PRIORITY SECTOR CREDIT ACROSS STATES & BANKS:

Issues of Inclusiveness-Equity Across Regions & Impact Assessment In A.P.

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List of Acronyms

ANBC or CEOBE	:	Adjusted Net Bank Credit or Credit Equivalent of Off-Balance Sheet Exposure
AP	:	Andhra Pradesh
BCs	:	Backward Classes/Castes
BPL	:	Below the Poverty Line
CARG	:	Compound Annual Rate of Growth
cet.par.	:	ceteris paribus (other things being equal)
CD RATIO	:	Credit-Deposit Ratio
CGC	:	Credit Guarantee Corporation
cf	:	confer/compare
Ch	:	Chapter
col	:	Column
DCCB	:	District Central Cooperative Bank
DICGC	:	Deposit Insurance & Credit Guarantee Corporation
DRI	:	Differential Rate of Interest
IRDP	:	Integrated Rural Development Programme
JLGs	:	Joint Liability Groups
LF	:	Large Farmer (operating>2 has or 5 acres)
MF	:	Marginal Farmer (operating less than 1 ha or about 2.5 acres)
MSE	:	Micro and Small Enterprises
MSMED Act	:	Micro, Small & Medium Enterprises Development Act
NABARD	:	National Bank for Agriculture & Rural Development
Neg.	:	Negligible
NFS	:	Non Farm Sector
NPAs	:	Non-Performing Assets
OPS	:	Other Priority Sectors
PACS	:	Primary Agricultural Cooperative Credit Societies
PCBs	:	Primary (Urban) Cooperative Banks
p/pp	:	Page/Pages
PSA	:	Priority Sector Advances
PSBs	:	Public Sector Banks

RBI	:	Reserve Bank of India
RRBs	:	Regional Rural Banks/Grameen Banks
Rsq (R squared)	:	R^2 or Coefficient of Determination
SBI	:	State Bank of India
SCBs	:	Scheduled Commercial Banks
SCs	:	Scheduled Castes
SF	:	Small Farmer (operating 1-2 ha or 2.5 to 5 acres)
SFCs	:	State Finance Corporations
SGP	:	Sheep, Goat & Piggery
SHGs	:	Self Help Groups
SSI	:	Small Scale Industries
STs	:	Scheduled Tribes
UP	:	Uttar Pradesh
WB	:	West Bengal
WPI	:	Wholesale Price Index

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CHAPTER-I

Relevance, Objective, Methodology & Material

Aim & Chapter Frame:

This introductory Chapter aims to highlight relevance of the chosen problem, state the objectives and raise issues, to discuss methodology and material used to accomplish the task. For orderly explanation, the Chapter is divided into three Sections. Relevance including brief theoratical base of the chosen problem is explained in Section I. It enlists the objectives of the study and raises a few issues for discussion and subsequent resolution. Methodology adopted including data sourcing, scope, time span and tools of analysis are explained in Section II. A brief Review of the Literature is taken up in Section III and at the end, our contribution to the research is stated.

I

Relevance of the Problem:

1.2 Growth with equity and stability has been the corner stone of Indian planned development from the 1950s. The Approach to 12th Five year Plan too endorses this by underlining "faster and more inclusive growth[1]". To accomplish the task, sound and effective macro-economic policy is needed, in which monetary banking policy is an important component. In the latter, under Selective Credit Controls, Directed Credit or Priority Sector Credit is emphasised to take care of the hitherto excluded or less serviced rural-agricultural and other small producers. Credit planning, implicit in priority sector credit allocations, is needed because markets have inherent weaknesses and limitations to overlook small borrowers and weaker sections. Markets can function effectively only when it is regulated, monopolies are absent and the participants are organised. Market ensures equilibrium between <u>demand</u> and supply, but <u>not needs</u> and supply. Also it is blind as to the goal of growth of employment. Weaker sections, farmers, agricultural labourers and artisans running cottage-small industries and seeking self employment are highly unorganised and hence prioritising a part of the total bank credit is essential.

1.3 Priority sector credit facilitates faster and sustained growth with equity-inclusiveness. Adequate and timely supply of finance/credit to the productive sectors at micro level such as farmers and small business enterprises enable to employ vast un-/underutilised human and local resources[β]. Recognising the relevance of directed credit, efforts have been made from the 1970s to allocate certain proportion of bank credit to agriculture, weaker-small and business enterprises called Priority Sector Advances. Almost all the sectors and classes included for eligibility under priority sector credit are hitherto either were completely excluded or were less served. This research is in this direction of investigating and analysing certain dimensions of prioritised bank credit, based both on primary data and pooled information from other sources.

Objective:

1.4 The principal aim of the research effort is to examine certain dimensions and discuss issues relating to allocation and growth patterns, inclusiveness and equity in the distributed prioritised credit across regions. This principal objective is sought to be realised through the following operational sub objectives:

1. To review and comment on the changes in the policy of priority sector over the years.
2. To examine trends in growth and proportion of priority sector advances at the macro level of India and regional level of Andhra Pradesh (A.P.).
3. To analyse pattern of allocation of priority sector credit by different groups of banks and across select regions to various targeted groups and sectors with a view to know to what extent credit was allocated equitably and spirit & letter of the prescribed main and sub targets have been obliged.
4. To study the behaviour of Credit-Deposit Ratio across banks and over time, and find out nature of relation between growth of deposits and credit in general, and prioritised credit in particular.

β More on this is discussed in Section I of Ch II.

5. To probe into the extent of Non-Performing Assets (NPAs) in lending to the priority sector vis-a-vis credit advanced to non-priority sector.
6. To enquire, at the grass root level of beneficiaries of the credit in the sample areas in AP, into their socio-economic status, availability of credit, cost and impact of the credit availed.

Issues:

1.6 For focused examination, we raise certain issues that are closely related to the stated objectives.

1. What is the impact of liberalised scope of priority sector lending, keeping constant the overall target at 40%, on the originally targeted agricultural sector and spirit of the policy?
2. Notwithstanding the stance of market-orientation of the banks under liberalisation environment, how are the banks able to fulfil the priority sector main and sub-targets?
3. Whether the credit allocated by banks across selected major states has been equitable?
4. What is the behaviour of CD Ratio and whether credit advanced to the priority sector moved in line with the growth of total credit and deposits?

