



PRIORITY SECTOR LENDING BY COMMERCIAL BANKS- TRENDS AND GROWTH- A CASE STUDY OF ANDHRA BANK

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Abstract

Banks are nationalised with main motto of lending to weaker sections of the society. Reserve Bank of India has classified certain categories as priority sectors and fixed targets to all scheduled commercial banks in lending. Agriculture, MSME, Export credit, Lending to education, housing, social infrastructure, renewable energy etc. will come under priority sector lending. The present study focuses on trends and growth of priority sector lending by a Nationalized Bank, The Andhra Bank.

Key Words: Nationalisation of Banks, Priority Sector Classification, Targets to Priority Sector Lending.

INTRODUCTION

Banks are nationalised in the year 1969 by the then Prime Minister Smt. Indira Gandhi with cause of social justice and to extend loans/credit to poor and weaker sections of the society. Lending to poor, weaker sections of the society is main agenda in nationalisation of banks. In the first batch, 14 banks are nationalised in the year 1969. And again in the year six more banks are nationalised in the year 1980. After Nationalisation of the banks, lending to priority sector has gained importance. Priority sector are those sectors which are weaker sections, farmers, micro and small scale industries, exports, Education & housing etc. Lending to these sectors will come under Priority sector lending.

I. CATEGORIES UNDER PRIORITY SECTOR LENDING

The following categories will come under priority sector lending: 1. Agriculture 2. Micro and Small enterprises, 3. Export Credit, 4. Education, 5. Housing, 6. Social Infrastructure, 7. Renewable Energy, 8. Others and Weaker Sections.

II DESCRIPTIONS OF THE CATEGORIES ELIGIBLE UNDER PRIORITY SECTOR

1. Agriculture

Lending to agriculture will form main component of priority sector lending. It includes i) Farm Credit (which will include short-term crop loans and medium/long-term credit to farmers) (ii) Agriculture Infrastructure and (iii) Ancillary Activities. A list of eligible activities under the three sub-categories is indicated below:

Category	Description
1.1 Farm credit	<p>A. Loans to individual farmers [including Self Help Groups (SHGs) or Joint Liability Groups (JLGs), i.e. groups of individual farmers, provided banks maintain disaggregated data of such loans], directly engaged in Agriculture and Allied Activities, viz., dairy, fishery, animal husbandry, poultry, bee-keeping and sericulture.</p> <p>(i) Crop loans to farmers, which will include traditional/non-traditional plantations and horticulture, and, loans for allied activities.</p> <p>(ii) Medium and long-term loans to farmers for agriculture and allied activities (e.g. purchase of agricultural implements and machinery, loans for irrigation and other developmental activities undertaken in the farm, and developmental loans for allied activities.)</p> <p>(iii) Loans to farmers for pre and post-harvest activities, viz., spraying, weeding, harvesting, sorting, grading and transporting of their own farm produce.</p> <p>(iv) Loans to farmers up to Rs.50 lakh against pledge/hypothecation of agricultural produce (including warehouse receipts) for a period not exceeding 12 months.</p> <p>(v) Loans to distressed farmers indebted to non-institutional lenders.</p> <p>(vi) Loans to farmers under the Kisan Credit Card Scheme.</p> <p>(vii) Loans to small and marginal farmers for purchase of land for agricultural purposes.</p>

