PRIORITY SECTOR LENDING IS AN EFFECTIVE FINANCIAL PRODUCT FOR FINANCIAL INCLUSION, INCLUSIVE GROWTH AND POVERTY ERADICATION IN INDIA: AN ECONOMIC ANALYSIS DURING PRE-LIBERALIZATION AND POST- LIBERALIZATION PERIOD

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Abstract
Inclusive growth requires that the benefit of economic growth should reach to all section of the society. It is difficult to provide the benefits of economic growth to the financially excluded people in a fair and transparent manner . Therefore Financial inclusion is necessary for inclusive growth since it ensures access to appropriate financial products and services needed by vulnerable groups such as weaker sections and low income groups of the society at an affordable cost in a fair and transparent manner by mainstream Institutional player. Priority Sector Lending is one of the major financial products as the sector involves the weaker sections of the society.In India Nationalized Commercial Banks, also known as Public Sector Banks, act as a mainstream institutional player. These Public Sector Banks provide major portion of Priority Sector Lending since these banks dominate the Indian banking sector in terms of deposit mobilization and credit creation. Priority sector lending provides formal institutional credit to the weaker sections of the society. Financial Inclusion and Priority Sector Lending are complementery to each other in the sense that without priority sector lending the full benefit of financial inclusion will not reach to weaker section of the society since priority sector lending covers weaker section of the society.
This paper highlights the relationship between the priority sector and the financial inclusion, contribution of Priority sector lending to inclusive growth and also the effect of priority sector lending on poverty elevation in India. For the purpose of data analysis, secodary data relating to priority sector lending of banks have been taken from Reserve Bank of India's various publications. This study has revealed a strong positive association between the priority sector lending and the financial inclusion of the states in India. The study also revealed that the priority sector lending helped to eradicate the poverty in India.

Keywords: Inclusive growth, Sustainable Economic Development, Financial Inclusion, Public Sector Banks, Priority Sector Lending.

Introduction

Today ultimate goal of economic growth of a country is inclusive growth or sustainable economic development. In other words, the objective of economic growth is inclusiveness and sustainability. Inclusiveness implies that all the sections of the society are included in the growth process regardless of their economic class, gender, disability and religion. Inclusiveness also implies that the growth process will provide equitable opportunity and income equality. Sustainability implies that the inclusive growth should be prevailed in the end without harming equitable opportunity and income equality. Inclusive growth will not be sustainable if it creates income inequality and unequal opportunity. Since inequality of opportunity will derail the growth process through political channels and conflict.

Inclusive Growth As Defined By The World Bank: The Growth Is Inclusive If

1. It is sustainable in long run,
2. It is broad based across the sector,
3. It is inclusive of large part of countries labour force,
4. It will create equal opportunity in terms of access to markets and resources,
5. It will create unbiased regulatory environment for business and individual.

In India, it is very difficult to create equal opportunity in terms of access to markets and resources since a large part of the population is illiterate, poor, and live in remote areas. Accessibility to markets and resources will be easier if a person is financially included. Therefore, financial inclusion is necessary for inclusive growth.

Financial Inclusion As Defined By RBI: Financial inclusion is the process of ensuring access to appropriate financial products and services needed by vulnerable groups such as weaker sections and low-income groups at an affordable cost in a fair and transparent manner by mainstream institutional player.

The above definition suggests that the mainstream institutional players should develop appropriate financial products for the vulnerable groups. In India, Public Sector Banks act as a mainstream institutional player since these banks serve most of the

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population. Priority sector lending is one of the major financial products, which is accessible to the weaker sections of the society.

Priority sector lending: According to the RBI, the priority sector comprises Agriculture-direct and indirect finance; micro and small-scale industries; weaker sections; education; and export credit. The RBI then made it mandatory for banks to lend money at a subsidized rate of interest to such enterprises. In addition, domestic banks have to disburse 40% of the Net Bank Credit to Total Priority Sector, out of which 18% should be total agricultural advances.