II

METHODOLOGY

(Data Sourcing, Scope, Time Span & Techniques of Analysis)

1.7 It may be mentioned here that methodology in its broad sense is concerned not only with explaining approach and methods actually followed, but also a critical discussion of concepts, theories and basic principles of reasoning related to the subject[2]. It thus covers the narrow meaning of description/explanation of methods/techniques used or procedure followed but also discussion of concepts, theories and basic principles. We briefly touched upon the theoretical base under introduction and we return to it shortly (Section III of this Chapter and Section I of Ch II). In analysing and presenting the report, the broad methodology followed is from aggregation to disaggregation. We go down from India to States to regions to villages. First we present an overall/macro picture and then we explain details and sub-details. To compute trend rates of growth in real terms, monetary values were adjusted for price changes.

Definition of Terms & Concepts:

1.8 *(a) Priority Sector* : It refers to certain economic activities and persons whose development is important to facilitate growth with justice. It covers those sectors, activities and professions that are defined/listed by the RBI/the government.

(b) Non-Priority Sector: Any activity/sector not listed by the RBI in the priority sector and these are relatively large-sized activities, mostly in urban/industrial areas.

(c) Outstanding & Disbursed Credit : Outstanding advances refer to accumulated unpaid advances as on a given data/time. These generally pertain to end March or June. Disbursed credit is what banks lent during a period like one year. It is observed that often the outstanding amounts are higher than disbursements at the end of a year. The difference in the outstanding amounts in two successive years may be treated as disbursements.

(d) Credit to Agriculture : NABARD and other banks distinguish production credit (crop loans) and investment credit. The latter includes Minor Irrigation, Farm Mechanisation, Land Development, investment in Plantation, Horticulture etc.

(e) Allied Activities : AH (Animal Husbandry),Poultry, SGP (Sheep, Goat & Piggery), Farm Sector etc.

(f) NFS (Non-Farm Sector) : SSI including Village Industries, Rural Artisans, Tiny Industries/Enterprises, Small Transport Operators etc.

(g) Other Priority Sectors : SHGs, Housing, Education, Self-employed Exports etc.

(h) Weaker Sections : They include low Housing of Income Group and Economically Weaker Sections, SCs, STs, MF, SF, rural artisans, agricultural labourers, Women, SHGs, JLGs, beneficiaries of DRI Scheme etc.

Data Base:

1.9 The research is based both on primary sources of information and secondary data. The RBI annually publishes about half a dozen data based reports. Among them, three main publications relevant for the study are Statistical Tables Relating to Banks in India, Basic Statistical Returns of Scheduled Commercial Banks and Handbook of Statistics on the Indian Economy. One limitation of the publications of the RBI is that most of them contain priority sector credit given by Commercial Scheduled Banks and exclude

Cooperative Banks in the aforesaid first two publications. We filled the lacuna by including the credit extended by the cooperatives to the priority sector.

1.10 Part of the data was culled from the annual publication of "Economic Survey", Government of India. We also collected scattered data from individual banks under the coordination of Lead Banks at district level. Data contained in the Annual Credit Plans published by the Lead Banks were collected and the copious data contained in them were filtered to meet the set objectives. Hand Books of Statistics of the sample districts for the recent year were also made use of, apart from the Statistical Abstracts of Andhra Pradesh (AP) State.

Instrument of Primary Data Collection:

1.11 For impact assessment, cross section analysis of the beneficiaries of bank credit at the grass roots of sample villages is undertaken. This analysis is fully based on primary sources of information. During the field study, face to face interviews were held to elicit views and collect primary data through the instrument of semi-structured questionnaire[ψ]. This is supplemented by informal interviews with the beneficiaries and bankers. Ground realities were assessed during the field survey conducted mostly in May and June, 2012.

Scope, Sample Design & Method:

1.12 The 4 Non-Scheduled Banks[†] (initially they were known as Local Area Banks) are excluded from this study in view of non-availability of breakup of data and also due to their insignificant role. In terms of proportion to total banks, the non-scheduled banks in terms of branches and deposits account for less than 0.1% (0.06%,0.02%) both in terms of branches (only 53 branches) and deposits (of Rs. 814 crores)[3]. The priority sector credit advanced by the cooperatives is included only at the level of sample areas and the same is excluded in the all India and inter-state analyses. Impact study and examination of data contained in the Annual Credit Plans are limited to 3 sample districts from AP .

1.13 Bank Groups : Both aggregate and disaggregate analyses were taken up. In the aggregate analysis, all the spatial units of states are subsumed in India and so also all the banks lumped together under Scheduled Commercial Banks (SCBs). Disaggregate analysis envisages both spatial units of select states and bank-groups at 4-5 levels viz. major states, AP state alone and within AP state at the level of select districts. Regarding banks, three-fold classification is followed with 2 variants viz.

1. (*a*) Public Sector Banks, (*b*)Private Sector Banks, (*c*) Foreign Banks (and their summation—Public+ Private +Foreign)
2. (*a*) SBI Group, (*b*) within SBI Group SBI alone, (*c*) Nationalised Banks (and their summation called All Public Sector Banks).

Admittedly, due to unavailability of break up data dealing with priority sector credit, the RRBs could be included only in the aggregate analysis. However, in the CD Ratio analysis, RRBs are reckoned as a separate entity.

1.14 Sample States : Turning to selection of states, we selected 5 major states viz. AP, Bihar, Maharashtra, Uttar Pradesh (UP) and West Bengal (WB). The selection is based on population and they are the top 5 states among the 28 states of India. Incidentally, they may be viewed as representatives of 5 broad regions of India, spread over different parts of India. With regard to pattern of allocation of priority sector credit, both at macro and sub-macro level of states as well as bank-groups, about half a dozen sectors and sub-sectors are included. We have examined both volume of credit and number of accounts as well as per account (capita) credit.

1.15 Sample Regions & Districts in AP : The AP state has well demarcated three socio-economic regions known as Telangana, Coastal Andhra and Rayalaseema. Multi-stage random sampling technique is employed. In the first stage of sample selection, from each one of these three regions, one district was picked up randomly to represent different levels of social and economic development. Map of AP, indicating the three regions and districts, is placed in Appendix. The selected districts are:

Telangana	:	Nizamabad
Coastal Andhra	:	Krishna
Rayalaseema	:	Kadapa (now officially named as YSR district)

ψ The format of the canvassed Questionnaire is placed as Annexure at the end of the Report.

† In the 1950s a large number of non-scheduled banks were operating in India. Due to various reasons, none of the old non-scheduled banks exists at present (the last one was in existence upto 1997).