	B. Loans to corporate farmers, farmers' producer organizations/companies of individual farmers, partnership firms and co-operatives of farmers directly engaged in Agriculture and Allied Activities, viz., dairy, fishery, animal husbandry, poultry, bee-keeping and sericulture up to an aggregate limit of Rs. crore per borrower.
1.2 Agriculture Infrastructure	<p>i) Loans for construction of storage facilities (warehouses, market yards, godowns) including cold storage units/ cold storage chains designed to store agriculture produce/products, irrespective of their location.</p> <p>ii) Soil conservation and watershed development.</p> <p>iii) Plant tissue culture and agri-biotechnology, seed production, production of bio-pesticides, bio-fertilizer, and vermi composting. For the above loans, there is a ceiling of an aggregate sanctioned limit of 100 crore per borrower.</p>
1.3 Ancillary activities	<p>(i) Loans up to Rs. crore to co-operative societies of farmers for disposing of the produce of members.</p> <p>(ii) Loans for setting up of Agriclincs and Agribusiness Centres.</p> <p>(iii) Loans for Food and Agro-processing up to an aggregate sanctioned limit of Rs.100 crore per borrower from the banking system.</p> <p>(iv) Bank loans to Primary Agricultural Credit Societies (PACS), Farmers' Service Societies (FSS) and Large-sized Adivasi Multi-Purpose Societies (LAMPS) for on-lending to agriculture.</p> <p>(v) Loans sanctioned by banks to MFIs for on-lending to agriculture sector.</p> <p>(vi) Outstanding deposits under RIDF and other eligible funds with NABARD on account of priority sector shortfall.</p>

For the purpose of computation of 7 percent/ 8 percent target, Small and Marginal Farmers will include the following:-

*Farmers with landholding of up to 1 hectare are considered as Marginal Farmers. Farmers with a landholding of more than 1 hectare and up to 2 hectares are considered as Small Farmers.

- Landless agricultural labourers, tenant farmers, oral lessees and share-croppers.
- Loans to Self Help Groups (SHGs) or Joint Liability Groups (JLGs), i.e. groups of individual Small and Marginal farmers directly engaged in Agriculture and Allied Activities

2. Micro, Small and Medium Enterprises (MSMEs)

2.1. Lending to MSMEs will also form the part of priority sector lending. The limits for investment in plant and machinery/equipment for manufacturing / service enterprise, as notified by Ministry of Micro, Small and Medium Enterprises are as under:-

Category	Description
Manufacturing Sector Enterprises	Investment in Plant and Machinery
Micro	Does not exceed twenty five lakh rupees
Small	More than twenty five lakh rupees but does not exceed five crore rupees
Medium	More than five crore rupees but does not exceed ten crore rupees
Service Sector Enterprises	Investment in equipment
Micro	Does not exceed ten lakh rupees
Small	More than ten lakh rupees but does not exceed two



	crore rupees More than ten lakh rupees but does not exceed two crore rupees
Medium	More than two crore rupees but does not exceed five crore rupees

Bank loans to Micro, Small and Medium Enterprises, for both manufacturing and service sectors are eligible to be classified under the priority sector as per the following norms: Rs.5 cr per unit micro and small Enterprises and Rs.10 crore to Medium Enterprises engaged in providing or rendering of services.

2.2. Khadi and Village Industries Sector (KVI)

All loans to units in the KVI sector will be eligible for classification under the sub-target of 7 percent /7.5 percent prescribed for Micro Enterprises under priority sector.

2.3. Other Finance to MSMEs

(i) Loans to entities involved in assisting the decentralized sector in the supply of inputs to and marketing of outputs of artisans, village and cottage industries.(ii) Loans to co-operatives of producers in the decentralized sector viz. artisans, village and cottage industries.(iii) Loans sanctioned by banks to MFIs for on-lending to MSME sector as per the conditions specified in paragraph IX of this circular.(iv) Credit outstanding under General Credit Cards (including Artisan Credit Card, Laghu Udyami Card, Swarojgar Credit Card, and Weaver’s Card etc. in existence and catering to the non-farm entrepreneurial credit needs of individuals).

3. Export Credit

Loans extended for the purpose of export will also form priority sector lending. The Export Credit extended as per the details below would be classified as priority sector.

