Growth trends of the priority sector loans advanced by commercial banks to different categories of beneficiaries in Lakhimpur Kheri district, Uttar Pradesh

MONA SINGH[1], DP RAI[2] and KK SINGH[1]

[1]Division of Agronomy, [2]Faculty of Agriculture
Mahatma Gandhi Chitrakoot Gramodaya Vishwavidyalaya
Chitrakoot, Satna 485334 Madhya Pradesh, India
Email for correspondence: chandra.drram@gmail.com

Received: 16.05.2022/Accepted: 13.06.2022

ABSTRACT

The need for external financial services arises due to lack of simultaneity between realization of income and act of expenditure. In India, agriculture is the mainstay of the economy but rural households' demand for credit has been growing fast due to limited land resources operating under poor technology and hence small base of their economic activities on one hand and growing family size, increased consumption requirements and social obligation etc on the other. At the same time one can guage the statistical importance of Indian agriculture which has 78.2 per cent of marginal and small holdings (less than 2 ha) sharing 32.5 per cent of the total land area. Among these farmers, there is a weakest section of marginal farmer households treated as landless. All mentioned categories of these farmers have different economic activities and demand for credit at right time and type and amount is the basic need of these categories of farm families. Therefore keeping the demand of credit in view the present study was undertaken by following the recommendations of the Parliamentary Standing Committee on Agriculture to study the flow of credit and its problems linked with small and marginal farmers for getting easy and cheap credit from rural financial institutions.

Keywords: Loans; commercial banks; beneficiaries; sectors

INTRODUCTION

The rural financial system comprises not only traditional sources within both formal and informal segments but also new generation institutions with emphasis on micro-finance within the same two segments and attempt needs to be made to cover the experiences of both traditional and new generation components of the system (Anon 2016, 2017). The financial policy in India is influenced by the objective of restoring sectional balance within credit disbursement and for channeling to the weaker sections within these sectors. Priority sector bank lending has been an instrument of this financial policy. The Bank Company Acquisition Act 1969 leading to the nationalization of the 14 commercial banks has implicitly made it clear in its preamble that the banking system touches the lives of millions and has to be inspired by larger social purpose and has to sub-serve national priorities and objectives such as rapid growth of agriculture small scale industries and exports raising employment levels, encouragement of new entrepreneurs and development of backward regions. For this purpose it is necessary for the government to take direct responsibility for the extension and diversification of banking services and forth-working of a substantial part of the banking system. There has been a substantial reorientation of banking policy after the nationalization of banks in 1969. This has been accomplished through social orientation of banking and administrative intervention by way of stipulating targets, sub-targets, credit guarantee and refinance facilities for financing the preferred sectors of the economy known as priority sectors where agriculture, small industries, small business and small transport operators, retail traders and education were given priority status.

The objectives underlying the priority sector lending relate to ensuring the assistance from the banking system flows in an increasing measure to those sectors of the economy which though contributing significant proportion of national product have not received adequate support of institutional finance in the past. This inter-alia implied flow of required funds to various sectors of the economy in accordance with the national planned priorities. The social control on banks was imposed as a measure to employ prudently and socially desirable channels with the objective of achieving economic growth combined with stability and social justice.

Even decades after independence, more than 70 per cent of borrowing by cultivators was from informal sector. Lending from commercial banks was directed towards large industrial houses. Agricultural sector, small scale industries and weaker sections were more neglected because of both risk factor and urban bias. Although cooperative sector was there to serve the needs of agricultural sector, it was unable to meet the credit demand of farm community. There was a need for ensuring an equitable and purposeful distribution of credit keeping in view relative priorities of developmental needs. The edifice of the priority sector lending that has emerged in the period after the nationalization of banks in 1969 is based on the following pillars. The system of priority sector lending has envisaged setting up of targets and sub-targets for financing of specific sectors. The share of priority sectors in total banks advances is 40 per cent. Sub-targets for agriculture and weaker sections are fixed at 18 and 10 per cent of total advances respectively.