1.16 To assess impact, we adopted the method of Before (taking the credit) and After (taking the credit). For this purpose, in the second stage, from each one of the three aforementioned districts, randomly 5 Mandals[β] were chosen. From each Mandal, again randomly one/ adjacent villages were selected. Here 'the sample village' means the main Panchayat/PACS (Primary Agricultural Cooperative Credit Society) village and its surrounding villages/hamlets. The names of the sample Mandals are given in the Exhibit and is placed as Appendix to the Chapter.

1.17 In the 3rd stage, guided partly by the credit providing agencies, beneficiaries were selected. They were post-stratified based on community/income/amount of credit availed. In selecting the beneficiaries, first we listed all beneficiaries who borrowed in the recent year. Constrained by limited financial and time resources, it was arbitrarily decided to select uniformly 50 beneficiaries from each one of the 3 districts, at 10 beneficiaries from each selected Mandal.

In brief, the sample for impact assessment is composed of :

1. One district each from each one of the 3 regions of AP = Total 3 districts.
2. Five Mandals/Villages from each one of the three districts = Total 15 (=3x5).
3. At 10 per Mandal, 50 beneficiaries from each district = Total 150 (3x50).

Time Span:

1.18 As priority sector credit gained momentum with nationalisation of banks in 2 phases by the 1980s, the period of study covers about 3 decades covering mostly the period of 1980s to 2010/11. However, always a uniform time period was not followed. Compelled by availability of break up data and convenience in handling of data, we take preferably 3 points in time of 1980-81,1990-91 and from 2000-01 time series continuous data are considered.

Statistical Tools of Analysis:

1.19 Bulk of the data was processed by using the software MS XL. Processed and condensed data are presented in two-way tabular form. Simple statistical tools are used such as mean, index numbers, Ratios and percentages. For decadal growth rates, CARG (Compound Annual Rate of Growth) technique is used. For time series continuous data, the semi-log or the exponential function (i.e. regression equation of the form $Y=ab^t$) was employed to calculate growth rates. Also regression technique has been employed to analyse primary data, secondary data pertaining to agricultural credit (size-class of farmers), NPAs etc. The technique of portraying through graphs was attempted to easily visualise trends in growth rates and behaviour of CD Ratios.

III

SURVEY OF THE LITERATURE

1.20 The purpose of literature review of the relevant studies is to get insights into the problem, minimise duplication of effort, understand sources of information and search for alternative approaches to the problem on hand. Often Review of the Literature is understood as summarising relevant empirical studies. But in its broad sense, survey of theoretical literature too is a part of it. We take up both and present briefly their main themes.

1.21 The problem chosen is part of monetary policy and is called directed credit or supply of finance/money to specific sectors. In almost all the theoretical models of Growth & Trade Cycles, often money and prices do not find space. J Tobin[4] overcomes the limitation by incorporating monetary factors and in his model steep deviations (peaks and troughs) are avoided. The role of finance in investment decisions and innovations is neatly demonstrated by Schumpeter[5]. The IS-LM framework developed by A Hansen and JR Hicks[6] illustrates lucidly inter-dependence of monetary and real sectors determining levels of incomes and interest rates. McKinnon-Shaw provide a theoretical critique of interventionism in financial markets. JM Keynes in his General Theory of Employment, Interest & Money emphasises the autonomous nature of investment that says investment does not necessarily depend on past savings but on non-used & under used resources, provided there exists a developed banking and financial system. Stiglitz & Weises[7] neatly argue about the imperfections in market allocations. They argue that a whole scale move to a free market system is not a guarantee to have Pareto-optimal allocation of credit.

β In AP, the middle layer of administrative unit between villages and district is called Mandal. It is similar to a very small erstwhile Taluk and covers about 10 villages. Its principal officers are MDO (Mandal Development Officer like BDO) and MRO (Mandal Revenue Officer, like Tahasildar of a Taluk).

1.22 Having sketched a few theoretical works, we now turn to select empirical studies related to the problem. Before nationalisation of banks in 1969 and 1980 and after nationalisation, many articles were written including by the banking institutions. Some of the studies were conducted by ; Shah[8], Desai[9], Ramola & Negi[10], and Chadha[11]. Kohli[12] in his paper provides theory and empirical evidence on directed credit programmes. Some of the other studies owe to: Majumdar[13], Shahajahan[14], Ph D work of Kanagasabai (only two Chapters are relevant)[15], Das Gupta[16], Khan[17], Sen and Ghosh [18].

1.23 Recently the Reserve Bank of India (RBI) constituted a committee[19], with MV Nair (Chairman & Managing Director, Union Bank of India) as its Chairman and 10 members, to re-examine thoroughly Priority Sector Advances. It is popularly known as Nair Committee which submitted its Report in Feb. 2012. Among other Terms of References, it was mandated to investigate into the existing classification of the components of Priority Sector and suggest revised guidelines. With a view to do justice to the tasks assigned, it conducted Workshops, held wide and exhaustive discussions with institutions, individuals and a cross section of various stakeholders.

1.24 Deferring further details (to Ch II), suffice to note here a few aspects. The committee set targets and sub targets with regard to agriculture and MSE (Micro & Small Enterprises) and extended to foreign banks the overall target of 40% of ANBC or CEOBE (Adjusted Net Bank Credit or Credit Equivalent of Off Balance Sheet Exposure), whichever is higher. It also gave recommendations relating to education, housing, weaker sections etc. and suggested to abolish DRI (Differential Rate of Interest) scheme. It identified key issues and made a number of recommendations. It listed various priority sector activities and an illustrative list of agricultural and allied activities. Also suggestions were given to conduct evaluation studies. It covered Management Information System and Returns submitted by banks.

1.25 From the foregoing literature on the problem, it is clear that so far a comprehensive time-series analysis spanning 4 decades and across regions of India and in the sample areas was not taken up. The present study is based on both primary data collected from villages and beneficiaries and pooled data from various sources including secondary sources. Both in coverage of wider geographical area and longer period as well as in analysis, our research is comprehensive and in part innovative. Also no one covered regional analysis in AP state based on cross-section sample primary data and time series secondary data.