Domestic banks	Foreign banks with 20 branches and above
Incremental export credit over corresponding date of the preceding year, up to 2 percent of ANBC or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher, effective from April 1, 2015 subject to a sanctioned limit of Rs.25 crore per borrower to units having turnover of up to 100 crore.	Incremental export credit over corresponding date of the preceding year, up to 2 percent of ANBC or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher, effective from April 1, 2017

Export credit includes pre-shipment and post shipment export credit given by banks from time to time.

4. Education

Education is the main activity to be encouraged for lending in priority sector. Loans to individuals for educational purposes i.e, for studies in India including vocational courses up to Rs. 10 lakh irrespective of the sanctioned amount, Rs.20 lacs education abroad will be considered as eligible for priority sector lending.

5. Housing

Providing food and shelter to the population of the country is main agenda of the government. Housing will form main component of priority sector lending. The features of the priority sector lending for housing activity is as under:

5.1Loans to individuals up to Rs.28 lakh in metropolitan centres (with population of ten lakh and above) and loans up to Rs.20 lakh in other centres for purchase/construction of a dwelling unit per family provided the overall cost of the dwelling unit in the metropolitan centre and at other centres should not exceed Rs.35 lakh and Rs.25 lakh respectively. The housing loans to banks’ own employees will be excluded.

5.2Loans for repairs to damaged dwelling units of families up to Rs.5 lakh in metropolitan centres and up to Rs.2 lakh in other centres.

5.3Bank loans to any governmental agency for construction of dwelling units or for slum clearance and rehabilitation of slum dwellers subject to a ceiling of 10 lakh per dwelling unit.

5.4The loans sanctioned by banks for housing projects exclusively for the purpose of construction of houses for economically weaker sections and low income groups, the total cost of which does not exceed Rs.10 lakh per dwelling unit. For the purpose of identifying the economically weaker sections and low income groups, the family income limit of Rs.2 lakh per annum, irrespective of the location, is prescribed.

5.5 Bank loans to Housing Finance Companies (HFCs), approved by NHB for their refinance, for on-lending for the purpose of purchase/construction/reconstruction of individual dwelling units or for slum clearance and rehabilitation of slum dwellers, subject to an aggregate loan limit of Rs.10 lakh per borrower. The eligibility under priority sector loans to HFCs is restricted to five percent of the individual bank's total priority sector lending, on an ongoing basis.

6. Social infrastructure

Bank loans up to a limit of Rs.5 crore per borrower for building social infrastructure for activities namely schools, health care facilities, drinking water facilities and sanitation facilities.

7. Renewable Energy

Bank loans up to a limit of Rs.15 crore to borrowers for purposes like solar based power generators, biomass based power generators, wind mills, micro-hydel plants and for non-conventional energy based public utilities viz. street lighting systems, and remote village electrification. For individual households, the loan limit will be Rs.10 lakh per borrower

8. Others

8.1. Loans not exceeding Rs.50,000/- per borrower provided directly by banks to individuals and their SHG/JLG, provided the individual borrower's household annual income in rural areas does not exceed Rs. 100,000/- and for non-rural areas it does not exceed Rs. 1,60,000/-.

8.2. Loans to distressed persons Rs.100,000/- per borrower to prepay their debt to non-institutional lenders.

8.3. Overdrafts extended by banks up to Rs. 5,000/- under Pradhan Mantri Jan-Dhan Yojana (PMJDY) accounts provided the borrowers household annual income does not exceeding Rs.100,000/- for rural areas and Rs.1,60,000/- for non-rural areas.

8.4. Loans sanctioned to State Sponsored Organisations for Scheduled Castes/ Scheduled Tribes for the specific purpose of purchase and supply of inputs and/or the marketing of the outputs of the beneficiaries of these organisations.