Public Sector Banks: These are banks where a government holds a majority stake (i.e., more than 50%). The shares of these banks are listed on stock exchanges.

Relevant Literature Review: The Priority Sector Advances has been the subject of research work since the concept introduced as a financial product in the banking sector. However the concept of inclusive growth and the contribution of the priority sector to inclusive growth is a new one.

Suryawansi (1978) in his paper ‘Credit Requirements Availability and its Gaps’ examined that big farmers received a larger share of loan advanced by different financial agencies and the share of co-operatives was the maximum. It was also observed that private moneylenders were, still playing an important role in supplying rural credit and the proportion of borrowings from this source was higher in case of small farmers.

Kulkarni (1979) in his study titled, “Development Responsibility and Profitability of Banks” emphasized upon social responsibilities of the banking sector. He was of the view that looking for profit maximization only was not true profitability of banks as social benefits arising out of bank operations should not be ignored.

Singh (1980) in his unpublished PhD Thesis titled ‘The Role of Cooperation in Agricultural Finance in UP’ examined the financial requirements for different purposes. He found that co-operative credit played an important role in increasing the productivity of agriculture by providing financial assistance to the agriculturists. He found that the agriculturists needed credit for both agricultural and non-agricultural purposes.

Muhammad and Shah (1981) in their study, ‘Agricultural Production Credit Requirements in D.I. Khan District’ concluded that the system of disbursement of loans of credit institution did not base on the actual needs of the farmers. He further stated that the structure of the society was such that resourceful farmers succeeded in securing loans more than their requirements while non-influential farmers failed to fulfill even their requirements.

Devi (1982) in her unpublished PhD Thesis ‘Bank Financing of Agriculture in Andhra Pradesh’ found that Andhra Bank emerged as the biggest of the private sector banks after the nationalization of the 14 major banks in 1969 which has fast moved towards rural banking as demonstrated by its performance in the rural branch expansion. She found that the bank was doing well in terms of disbursing credit to the agriculture and allied activities under various schemes.

Khan (1986) in his paper titled, ‘Strategy for Farm Planning and Agricultural Credit for Rural development’ analyzed the credit needs for agro-based industries to generate rural employment which are particularly important for small farmers and women. It was further suggested that the crops and livestock insurance policies should be introduced in order to reduce the risk of borrowers and lenders.

Jugale (1992) in his book ‘Co- Operative Credit in Indian Agriculture’ discussed the socio-economic impact of co-operative credit on agriculture sector. In his study, he found that the real success of cooperative credit depends on achievements of the Primary agriculture society (PACS) and Land Development banks (LDBs) at micro level. The PACS are entitled to disburse the short term and medium term loans while long term loans are being disbursed by LDBs. But most of the benefits of these credit facilities are being harnessed by rich class of agriculture sector.

Singh and Vishwajit (1994) conducted a study, titled, “A Study of Overdue of Loans in Agriculture”, to examine the repayment performance of defaulters in three blocks of Agra district in Uttar Pradesh. They found that well-to-do agriculture families accounted for a large share of over dues. They accounted for 37 per cent of total defaulters and 57 per cent of total overdue. Total amount of over dues and its relative share also increased during the period of study. Lack of proper supervision over the end use of loan identified as a major reason for poor-utilization of credit, which leads to increase in overdue.

Viswanath (2001) in his study titled, “An Analysis of Performance of Agricultural Credit Co-operatives and their Over-dues Problems in India” concluded that during the period 1950-51 to 1995-96, the total loans advanced by PACs increased from 24.34 crore to 14,201 crore i.e. 587 times, but unfortunately this increase was followed by a corresponding 77 increase in over dues.

Nair (2004) in his paper titled, “Village Co-operatives − A Century of Service to the Nation” observed that by 2004, the formal institutionalized co-operative sector completed a century of its service to the nation. Analyzing the progress of Primary Agricultural Co-operative Societies, he observed that during the half-century spread over 1951-2001, the PACs made rapid strides in membership, owned funds, deposits, and in channelizing the production credit for farmers.