Technical Format of the Report

1.26 The Report is organized under 9 Chapters including the present one. All the Chapters, and Sections within each Chapter, are serially numbered using Roman letters (I,II……..V). Paragraphs are numbered serially using Arab numerals with prefix of the Chapter number. For e.g. para 2.3 means that it pertains to Chapter II and serial number of the para in that Chapter is 3. Here and there, cross references are given (both to preceding and succeeding Chapters.) by quoting para/Table numbers. Similarly Tables are numbered such as Table 3.1.….3.3. Detailed information and data that are not directly relevant are placed at the end of the relevant Chapters under Appendix/Annexure using alphabet A, B.... e.g. 3.A. With a view to maintain continuity of thought, elaboration or additional brief information is placed at the foot of the relevant page and is indicated in the body by symbols. References of the works are indicated in the body on the relevant page with superscript of Arab numerals and the details of the works are given at the end of the Chapter concerned under the head References.

Structure of the Report:

1.27 The Report is set out in 9 Chapters including this introductory Chapter. Chapter II, after tracing evolution of the priority sector policy since the 1970s, reviews changes in the policy including the present policy and recommendations of the Nair Committee on the scope and coverage of sub-sectors and sectors in the priority sector. It also examines growth and pattern of sector-wise allocation of credit in India, with focus on agriculture, by all the SCBs.

1.28 Chapter III focuses on the main sectors of priority sector credit and examines pattern of priority sector credit by all the SCBs in general and direct credit to agriculture in particular. It analyses both outstanding amounts and corresponding number of accounts and calculates per capita credit. Also outstanding amounts and disbursements are anlysed by size-class of farmers together with a close probe into per capita credit provided to MF,SF & LF.

1.29 Chapter IV and the succeeding Chapters take up temporal disaggregate analysis both spatially and bank groups-wise. The task of Chapter IV is an examination of pattern of credit distribution across 5 major states of India and among groups of banks. In analysing sectoral pattern across states, both outstanding amounts and number of accounts are taken into account. Bank group-wise analysis of distribution pattern of priority sector credit was conducted at three stages with modified grouping of banks and variables of priority sector credit.

1.30 Chapter V examines behaviour of non-performing assets (NPAs) and credit deposit Ratio temporally, spatially and across bank-groups. By decomposing aggregate NPAs into NPAs of priority and non-priority sectors, it attempts to assess to what extent NPAs are higher in the priority sector. Also it examines the inter-relation between priority sector credit, total credit and deposits.

1.31 While the Chapters II to V took up aggregate analysis, Chapter VI and other succeeding Chapters would take up disaggregate analysis. Chapter VI examines pattern of sectoral distribution of priority sector credit in the AP state and analyses CD Ratio both at the levels of AP and the 3 sample districts. It discusses sectoral allocations of outstanding credit amounts, accounts and per account credit. It examines the behaviour of credit deposit Ratio of all the SCBs in AP. Finally, it probes into the behaviour of CD Ratio and its relation with credit allocation to total priority sector and agriculture in the study district of Nizamabad in AP state.

1.32 Chapter VII presents profiles of the 3 study districts and analysed CD Ratio based on the data published in the Annual Credit Plans of the districts. It examines pattern of allocation of priority sector credit in the study areas. Chapter VIII wholly based on field survey data, aims at explaining socio-economic features and credit availed, and assesses its impact on the 150 sample beneficiaries in the sample districts. Extent of loans secured by different classes and for different purposes, interest rate paid, dues etc. are discussed. It assesses impact of the priority sector credit in terms of enhanced incomes and work intensity. The final Chapter (IX), as usual, sums up the discussion, pools observations together and offers suggestions. At the end of the Report, questionnaire served to the respondents is placed as annexure.

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APPENDIX

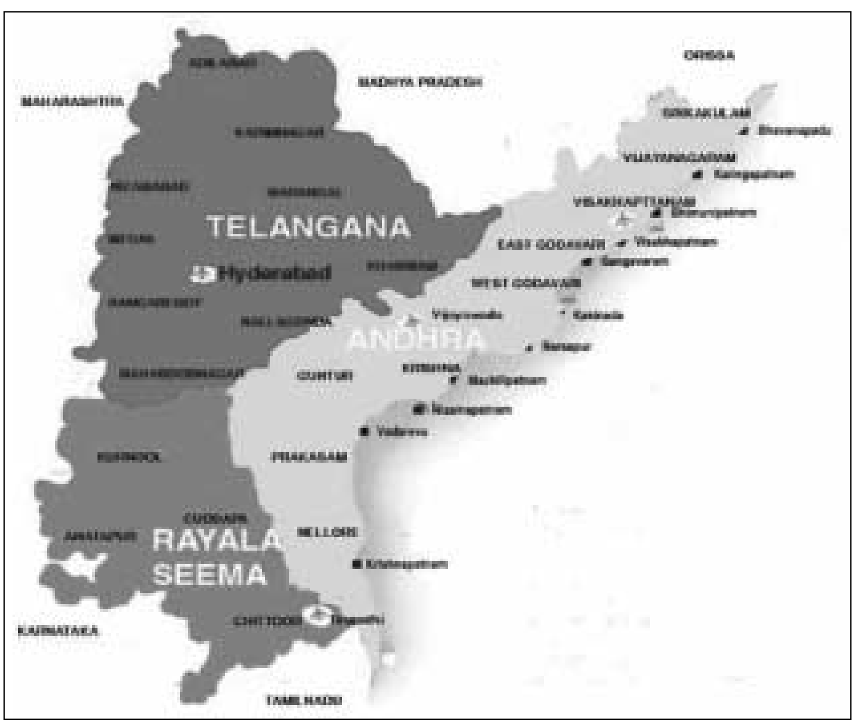
Regional Map of Andhra Pradesh State

APPENDIX

EXHIBIT

List of Sample Districts, Mandals and Villages— AP State

Region/District/ Mandal	Villages
Telangana—Nizamabad District:	
1. Bodhan	Achampally.
2. Dichpally	Bardipur.
3. Nizamabad	Boargaon, Urban NZB.
4. Yedpally	Yedpally.
5. Makloor	Maklooru (MB Thanda),Tunsini.
Coastal Andhra—Krishna District:	
6. G. Kondur	Cheruvu Madhavaram.
7. Kanchikacherla	Paritala.
8. Gannavaram	Kondapavuluru (Gopavrapu), Gudem.
9. Ibrahimpatnam	Ibrahimpatnam.
10. Kankipadu	Tenneru.
Rayalaseema—Kadapa (YSR) District:	
11. Pulivendula	Aamapuram (Vemanapuram), Krisahnapuram
12. Chennur	Chinnamasupalli (Kotakarayapalli) Vupparapalli.
13. CK Dinne	Kothapeta (Papasabpet), Ballupalli,
14. Kadapa	Allankanpalli (Bachumpalli) Rukavaripalli
15. Vallur	Bakireddy Palli, Peddaputa (Kopulu).