The interest rate policy under priority and non-priority sector has been stipulated. Concessional rates of interest for the priority sector advances and relatively higher rate of interest for other sectors have been special features. This is known as cross subsidization policy. Here the losses arising on concessional loans are met out of the profits from other loans. This has facilitated flow of credit to the weaker sections of the society and neglected sections of the economy at relatively lower rates of interest. Financing of loan accounts under priority sector may entail risk of default. Hence a separate insurance scheme guaranteeing a part of the loan of commercial banks was introduced in 1970 and the DICGC of India was established. The corporation also provides deposit insurance to the depositors up to a prescribed limit. The corporation operates various credit guarantee schemes relating to guarantee support to eligible credit institutions for their priority sector advances to small borrowers and small scale industries (Rao 1994).

Priority sector lending implies deliberate diversion of funds of the banks from the other sectors and that too at lower interest. To mitigate the ill effects of this on bank resources and on profitability, the schemes of refinance were formulated by NABARD in particular. It advances about 42 to 45 per cent of the ground level rural credit disbursed by banks. In the post-nationalization of 14 commercial banks in 1969 period, the Reserve Bank of India was compelled to lay down targets for lending to specified sectors. Each major bank was given targets for lending to these sectors. A more comprehensive definition of priority sector was adopted in 1977. These were mainly in terms of sectors. It was realized in the early 1980s that even within priority sectors credit flow was more to the affluent sections. So the concept of weaker section was adopted within priority sector. It was categorically stated that the maximum benefit should be available to these weaker sections. By 1980s definition and quantitative targets had fully crystallized. There emerged the political interference to make use of these developments for vote bank politics for misuse of credit. As a result neither banking institutions nor the neglected sectors and sections were benefited. Thus the priority sector lending was effected. Financial sector reform became imperative. Thus the Narashimhan Committee recommended that the priority sector should be scaled down from present high level of 40 per cent of aggregate credit to 10 per cent. This was not accepted by the government as reported by Ramachandran and Swaminathan (2001).

METHODOLOGY

The study was undertaken for observing the problem and research gap in the credit needs and the general problems faced by the borrowers during their credit needs. Study area was identified after conducting state level pilot study and examined the statistical records of the Lakhimpur Kheri district, Uttar Pradesh. The list of farmers was taken from the district statistical office and Lakhimpur Kheri district was selected purposively for the study. Lakhirmpur Kheri district was bifurcated from the 72 districts in Uttar Pradesh. The district comprises 6 Tehsils and 15 blocks. These blocks were arranged in ascending order and among these 5 blocks namely Pallia, Nighasan, Dhaurahara, Nakaha and Isanagar were selected randomly for the study. The data were collected during period 2019-2020.

RESULTS and DISCUSSION

Source of credit borrowed by farmers on the basis of landholding

It is observed from the study that the respondents in the study had access to both institutional and non-institutional credit as per their size of groups (Table 1, Figs 1, 2). It was found that the highest credit was borrowed by 14 farm groups (23.33%) from friends/relatives followed by 9 (15.00%) from landlords and 7 (11.67%) from traders in case of marginal size of farm groups. In case of institutional source of credit 18.33 per cent farmers trusted in RRBs. In case of small farmers, 16 (17.77%) farmers borrowed credit from RRBs (institutional) and 15 (16.66%) from friends/relatives (non-institutional). Overall the percentage of credit from institutional sources was 43.34 per cent and non-institutional sources was 56.66 per cent. It has been reported that the small size of farm groups depended for the borrowing of credit more on non-institutional sources than the institutional sources due to easy availability of credit (Gaur and Khatkar 2011).