NABARD (2005) conducted a study “Development in Co-operative Banking”, to evaluate the financial performance of 1872 urban cooperative banks and 1, 06,919 rural co-operative credit institutions. The findings of the study revealed that in all the financial institutions in the rural sector (SCBs, DCCBs, SCARDBS, and PCARDBS), percentage of NPAs in the substandard category declined, while it had increased in the doubtful category. NABARD was worried about deterioration in asset quality of these banks. However, all the institutions were able to meet the necessary provisioning requirements. It further highlighted that NPAs ratio in DCCBs varied significantly across the states from 5% to 68% at the end March 2004. Only in four states (Haryana, Himachal Pradesh Punjab and Uttaranchal), the NPA ratio was less than 10%. NABARD suggested that co-operative banks should implement One Time Settlement system (OTS) and refer small value advances to Lok Adalats and high value advances to Debt Recovery Tribunals (DRTS). Further, State Governments were requested to help co-operative banks in reducing NPAs by taking special recovery derives.

Objectives of the Study: The objectives of the study is (i) To highlights the relationship between the priority sector and the financial inclusion. (ii) Contribution of Priority sector lending to inclusive growth and (iii) To find out the effect of priority sector lending on poverty elevation in India.

Methodology of the Study: The study was based on secondary data taken from Reserve Bank of Indias various publications. On an average 10 years of data during pre-liberalization and post-liberalization period have been taken for data analysis. Pearsons linear correlation have been used to analyze the effect of priority sector advances.

A Brief History of Priority Sector Lending: In India, scheduled commercial banks act as a mainstream institutional player for access to formal financial credit. During the pre-independence period, accessibility of formal financial credit was concentrated to large industrial houses. Industries like cotton, jute and sugar were the main sector of the Indian Economy during the pre independence period. Bulk of the formal financial credit was available to these sectors. By the end of 1940s, advances to agriculture stood at a mere 4% of the total formal credit. There was a large credit gaps with respect to key sectors of the economy. According to the report of the RBI Committee on All India Rural Credit Survey (1954), out of the total amount borrowed by cultivators from different credit agencies in 1951-52, the contribution of institutional credit was only 7.3 per cent. Of this, commercial banks contributed only 0.9 per cent; government and co-operatives contributed the rest. This meant that an overwhelming percentage (92.7 per cent) of the cultivator’s borrowings in the country at the beginning of 1950s was accounted by non-institutional credit agencies.

Table 1 Gives Details Regarding Scheduled Commercial Banks (Scbs) Advances To Industry And Agricultural Sectors During The Pre Nationalization Period (1949-67).

Year	Industry (Rs. In crores)	Percent of Total Advances	Agriculture (Rs. In Crores)	Per cent of Total Advances
1949	159.00	32.0	19.00	4.0
1955	221.00	34.3	11.30	1.8
1961	NA	NA	8.40	0.7
1963	921.24	57.2	4.09	0.3
1965	1287.32	61.5	3.95	0.2
1966-67	NA	NA	4.30	0.2

Source: (1) Report on Trend and Progress of Banking in India, RBI, various years.
(2) Report of the Rural Credit Review Committee, RBI, July 1969.