CHAPTER-II

Priority Sector Credit Policy and Growth of Priority Sector Credit in India

Aim & Chapter Frame:

The Chapter aims to explain policy on priority sector credit and examines trends in the growth of directed credit as well pattern of broad sector-wise allocation of the credit in India. The chapter is set out in three Sections. The opening Section provides theoretical base and different views on directed credit. The mid Section enquires into early origins of the policy and summarises main Changes in the scope and coverage of priority sector over the period. The final Section discerns trends in growth of total bank credit and total priority sector credit. It also discusses relative share of priority sector and within it share of agriculture.

I

PRIORITY SECTOR CREDIT —THEORETICAL BASE & VIEWS

Directed Credit—Theoretical & Cross Section Views:

2.2 In theory it is well recognized that at macro level of a country, money/finance or credit is a null variable for, doubling/trebling of money supply, per se, will not lead to growth in output or employment. Money/credit is only a medium/proxy and not real resource. However, at micro level of a farmer or artisan, it is everything which is why the adage of "Dhanam Moolam Idam Jagat" has become popular. In a country like India with vast un-& under-utilised manpower and natural-mineral resources, the Keynesian gospel of "investment is autonomous (of past unconsumed savings)" holds good, provided there exist a benevolent central bank and banking/financial system.

2.3 Directed credit is an institutional mechanism for allocation of credit to less unprivileged sectors and persons who have high potential for generating output and raising employment. Due to lack of access to credit, a vast segment of the society in India, majority of farmers and other micro enterprises face exclusion[1] from the organised banking system, warranting credit Rationing. Thus, one can justify directed credit, which is a part of selective credit controls in the armoury of the RBI, both on efficiency and equity grounds. Prioritised credit is an important step towards the achievement of the goal of financial inclusion and equity. In contrast, market based allocation of credit cannot address equity issue because in many investments, a divergence between social and private returns is observed.

World Bank's View on Directed Credit:

2.4 In the past, even the World Bank held that investment in the poor was the best method of social justice and banks had an important role in this regard. The poor not only benefits from growth but also contributes to it. However, on balance the Fund-Bank twins often advocate market-based liberalised credit allocation and discourage directed credit. The World Bank[2] holds that directed credit programmes like priority sector advances are ineffective policy measures to realize growth and redistributive aims. To address equity concerns, the Bank suggests to move away from monetary to fiscal policy measurers.

From the 1950s in the literature on Development Economics, agriculture has been given strategic role to facilitate rapid industrialisation and balanced growth. Also as agriculture is more nature-dependent, it needs a pro-active policy of the government that includes targeted allocation of credit. It may be noted here that in the USA, Europe and Japan, it is heavily subsidised including direct payments to farmers. Further, there are marginalised and hitherto excluded classes who deserve special attention of the policy makers and banks. While a section of economists are against directed credit, others like Stiglitz-Wises[3] support credit Rationing warranted by market imperfections. It is argued that a complete switch over to a free market, credit allocation cannot guarantee Pareto-optimal allocation[4].

II

EARLY ORIGINS & CHANGES IN THE SCOPE OF PRIORITY SECTOR OVER TIME

Evolution of Policy & Scope of Prioritised Advances:

2.5 Both the government of India and the RBI realised that certain segments have a priority claim in view of their direct economic importance and others have a claim for priority due to their social &/or socio-economic significance. In the tool kit of the RBI, priority sector credit is considered as an active instrument to confer justice and raise output and employment. Weaker and marginalised sections of people fall under the category of socially prioritised persons. Until nationalisation of major banks in 1969 and 1980, banks virtually glossed over the credit needs of farmers, village artisans, petty traders and rural handicrafts-cottage-village industries.

2.6 Before Independence, many gaps were observed in key sectors of the Indian economy. Due to various historical reasons, substantial part of the bank credit was allocated to medium and large industry and commerce. While industry and trade could secure 79% by the close of 1940s, the share of agriculture was just 4% in the total bank credit. Even this paltry allocation was corned by commercial crops including plantation[5]. It is only with the launching of the First Five Year Plan in 1951, agriculture could receive some attention. The policy makers realised that planned development was impossible without directed bank credit. Thus special and conscious allocation of credit in India is an integral part of monetary policy from the 1950s. However, proactive policy and more concerted efforts emerged only from the 1970s and 1980s.

Social Control & Nationalisation of Major Banks:

2.7 It was in 1968, social control over banks was discussed and implemented. Even then, the farm sector and retail trade could get each just 2% of the total advances of the banking sector both under direct and indirect lending. For the first time the RBI used and defined the term "Priority Sector" in its 1967-68 credit policy which required commercial banks to increase their involvement in lending to agriculture, SSI and exports. In 1972, priority sector was defined formally[6]. Further, as Social Control over banks was not successful, the then Prime Minister of India, Smt. Indira Gandhi, guided by both socio-economic and political considerations, nationalised in two instalments - 14 and 6 banks in 1969 and 1980 respectively. Initially the stated aim of nationalisation was to improve economic status of small clients and provide employment avenues. The act of nationalization was also expected to bring about structural changes in the credit composition in favour of rural areas in general and socially-economically weaker sections in particular. Needless to mention that these include agricultural sector for over three-fourths of the holdings belonging to Marginal and Small farmers (MF and SF).

2.8 Before directing the banks to allocate certain proportion of total credit to priority sector, the RBI established Credit Guarantee Corporation (CGC) in 1971 to minimise risk and safeguard the interests of the banks in lending to small borrowers and weaker sections. The CGC is now called DICGC (Deposit Insurance & Credit Guarantee Corporation). The RBI initially directed the banks to allocate credit to agriculture, SSI (Small Scale Industries) and exports. Later, based mainly on the recommendations of the Working Groups headed by Krishna Swamy and Ghosh, the scope was expanded in the 1980s. Further expansion of the sector was effected in the post-reform period (after 1991) and modifications were made. Thus the policy has been reviewed from time to time.