Source of credit borrowed by farmers on the basis of caste

It was also seen from the study that out of total the highest credit borrowers belonged to ST community followed by SC and OBC with 25, 50.00 and 22.95 per cent respectively. In non-institutional

Table 1. Source of credit borrowed by farmers on the basis of landholding

Source	Size of farm groups					
	Marginal	%	Small	%	Total	%
Institutional						
Commercial banks	2	3.33	6	6.66	8	5.34
RRBs	11	18.33	16	17.77	27	18.00
Cooperative bank/societies	5	8.33	9	10	14	9.33
SHGs	6	10.00	10	11.11	16	10.67
Non-institutional						
Traders	7	11.67	11	12.22	18	12
Money lenders	6	10.00	9	10	15	10
Landlord employees	9	15.00	14	15.55	23	15.33
Friends/relatives	14	23.33	15	16.66	29	19.33
Total	60	100.00	90	100	150	100

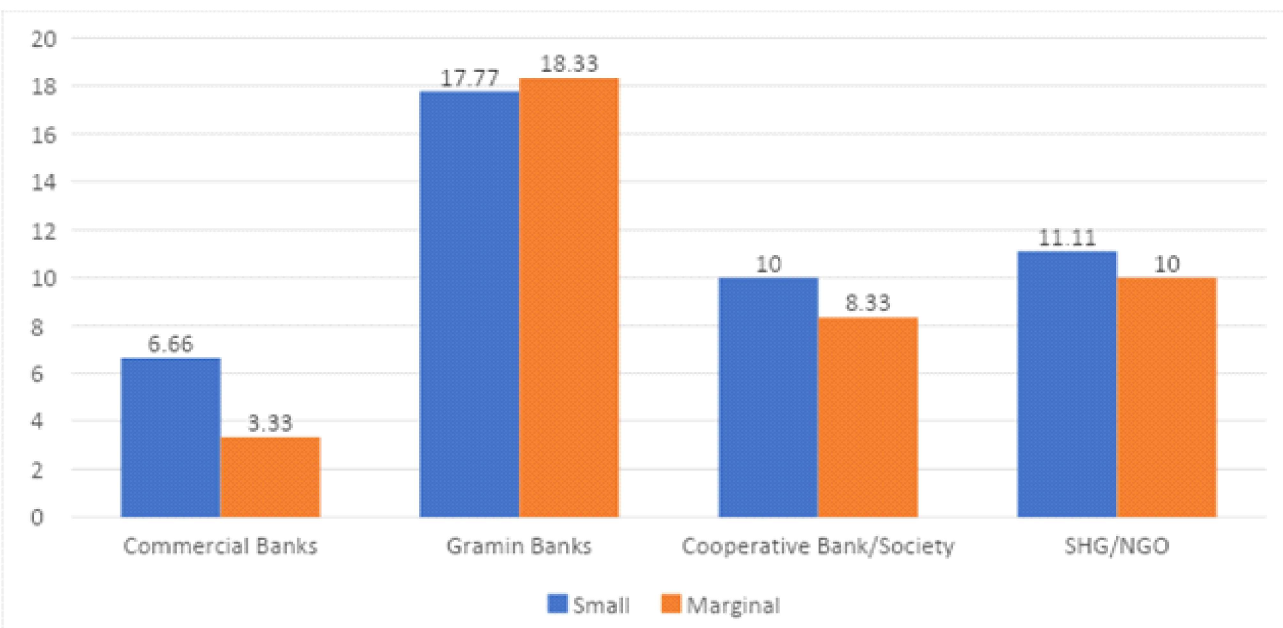

Fig 1. Source of institutional credit borrowed by farmers on the basis of landholding