During the post-nationalization period, major private sector banks were got nationalized and the scenario of formal institutional credit has been changed rapidly. One of the most important objectives of government policy since bank nationalization, has been to extend and expand credit not only to those sectors which were of crucial importance in terms of

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their contribution to national income and employment, but also to those sectors which had been severely neglected in terms of access to institutional credit. Agriculture, small industry and self-employment were initially identified as the neglected sectors. These sectors were given priority status in credit allocation by the banks. The National Credit Council (1969) headed by D R Gadgil, while identifying credit gaps with respect to the key sectors of the economy, including agriculture, noted the skewed nature of commercial bank finance. Whereas the industrial sector, which accounted for 15 per cent of national output appropriated two-third of commercial bank credit, the agriculture sector whose contribution to the national output was as large as 50 per cent, was neglected virtually totally by the commercial banks. Accordingly, the credit council decided that banks should take up financing of agriculture and small scale sectors urgently. Specific lending targets were fixed for different sectors in terms of amounts. Initially, priority sector was defined to include agriculture, small-scale industries and exports. The description of priority sectors was later formalized in 1972 based on the report submitted by the Informal Study Group on Statistics relating to advances to the Priority Sectors constituted by the Reserve Bank in May 1971. Based on this report, the Reserve Bank prescribed a modified return for reporting priority sector advances and certain guidelines were issued in this connection indicating the scope of the items to be included under the various categories of priority sector. At present Priority Sectors include (i) Agriculture, (ii) Micro, Small and Medium Enterprises, (iii) Export Credit, (iv) Education, (v) Housing (vi) Social infrastructure, (vii) Renewable Energy, (viii) Others

Results and Discussions

Table 2: SCBS Advances To Priority Sectors During Pre-Liberalization Period (1980-1991)

Year (1)	Priority Sector (2) (Rs. In Crores)	Agriculture Sector (3) (Rs. In Crores)	Non-Food Gross Bank Credit (4) (Rs. In Crores)	Per-Cent Of Priority Sector To Gross Bank Credit (%) (5)	Per-Cent Of Agriculture Sector To Gross Bank Credit (%) (6)
1980-81	8504	3584	23045	36.90	15.55
1982-83	12322	5275	31527	39.08	16.73
1984-85	18409	7660	42291	43.53	18.11
1986-87	25050	10570	57465	43.59	18.39
1988-89	34219	13950	84959	40.28	16.42
1990-91	42915	16750	113513	37.81	14.76

Source: (1) Report on Trend and Progress of Banking in India, RBI, various years

.**Table 2** gives details regarding bank advances to priority sectors during pre-liberalization period (1980-1991). Banks provided on an average 40% of the gross bank credit to the priority sectors and 16.66% to the agriculture sector.

Table 3: SCBS Advances To Priority Sectors During Pre-Liberalization Period (1992-2003)

Year (1)	Priority Sector (2) (Rs. In Crores)	Agriculture Sector (3) (Rs. In Crores)	Non-Food Gross Bank Credit (4) (Rs. In Crores)	Per-Cent Of Priority Sector To Gross Bank Credit (%) (5)	Per-Cent Of Agriculture Sector To Gross Bank Credit (%) (6)
1992-93	49832	19963	140396	35.49	14.22
1994-95	64161	23983	184710	34.74	12.98
1996-97	84880	31442	251394	33.76	12.51
1998-99	114611	39634	325196	35.24	12.19
2000-01	154414	51922	429162	35.98	12.10
2002-03	211609	73518	620055	34.13	11.86

Source: (1) Report on Trend and Progress of Banking in India, RBI, various years

.**Table 3** gives details regarding bank advances to priority sectors during post-liberalization period (1992-2003). Banks provided on an average 34.89 % of the gross bank credit to the priority sectors and 12.64% to the agriculture sector. Therefore, percentage of priority sector advances and agriculture advances reduced during post –liberalization period.

Table 4 shows that the population per branch reduced drastically with the increase in number of bank branches; the table also shows that the number of bank branches increased rapidly during post nationalization period, i.e., 1969 onwards. Consequently, population per branch reduced drastically from 66000 per branch to 19000 per branch during the period 1971 to 1981. It implies that easy access of bank branches to people, which in turn ensures accessibility of formal institutional credit to the financially excluded people.

Table 4

Year	Population (in '000)	No. of Bank Branches	Population per branch (in ,000)
1951	361088	4150	87
1961	439235	5000	88
1971	548160	8262	66
1981	683329	35707	19
1991	846421	60220	14
2001	1028737	65901	16
2011	1210855	74130	16

Source: 1.Population census 2011
2. Hand Book of Statistics on the Indian Economy, RBI, various issues.