Krishna Swamy Working Group -Suggested Changes:

2.9 The banks in 1974 were asked to raise the target of priority sector credit and achieve it by 1979 to 33.3% of ANBC or CEOBE (Adjusted Net Bank Credit or Credit Equivalent of Off-Balance Sheet Exposure[ϕ]) whichever is higher. In 1980, the Working Group[7] reviewed the policy. It observed serious lack of uniformity in classifying priority sector advances. The affluent sections of the society, within the priority sector, cornered larger part of the credit. To overcome it, the Group recommended the concept of Weaker Sections and fixed target, along with targets for other major sectors, save exports. The suggested target for agriculture was 16% of the total credit (or 40% of the priority sector) which was to be achieved by 1983. It was further stipulated that at least 50% of the direct farm credit should benefit the weaker sections which include SF, MF and agricultural labourers.

Ghosh Working Group - Suggested Changes:

2.10 Nature of agricultural advances and targeting was dealt with by another Working Group[8]. It recommended 14% sub target for direct lending to agriculture. This rate was to be raised in stages viz.16%, 17% and 18% by 1987, 1989 and 1990 respectively. Sub targets were fixed within weaker sections. It defined the term 'weaker sections' or the under-privileged based on financial or social criterion. SCs, STs, MF, SF and all the

ϕ Hereinafter, for brevity, we use the terms total bank credit, net bank credit or total credit.

beneficiaries under 20-point Programme were included. These apart, based on specified loan amount per person, many more were included in the rubric of weaker sections viz. any borrower upto Rs. 10000, traders with annual turnover upto Rs.4 lakhs, professionals and self employed borrowing upto Rs. 2 lakhs and credit to SSI units upto Rs.25000. As the main aim is to lift the weaker sections from Below the Poverty Line (BPL), the aforesaid narrow definition is inconsistent. Loans for setting up of industrial estates by the government agencies are treated as lending indirectly to SSI sector.

2.10 After launching the IRDP (Integrated Rural Development Programme) in 1978 during Janata government period and 20-point Programme in the 1980s during Indira Gandhi period, priority sector credit policy was reviewed. Banks were asked to participate in the 20-point Programme actively. The RBI raised the share of priority sector credit from 33.3% to 40% of total bank credit in 1985. It is happy to note that actually 14.6% target was achieved in 1969 and 40.9% in 1981. During the same period, within the priority sector, the share of agriculture rose from 5.4% points to 16.4% points.

Liberalisation-Reform (post 1991) Period—Changes in the Policy & Targets:

2.10 During the two decade reform-liberalisation period, scope of priority sector has been further expanded, hurting original aims of priority sector. The (1st) Narasimham Committee of 1991 (Committee on Financial System) held that availability easy and timely credit was more important than its cost. It, therefore, recommended dispensing with concession in interest rates[♥] to the priority sector. It recommended a narrow definition of agriculture for priority lending, limiting the scope to MF, SF, tiny sector, small business, transport operators, village and cottage industries, rural artisans and other weaker sections. To these redefined priority sectors, the suggested target is 10% of total bank credit. The RBI did not accept the recommendations pertaining to coverage and targets. In 1995, an informal Study Group convened by the RBI, suggested a more comprehensive classification. In 1994, the RBI allowed commercial banks to include the credit given to the RRBs in priority sector advances, for, the RRBs later would lend the amount to priority sector[9]. However, the RRBs in turn should not include the amount in their priority sector advances.

Process of Dilution of the Spirit of Priority sector credit:

2.11 The 1998 (2nd) Narasimham Committee recommended reduction in the priority sector credit. It held that social banking need not be in conflict with sound banking norms. Also the one-man committee headed by RV Gupta suggested abolition of 18% target for agriculture. However, the RBI did not accept their recommendations in toto. It effected a process to dilute the spirit of priority sector through widening the scope and coverage of the sub sectors. The first step in dilution was through virtual merging of direct and indirect credit to agriculture retaining the target of 18%. However, it was stipulated that the indirect credit should not exceed one-fourth of the 18% target (4.5% points). In case of excess indirect lending, it may be included in the overall target of 40%. The government of India in 2000 advised PSBs to earmark 5% of their total credit to women. By 2011, outstanding credit to them constituted 7.5% of total bank credit. In 2004, the Service Area Approach was relaxed permitting commercial banks and RRBs to lend in any rural and semi-urban area (Ref. paras 2.7 & 5.4, Nair Committee Report).

2.12 Another dilution was inclusion of advances given to producers, dealers and suppliers of inputs to agriculture under indirect credit such as fertiliser-pesticides-seeds suppliers, machine and equipment suppliers (including tractors, drip-sprinkle irrigation). Finance provided by the banks to Electricity Boards, NABARD, Rural Infrastructural Development Fund cold storage and milk chilling plants, construction and running of godowns, warehouses and market yards qualify for priority sector credit under agriculture. Credit given to plantation crops (tea, rubber etc. that are generally large sized) is part of direct lending to agriculture. In the case of the SSI sector, amounts lent to State Industrial Development Corporations and SFCs (State Finance Corporations) are treated as direct lending to the SSI sector. Finance to road transport operators even upto

♥ We note here that in 2011-12, the central government agreed to pay the Public Sector Banks (PSBs) 2% interest subsidy on production credit, provided the banks charge 7% interest rate to the farmers. There is an additional interest subvention of 3% to the PSBs in respect of prompt paying farmers (cf para 4.4.1, Nair Committee Report).

10 vehicles is included in priority sector credit. It is well known that lending to the aforesaid is safer and less risky than directly lending to small borrowers.

Nair Committee—Further Dilution:

2.13 As referred to in para 1.20, the Nair Committee was appointed by the RBI and its report was released in 2012 (Feb.). First, we note its important recommendations and then we will comment on suggestions that are likely to dilute the main aims of priority sector :

(*a*) While retaining the existing limit of 40% of ANBC, credit to the priority sector, it recommended uniform application of the norm to all banks including banks incorporated abroad and functioning in India, which were earlier assigned a lower target of 32%.

(*b*) However, in the case of foreign banks, there is no obligation to lend to the farm sector. A sub target of 15% for exports is suggested.

(*c*) It recommended dispensing with the distinction of direct (13%) and indirect (4.5%) credit to agriculture and treat agricultural production, storage and distribution as a single set of activities.

(*d*) It found that SF and MF, accounting for 80% of the total farm households, faced virtual exclusion from formal credit agencies. Therefore, it suggested a sub-target of 9% to them within the 18% overall target of agricultural sector.

(*e*) It noted that 2.6 crore MSE (Micro and Small Enterprises) units were spread over India with high employment potential and significant contribution to industrial output and exports but only 5% of them were covered by institutional finance and hence it recommended their continuance under priority sector with the target of 15% of total bank credit. It suggested a sub target of 7% to the micro enterprises within the MSE sector.