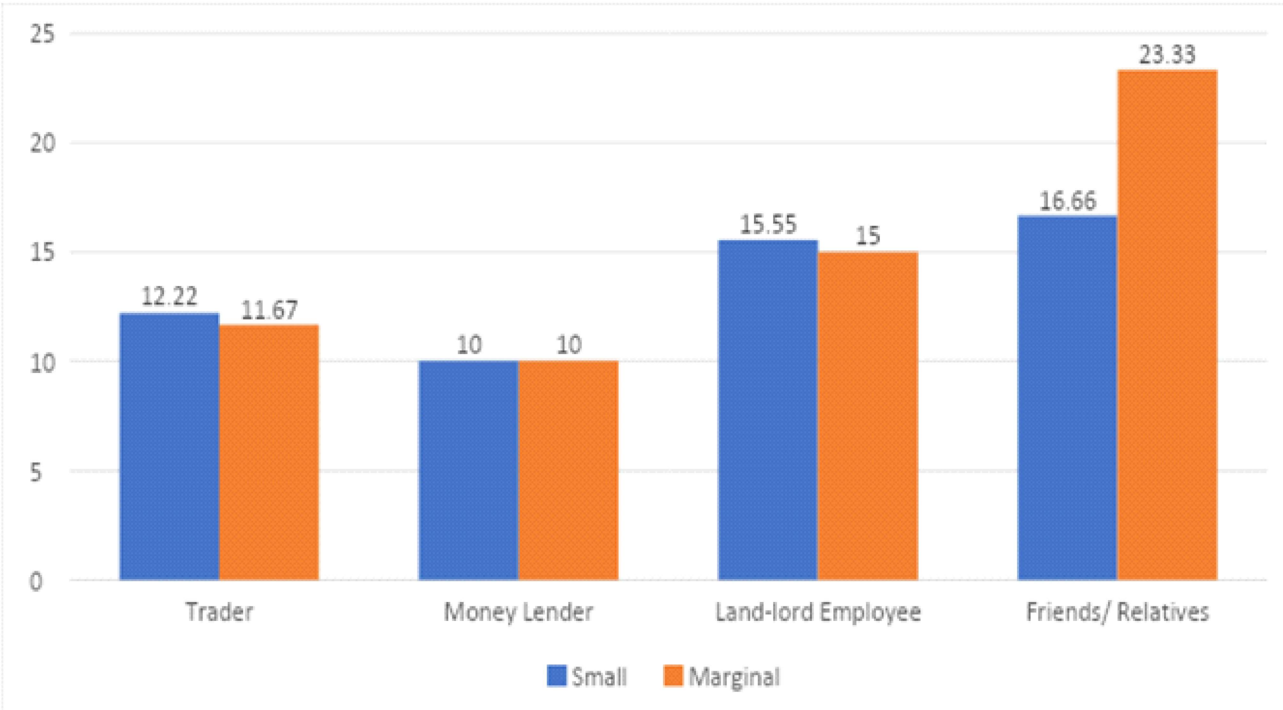

Fig 2. Source of non-institutional credit borrowed by farmers on the basis of landholding

sources of credit, borrowing from friends and relatives had the highest percentage in all four castes of farmers. In total 51.33 per cent of credit was taken from institutional sources and remaining 48.67 per cent credit was taken from non-institutional sources. It was also found from the study that there was no discrimination for financing of credit through institutional sources as regional rural banks.

REFERENCES

Anonymous 2016. Potential linked credit plan 2015-2016. National Bank for Agriculture and Rural Development (NABARD), Mumbai, Maharashtra, India.

Anonymous 2017. Potential linked credit plan 2016-2017. National Bank for Agriculture and Rural Development (NABARD), Mumbai, Maharashtra, India.

Gaur A and Khatkar S 2011. Institutional credit to agriculture sector across different regions of India. Indian Journal of Agricultural Economics **66(3):** 474.

Ramachandran VK and Swaminathan M 2001. Does informal credit provide security? Rural banking policy in India. International Labour Office, Geneva.

Rao CHH 1994. Policy issues relating to irrigation and rural credit in India. In: Economic liberalization and Indian agriculture (GS Balla, ed), Institute for Studies in Industrial Development, New Delhi, India.