9. Weaker Sections

Priority sector loans to the following borrowers will be considered under Weaker Sections category:-

S.No.	Category
1	Small and marginal farmers
2	Artisans, village and cottage industries where individual credit limits do not exceed Rs.1 lakh
3	Beneficiaries under Government Sponsored Schemes such as National Rural Livelihoods Mission (NRLM), National Urban Livelihood Mission (NULM) and Self Employment Scheme for Rehabilitation of Manual Scavengers (SRMS)
4	Scheduled Castes and Scheduled Tribes
5	Beneficiaries of Differential Rate of Interest (DRI) scheme
6	Self Help Groups
7	Distressed farmers indebted to non-institutional lenders
8	Distressed persons other than farmers, with loan amount not exceeding Rs.1 lakh per borrower to prepay their debt to non-institutional lenders
9	Individual women beneficiaries up to Rs.1 lakh per borrower
10	Persons with disabilities
11	Overdrafts up to Rs.5,000/- under Pradhan Mantri Jan-Dhan Yojana (PMJDY) accounts, provided the borrowers' household annual income does not exceed Rs.100,000/- for rural areas and Rs.1,60,000/- for non-rural areas
12	Minority communities as may be notified by Government of India from time to time

II. Targets /Sub-targets for Priority Sector

The targets and sub-targets set under priority sector lending for all scheduled commercial banks operating in India are as under:

Categories	Domestic scheduled commercial banks and Foreign banks with 20 branches and above
Total Priority Sector	40 percent of Adjusted Net Bank Credit or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher. Foreign banks with 20 branches and above have to achieve the Total Priority Sector Target within a maximum period of five years starting from April 1, 2013 and ending on March 31, 18
Agriculture	18 percent of ANBC or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher. Within the 18 percent target for agriculture, a target of 8 percent of ANBC or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher is prescribed for Small and Marginal Farmers, to be achieved in a phased manner i.e., 7 per cent by March 2016 and 8 per cent by March 2017 . Foreign banks with 20 branches and above have to achieve the Agriculture Target within a maximum period of five years starting from April 1, 2013 and ending on March 31, 2018.
Micro Enterprises	7.5 percent of ANBC or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher to be achieved in a phased manner i.e. 7 per cent by March 2016 and 7.5 per cent by March 2017 .
Advances to weaker sections	10 percent of ANBC or Credit Equivalent Amount of Off-Balance Sheet Exposure, whichever is higher. Foreign banks has to reach target by March 2018.
-do-	25% of priority sector advances.
Differential Rate of Interest Scheme	1% of total advances outstanding as at the end of the previous year. Out of which 40% of the advances should go to SC/ST.

NEED OF THE STUDY

There are several studies on the ways of priority sector lending by commercial banks operating in India. But no attempt was made to know the priority sector lending by Andhra Bank so far. Now the researcher made an attempt to know the level of priority sector lending its trend and growth in Andhra Bank since Nationalisation of the Bank. This findings of the study will help the Bank to improve its performance in priority sector lending.

OBJECTIVE OF THE STUDY

The main objective of the study is to understand the trend and growth of the Priority sector lending through different schemes by Andhra Bank since Nationalisation of the Bank in 1980 and to know how to improve the lending in priority sector.

SCOPE OF THE STUDY

The study on Priority sector lending will help the management to understand the factors affecting the implementation of the financial schemes of priority sector. This study will also provide some suggestions to the Bank Management to undertake various measures to improve the performance of the priority sector lending in Andhra Bank.

RESEARCH DESIGN

The study is mainly based on secondary data in the form of Bank's annual reports, RBI reports, Bank journals etc.

ANDHRA BANK

The Bank was established in the year 1923, by Sri Dr. Bhogaraju Pattabhi Seetharamaiah, a well known freedom fighter and National Congress President. He hails from Machilipatnam of Andhra Pradesh. The Bank is Nationalised in the year 1980 along with five other banks.

The total business of the Bank as on March, 2015 is Rs.284,588cr which includes deposits of Rs.155,012cr and advances of Rs.129,576cr. The Bank's net profit as on March, 2015 is Rs.638cr.