Table 5 shows that the percentage of population below poverty line reduced with the increase in priority sector advances. The table also indicates that the population below poverty line in rural areas decreased in almost same proportion with the increase in agriculture advances.

Table 5

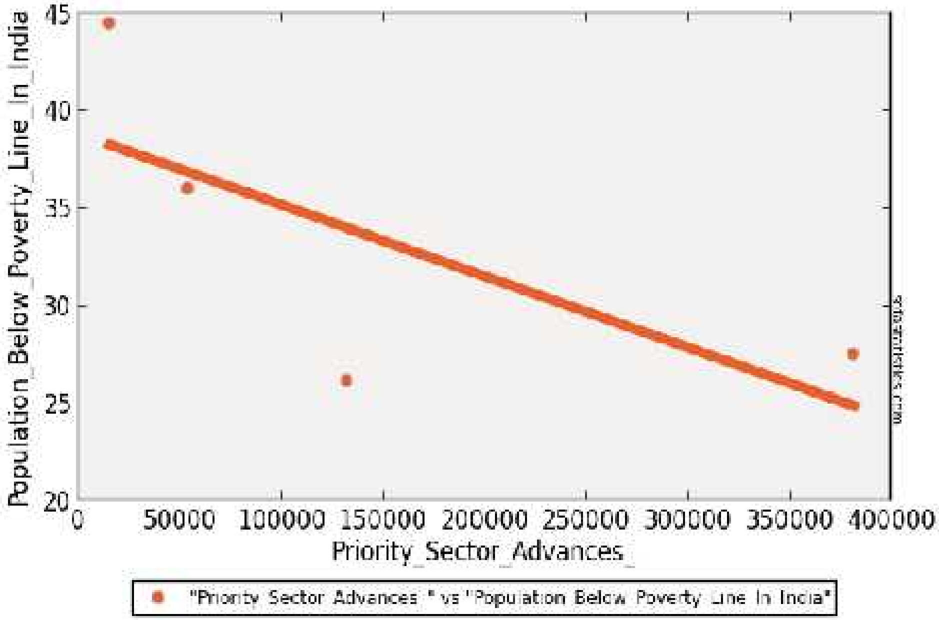
Year	Priority Sector Advances	Agriculture Advances	Population Below Poverty Line In Rural Areas In India	Population Below Poverty Line In India
1983-84	14899	6144	45.65	44.48
1993-94	53880	21208	37.27	35.97
1999-2k	131827	44381	27.09	26.1
2004-05	381476	125250	28.3	27.5

Pearson's Test of Linear Correlation and scatter diagram have been used to analyze the relationship between priority sector advances and population below poverty line. The results show that there is a strong relationship between priority sector advances and population below poverty line.

Results of Pearson's Test of Linear Correlation for "Priority_Sector_Advances_" vs. "Population_Below_Poverty_Line_In_India"

Two-tailed p value: 0.292 [1]
Pearson's R statistic: -0.708
Degrees of Freedom (df): 2
Linear Regression Details: [2]

