in sanctioning the loans to this sector. As far as loan to the other priority sector is concerned, achievement is significantly below the targets which indicate the lack of supply of the funds to this sector. On average 83% of targets are achieved in this sector. As on overall assessment, at the aggregate level the achievements are almost near to the targets. However, there are inter-state variations in the achievement level to the different priority sector.

V. CONCLUSION

Credit has always been the key requirement for agriculture growth because growth of the agriculture sector depends on the adoption of innovated and more efficient cultivation techniques and the credit is also required for the further development of the priority sector as well. The implementation of the technically advanced inputs needs the remarkable amount of credit. To meet the credit requirement, the purpose of the demand for credit in this study is classified into four main categories based on the duration of time for which the credit is demanded i.e. crop loan (short term loan), Term loan (Agriculture), Non-farm sector and other priority sector. In the present study of 12 states in the sample, it is evidenced that some states (e.g. Uttarakhand, Chhattisgarh, Bihar, Himachal Pradesh, Uttar Pradesh and Haryana) are going through the significant disparities in loan disbursement to the different sectors of the priority sector. Uttarakhand on one hand is showing the disparities in the loan disbursement in the components of priority sector but on the other hand it is showing the adequate supply of long term credit requirement for the sustainable agriculture growth in the state which is having the lower achievement (79.49%) in the other priority sector at the same time.

Bihar, followed by Uttarakhand, also shown the poor performance of short term credit (crop loan at 77.37%) where on the other hand, it is extraordinarily performing in ensuring the availability of long term credit. The similar trends with little variation are shown in some other states also (Himachal Pradesh, Uttar Pradesh, Chhattisgarh and Haryana). On the same front Kerala and Gujarat are showing the inadequate supply of the credit in the priority sector whereas Gujarat is performing better in the non-farm sector with achieving more than the targets during the entire period of the study from 2012 to 2015. For sustainable agriculture growth, the adequate and timely supply of credit for heavy investment is an essential pre-requisite and under this proposition Kerala and Gujarat faced the failure to grow their agriculture sector sustainably.

However, Andhra Pradesh shown that agriculture credit is more evenly distributed into the different components of priority sector as compared to the other states. And in this row Tamil Nadu and Punjab performed good in providing the agriculture credit which indicates that the health of agriculture sector in these states, where the availability of agriculture credit is adequate, should be good because farmers in these states should be adopting the modern and more efficient techniques of production and thus should be having the good returns. But to conclude it can be said that the high level of achievement always cannot be regarded as the symbol of good performance. Since it may be the result of low target set by the NABARD, and the poor performance may be a phase in achieving the balanced growth of all the sectors in the planned economy. The credit availability is one of the key requirements for the agriculture to grow but it is not the sole factor which is responsible for the growth of agriculture sector.

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