The Bank is having 4782 delivery channels which includes 2507 branches, 35 satellite offices, 2232 ATMs spread over 26 states and 3 union territories. 28.80% of the Branches are situated in rural areas, 27.52% of the branches in semi urban areas, 27.56% of branches in urban areas and 16.12% of the branches in Metro areas.

PRIORITY SECTOR LENDING BY ANDHRA BANK

Andhra Bank is lending under Priority Sector since nationalisation of the Bank in 1980. The Bank is lending in all categories of priority sector like agriculture finance, SHG-Bank Linkage, Loans to Micro and Small Enterprises, MSME Loans, Housing Loans, Education loans, Loans to weaker section like small and marginal farmers, SC/ST, Differential Rate of Interest Loans, SGSY, SGSR loans, Loans to women borrowers, loans to minority communities, export credit, social infrastructure loans, loans for renewable energy etc.

Table.1: Priority sector lending since 1980 (Rs.in Cr.)

Category	1980*	March, 2010	March, 2011	March, 2012	March, 2013	March, 2014	March, 2015
Priority sector advances	128	19011	23082	27027	35132	41293	45508
% of P.S. advances to ANBC	-----	42.79	40.65	37.29	41.29	41.47	40.71

- The year of Nationalisation of the Bank.

The above table shows that the Bank is continuously reaching the target of 40% of priority sector advances except in the year 2011-12. The priority sector advances grew from Rs.128 cr to Rs.45508 cr by March, 2015.

The bank's priority sector lending is in all categories of priority sector to reach the set target of 40% by Reserve Bank of India. It is continuously reaching the target under agriculture finance, loans to weaker sections, loans to women borrowers etc. The following table shows the priority sector lending under different categories by the Bank since 2009-10 to 2014-15.

Table.2 Priority Sector Lending category wise. (Rs.in Cr.)

S.No.	Category	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
1.	Priority sector advances	19011	23082	27026	35132	41919	45507
2.	Agriculture	9173	10369	12458	16450	20893	20432
3.	Micro & Small enterprises & Micro credit	5402	7389	8848	12252	14031	16952
4.	Education Loans	1647	1621	1515	1343.	1409	1603
5.	Housing Loans	2789	3701	4204	5085	5585	6519
	RATIOS						
6.	%of PSA to total ANBC	42.79	40.65	37.29	41.29	41.47	40.71
7.	%of agrl. Advances	20.65	18.26	17.19	19.33	20.67	18.28

The above table shows Priority sector advances grew from Rs.19011cr as on March, 2010 to Rs. 45508 cr by March 2015. It registered growth of 139% from March, 2010 to March, 2015. Agricultural advances grew from RS.9173 cr in March, 2010 to Rs.20432cr in March, 2015 registering a growth of 122%. Micro & Small Enterprises & Micro credit increased from Rs.5402 cr to Rs.16952 cr from 2010 to 2015 with growth of 213%. Education Loans decreased from Rs.1647 cr to Rs.1603 cr from March, 2010 to March, 2015 registering negative growth of 2.67%. Housing Loans increased from Rs.2789 cr in March, 2010 to Rs.6519 cr in March, 2015 registering growth of 133%.

The below table given shows other categories of Priority sector advances from March, 2010 to March, 2015.

Table.3 Other Categories of Priority Sector advances (Rs.in Cr.)

S.No.	Category	2010-11	2011-12	2012-13	2013-14	2014-15
1.	Women Borrowers	5413	6927	9791	12795	13784 (12.33%)

2.	SHG-Bank Linkage	2471	2911	3394	4305	4619	
3.	Weaker Sections	7000	7821	9997	14082	13959 (12.49%)	
4.	Minorities	2610	2756	2794	5269	5873 (14.01%)	

The credit to women increased from Rs.5413cr in March, 2011 to Rs.12795 cr in March, 2015 with growth of 136%. The credit to women borrowers continuously exceeding the prescribed norm of 5%. SHG Bank linkage from Rs.2471 cr in March, 2011 to Rs.4619cr in March, 2015 with growth of 86%. Advances to weaker sections increased from Rs.7000 cr in March, 2011 to Rs.13959 cr in March, 2015 with growth of 99%. It is also constantly exceeding target of 10%. Whereas the advances to Minorities increased from Rs.2610 cr in March, 2011 to Rs.5873 cr in March, 2015 with growth of 125%. The advances to minorities is marginally below the target of 15% of priority sector advances all these years.