(*f*) It suggested scrapping of the Differential Rate of Interest Programme♣. Also recommendations are given covering education, housing, weaker sections, low income groups, exports etc.

2.14 The main purpose of priority sector advances is financial inclusion by taking care of the micro credit needs of small borrowers of farm and non-farm sectors and other vulnerable sections who were hitherto neglected. The committee is aware (para 2.3 of its Report) that even by 2011, just 0.7%—3.7% priority sector portfolio constituted micro credit [of not more than Rs.1/2 lakh per borrower channelled through SHGs and JLGs (Self Help Groups & Joint Liability Groups)]. It is also aware that the Rationale of priority sector credit is to facilitate access to credit to those who normally find it difficult to borrow from institutions (para 2.8 of its Report). Notwithstanding this, surprisingly it suggested that food and agro-based processing units with fixed capital of Rs. 20 crores may be helped under priority sector credit. In the case of primary processing of perishable farm produce, irrespective of any level of investment, the units are eligible under priority sector credit. It means that even medium and large scale food processing units can also access the earmarked credit. These suggestions are justified in the pretext of high employment potential. Merging direct and indirect agricultural advances is likely to further reduce per capita direct lending to individual farmers in real terms.

Bank-wise & Sector-wise Priority Sector Credit Targets:

2.15 Until recently, the targeted proportions of credit for Foreign Banks and Primary (Urban) Cooperative Banks (PCBs) are different from Indian SCBs. They are respectively 32%, 60% and 40% of total bank credit. Before we sum up the main targets and sub targets bank-wise and sector-wise, we note that the RBI stipulated 40% (of ANBC) target for public and private sector banks, with the sub targets of 18% and 10% (of ANBC) to agriculture and weaker sections. For foreign banks having offices in India, the target is 32% and within it the sub targets for micro and small enterprises are 1% and 12% (of ANBC) respectively[10]. Further, all the SCBs were advised to ensure that out of the total advances to MSE, 40% is to be allocated to micro manufacturing enterprises(having fixed capital upto Rs 5 lakhs) and to micro enterprises (having investment in equipment upto Rs. 2 lakhs). Also, 20% of advances to all MSE is to be distributed to micro(manufacturing) units having with >Rs. 5 lakh and upto Rs. 25, and in the case of micro(service)enterprises >Rs. 2 lakh and upto Rs.10 lakh. These stipulations are aimed at addressing the issue of equity by financial inclusion of micro

♣ Under DRI, loans are advanced at 4% interest to the most poorest who cannot afford the normal cost of credit.

entrepreneurs of manufacturing and service providing units. The below exhibit summarises the main targets and sub targets.

EXHIBIT

Targets & sub-Targets of Priority Sector Advances (% to ANBC)

Sectoral Targets	Indian SCBs	RRBs	PCBs	Foreign Banks (Incorporated Abroad)
	1	2	3	4
1. Total Priority Sector Credit	40%	40%	60%	40%*
2. Agricultural credit of which (a) Indirect **(**of total agricultural credit **9%** to MF& SF**)**	18% not > 4.5%	No Target —	No Target —	No Target —
3. Credit to Weaker Sections	10%	10%	25%	12%
4. Export Credit	No Target	No Target	No Target	12% **(15%)**
5. Credit to SSI Sector (of which)				
(a) Tiny (Micro) Sector (<Rs. 5 lakh fixed capital)	40% of SSI Credit	—	—	**(15% to MSE & 7% to Micro Units)**
(b) Other SSI Units (>Rs. 5 lakh to <Rs. 25 lakh fixed capital)	20% of SSI Units	—	—	
(c) Other SSI Units (>Rs. 25 lakh fixed Capital)	40% of SSI Credit	—	—	
6. Credit under DRI of which to SCs-STs	1% of Previous Year's ANBC 40% of Total DRI Credit	— —	— —	

Sources: Various Publications of RBI.

Notes :1. Figures in parentheses in **bold** (**15%,15%** & **7%**, and **9%** to MF&SF) are recommended targets of Nair Committee but not accepted by the RBI.

2. ANBC=Adjusted Net Bank Credit, RRBs = Regional Rural Banks, PCBs = Primary (Urban) Cooperative Banks, SCBs = Scheduled Commercial Banks

3.§Effective from July 2012, the target raised from 32% to 40% but to be achieved in 5 years ending 2015.

2.16 In the 3rd week of July 2012, the RBI issued revised priority sector guidelines[12]. Among other guidelines, a few important stipulations may be noted. In the revised guidelines, we find acceptance of some of the recommendations of Nair Committee. The target for all the banks including foreign banks is 40%. However, the target applies to the foreign banks having at least 20 branches in India and the target is to be realized in 5 years (from 2013). For those foreign banks with less than 20 branches, the target is 32% without any sub target. Lending to agriculture remained unchanged at 18% of ANBC with 13.5% and 4.5% sub targets for direct and indirect credit to the farm sector. All Micro and Small Manufacturing units as well as Micro and Small Service enterprises (upto Rs.1 crore) are eligible to avail priority sector credit.

III

GROWTH OF ANBC OF SCBs IN INDIA & RELATIVE SHARES OF PRIORITY & NON-PRIORITY SECTORS

2.17 Having discussed priority sector policy and, targets and sub targets, we now present an aggregate picture of pattern of allocation of total bank credit by all SCBs in India. Later we examine trends in growth of bank credit vis-à-vis priority sector credit. Relevant break up data are presented in Table 2.1, covering the time span of 1980-81 to 2010-11. In the first decade of the study (1980-91), ANBC increased by 4½ times, again by about 4½ times during 1991-2001 and by more than 7½ times in the recent decade (2001-11). Even in real terms (adjusted for inflation), the increase is substantial, for, the price increase in each one of the 3 periods was less than two times, vide Appendix Table 2.A.