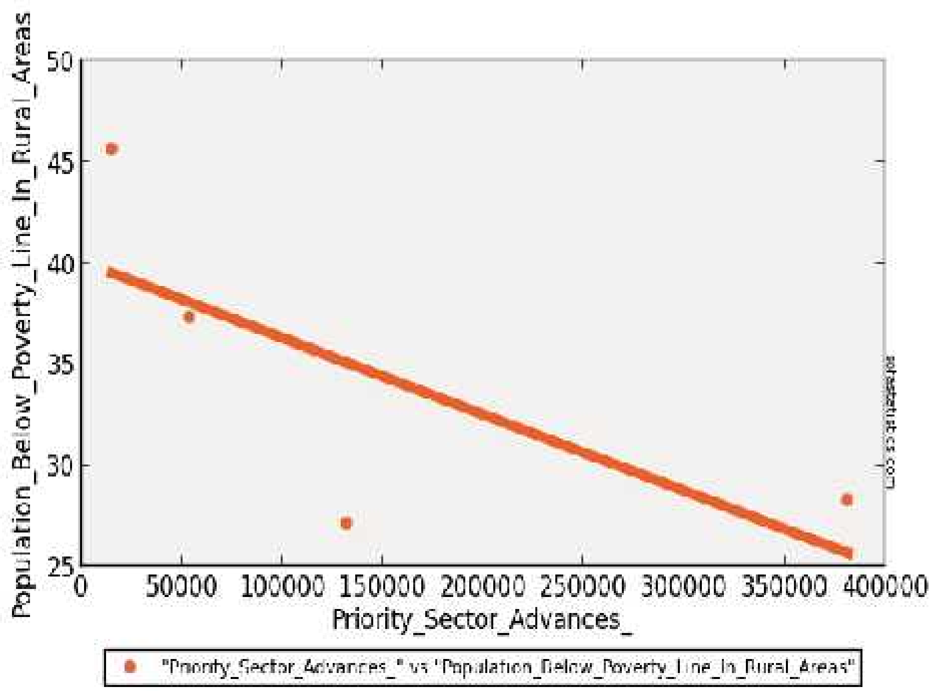
1. Slope: -0.0
2. Intercept: 38.836



The above diagram clearly shows that the population below poverty line significantly decreased with the increase in priority sector advances.

Results of Pearson's Test of Linear Correlation for "Priority Sector Advances" vs. Population Below Poverty Line In Rural Areas"
Two-tailed p value: 0.282 [1] Pearson's R statistic: -0.718
Degrees of Freedom (df): 2 Linear Regression Details: [2]