RBI has made certain changes to priority sector lending and targets w.e.f 23rd April, 2015 and communicated the same to member banks. Lending to sectors like Medium Enterprises, Social Infrastructure and Renewable Energy will also form part of priority sector, in addition to the existing categories.

The distinction between direct and indirect finance to agriculture is dispensed with. Instead, the lending to agriculture sector has been re-defined to include (i) Farm Credit (which will include short-term crop loans and medium/long-term credit to farmers) (ii) Agriculture Infrastructure and (iii) Ancillary Activities. A target of 8 percent of ANBC to small and marginal farmers by March, 2017 in a phased manner i.e., 7 percent by March 2016 and 8 percent by March 2017.

A target of 7.5 per cent to ANBC to micro enterprises by March 2017, 7 per cent by March, 2016 and 7.5 per cent by March, 2017. Bank loans to food and agro processing units will form part of Agriculture. Foreign Banks with 20 branches and above has to reach priority sector target by March, 2018. Foreign banks with less than 20 branches has to reach targets by March, 2020. The priority sector non-achievement will be assessed on quarterly average basis at the end of the respective year from 2016-17 onwards, instead of annual basis as at present.

FINDINGS AND SUGGESTIONS

It is observed from the study that the Andhra Bank is reaching the priority sector target of 40% to total ANBC except in the year 2012-13, the same is the case with agriculture advances which is below the target of 18% in 2012-13.

- Priority sector advances are continuously reaching the target of 40% except in the year 2012-13 (37.29%)
- Advances to agriculture also reaching the target of 18% set by RBI except in the year 2012-13 (17.19%).
- A loan to Micro & small enterprises and Micro credit is showing positive growth from March, 2010 to March 2015.
- Education loans showed negative trend from 2010 to 2013 and showing positive growth from 2013-14 and 2014-15.
- Housing loans portfolio is showing positive trend from March, 2010 to March, 2015.
- Credit to women borrowers is showing constant growth and continuously exceeding RBI norm of 5%. (12.33% in March, 2015)
- Credit to SHG-Bank Linkage is constant growth till date.
- Loans to weaker sections is showing positive growth and it is continuously exceeding the RBI Norm of 10%. (12.49% in March, 2015)
- Loans to Minorities is showing positive growth, but it is marginally below the prescribed target of 15% of priority sector advances. (14.01% in March, 2015)

After analysis of the data the researcher wants to make suggestions to improve the performance in priority sector lending as given below.

-The Bank has to take measure in improving the performance in Priority sector lending as it is marginally above the prescribed target of 40%.

-The Bank has to improve performance in Education Loan portfolio to improve Priority sector advances. The Bank has to improve credit in Export credit category also.

-The Bank has to take step to increase the credit to minorities as it is marginally below the prescribed targets.

-Bank can increase priority sector lending by enhancing lending to social infrastructure, Renewable energy etc.

CONCLUSION

The Bank is nationalised in the year 1980. Since then, it is lending to priority sectors like agriculture, MSE, education, Housing, export credit, weaker sections, SHG-Bank Linkage programs, women borrowers, Minorities etc. The Bank is showing steady growth in priority sector lending except one year 2012-13. But the Bank is just reaching target set to priority



sector lending. The Bank has to concentrate more on lending in education, housing, export credit, MSME, renewable energy sectors to improve the performance in advances to priority sector.

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