Slope: -0.0
Intercept: 40.074

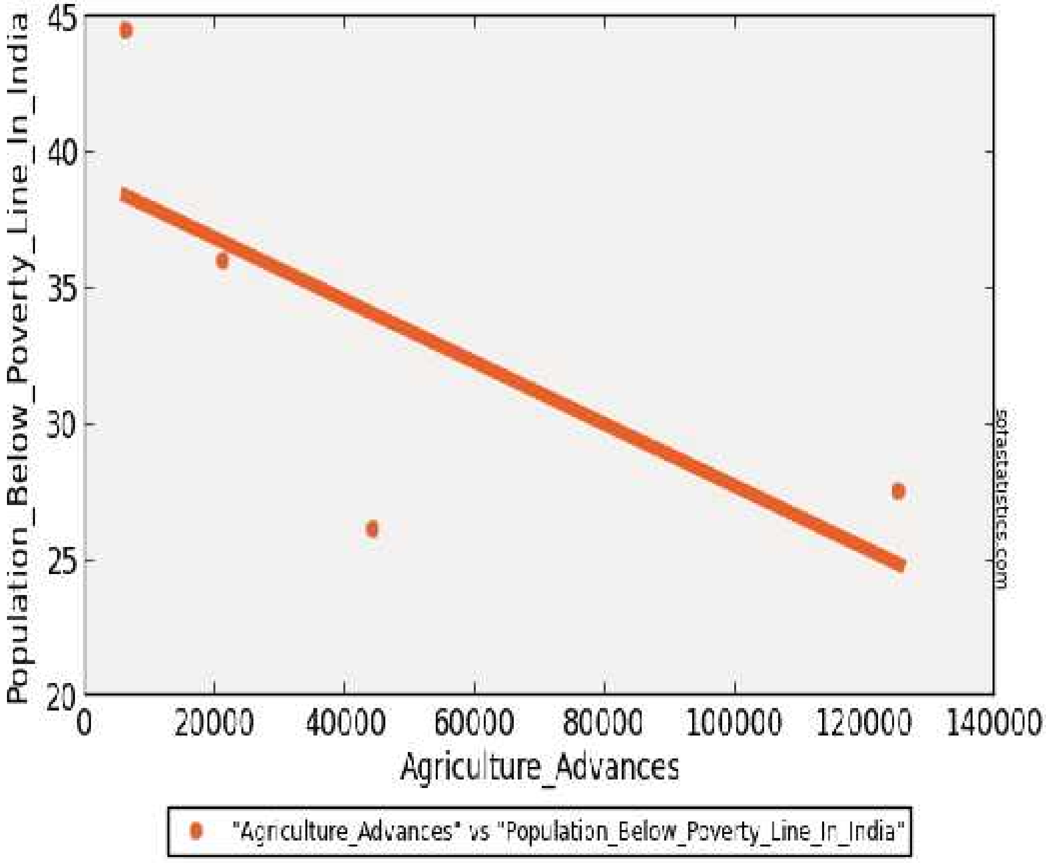


The above diagram also shows that the population below poverty line in rural areas significantly decreased with the increase in priority sector advances.

Results of Pearson's Test of Linear Correlation for "Agriculture_Advances" vs "Population_Below_Poverty_Line_In_India"

Two-tailed p value: 0.290 [1]
Pearson's R statistic: -0.71
Degrees of Freedom (df): 2
Linear Regression Details: [2]

- Slope: -0.0
- Intercept: 39.126

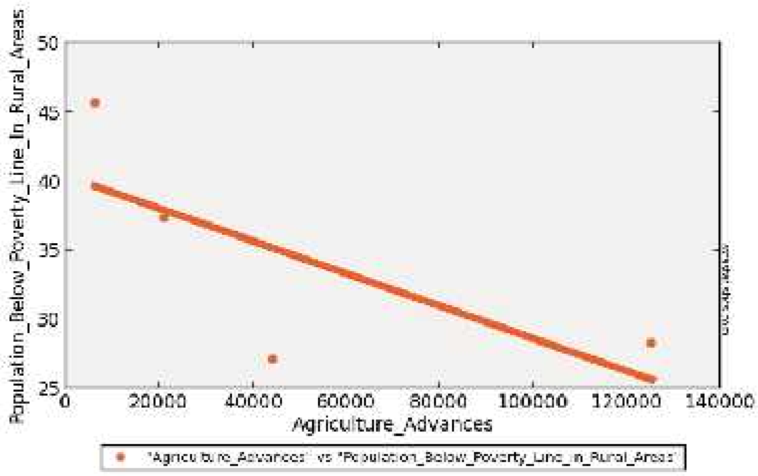


Here also the diagram indicates that the agriculture advance plays major roles to reduce the poverty line in India.

Results of Pearson's Test of Linear Correlation for "Agriculture_Advances" vs "Population_Below_Poverty_Line_In_Rural_Areas"

Two-tailed p value: 0.280 [1]
Pearson's R statistic: -0.72
Degrees of Freedom (df): 2
Linear Regression Details: [2]

- Slope: -0.0
- Intercept: 40.371



This diagram also gives the same positive impact of agriculture advance on population below poverty line in rural India. Therefore, priority sector advances is not only one of the major financial products for financial inclusion; it also contributes to inclusive growth by reducing the poverty line in India.

Conclusion

Today most of the banks are plagued with huge amount of non-performing assets, which are advances on which income ceases to exist. Therefore, credit worthiness of the borrowers will also be taken in to account while providing priority sector advances. However, the following inferences can be drawn from the above analysis:

1. There is strong relationship between priority sector lending and inclusive growth since it reduces poverty line in India.
2. Priority Sector acts as one of the major financial products in the hands of SCBs for financial inclusion.
3. Priority sector lending can be effectively used to minimize the poverty in India.
4. SCBs should increase the percentage of priority sector advances and agriculture advances to access formal institutional to weaker sections of the society.

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