TABLE 2.1

Sectoral Deployment of ANBC by SCBs in India : Food, Non-Food & Priority Sectors (Outstanding) (Amount: Rs. Billions, Others: %s)

Items→ Year↓ (end March)	Total	ANBC (Rs.Bbns)	of which % share of Food Non-Food	Priority Sector	% Share of col .4 in ANBC Sector	Credit to Ag &Allied Sectors (Rs. Bns)	% share of col 6… in col 4 (in total Priority credit)	in col 1 (in Total ANBC)
	1	2	3	4	5	6	7	8
1980-81	253.7	6.9	93.1	85.4	33.5	36	42.2	14.1
1990-91	1163	3.9	96.1	429.2	36.9	168	39.0	14.4
1991-92	1256	3.8	96.2	454.3	36.2	182	40.0	14.5
1992-93	1520	4.5	95.5	498.3	32.8	200	40.1	13.1
1993-94	1654	7.2	92.8	538.8	32.6	212	39.4	12.8
1994-95	2116	5.9	94.1	641.6	30.3	240	37.4	11.3
1995-96	2549	3.9	96.1	733.3	28.9	270	36.9	10.7
1996-97	2784	2.8	98.2	848.8	30.5	314	37.0	11.3
1997-98	3250	3.9	96.1	995.1	30.7	349	35.0	10.8
1998-99	3688	4.6	95.4	1146.1	31.1	396	34.6	10.8
1999-2000	4360	5.9	94.1	1318.3	30.2	444	33.7	10.2
2000-01	5114	7.8	98.2	1544.1	30.2	519	33.0	10.2
2001-02	4672	9.8	90.2	1752.6	37.5	608	34.7	13.0
2002-03	5304	7.3	92.7	2116.1	39.9	735	34.7	13.9
2003-04	7639	4.6	95.4	2638.3	34.5	905	34.3	11.9
2004-05	11004	3.8	96.2	3814.8	34.7	1253	32.8	11.4
2005-06	15071	2.7	97.3	5107.4	33.9	1740	34.0	11.5
2006-07	19312	2.4	97.6	6359.7	32.9	2304	36.2	11.9
2007-08	23619	1.9	98.1	7480.7	31.7	2753	36.8	11.7
2008-09	27756	1.7	98.3	9324.6	33.6	3387	36.3	12.2
2009-10	32448	1.5	98.5	10922.8	33.7	4161	38.1	12.8
2010-11	39421	1.6	98.4	12393.9	31.4	4603	37.1	11.7

Source : Handbook of Statistics on the Indian Economy, RBI.

Notes :

1. Sum of cols 2 & 3 equals 100 (equal to col.1)
2. Absolute figures given in this Table are slightly lower than the corresponding figures recorded in subsequent Table/s due to revisions and different sources.
3. ANBC = Adjusted (Total) Net Bank Credit.

2.18 Growth Rates in Current & Constant(1980-81)Prices : We calculated trend rates of growth (by fitting to the data the exponential function of the form ($Y=ab^t$) of ANBC and total priority sector credit for the time series data period of 1990-2011 and CARG [compound annual rate of growth by using the formula $A=P(1+r/100)^n$] for the two end points of 1980-1 and 1990-1. To insulate growth from price changes, growth rates in real terms are worked out by deflating with WPI (Wholesale Price Index). Detailed data are presented in Table 2.2 and its abstract is given below.

ABSTRACT OF TABLE 2.2

	Unadjusted for Inflation		Adjusted for Inflation	
	ANBC	Total Priority Sector Credit	ANBC	Total Priority Sector Credit
1. Trend Rate of Growth (% p.a, 1990-2011)	70.3	86.4	13.0	13.0
2. CARG (p.a.1980-1&1990-1)	16.4	17.8	9.6	10.7
Mean (weighted)	52.9	64.3	12.5	12.3

2.19 When growth rates are calculated in real terms (adjusted for WPI based prices), even then we find that growth in priority sector advances is slightly higher than the growth in the ANBC. The difference is that while in real terms the growth rates (p.a.) are around 12%, in nominal terms they are about 5 times higher around 60%. In another Chapter we examined growth rates of agricultural advances vis-à-vis total credit in real terms.

TABLE 2.2

Trends in Growth of Priority Sector Advances & Total Bank Credit of SCBs in India (Outstanding)

Items→ Year↓ (end March)	Total Priority Sector Sector Credit (Current Prices) (Rupees Billions)	Total Bank Credit	Price Index (WPI) (1980-81=100)	Priority Sector Credit (Constant Prices of 1980-81) (Rupees Billions)	Total Bank Credit
	1	2	3	4	5
1980-81	85	254	100	85	254
1990-91	428	1163	183	234	636
1991-92	454	1256	208	218	604
1992-93	498	1520	229	218	664
1993-94	539	1654	248	217	667
1994-95	642	2116	279	230	758
1995-96	733	2540	301	244	844
1996-97	849	2784	315	270	884
1997-98	995	3241	329	302	985
1998-99	1146	3688	349	328	1057
1999-2000	1318	4360	360	366	1211
2000-01	1544	5114	386	400	1325
2001-02	1753	4672	400	438	1168
2002-03	2116	5304	413	512	1284
2003-04	2638	7639	436	605	1752

Items→ Year↓ (end March)	Total Priority Sector Sector Credit (Current Prices) (Rupees Billions)	Total Bank Credit	Price Index (WPI) (1980-81=100)	Priority Sector Credit (Constant Prices of 1980-81) (Rupees Billions)	Total Bank Credit
	1	2	3	4	5
2004-05	3815	11004	464	822	2372
2005-06	5107	15071	485	1053	3107
2006-07	6360	19312	517	1230	3735
2007-08	7481	23619	538	1391	4390
2008-09	9325	27756	585	1594	4745
2009-10	10922	32448	607	1799	5346
2010-11	12394	39421	667	1858	5910
Trend Rate of Growth (1990-2011, % p.a.)	86.4	70.3	—	13.0	13.0
CARG (1980-1990)	17.8	16.4	—	10.7	9.6
Mean (weighted)	64.3	52.9	—	12.3	12.5

Source : Handbook of Statistics on the Indian Economy, RBI.

Notes :1. GDP deflator is calculated by dividing GDP (at factor cost) in current prices by GDP in constant price of 1980-81. 2. For 1980-1 to 1990-1 CARG formula used and for the continuous data, semi log function was employed. The two growth rates are averaged to obtain single growth rate by giving weights based on number of years.

2.20 Allocations to Food, Non-Food & Priority Sectors : We revert to Table 2.1 and examine other aspects. Out of the total bank credit, non-food credit accounted for 90% to 98%[ϕ] and that of food credit 2% to 10% (cols 2 and 3). A look at the col. 5 of the Table informs that the share of priority sector in total bank credit varied between 29% to 40%. A close examination of annual variations in the share of priority sector reveals that there is no particular trend in its share during the study period. In the recent years, the share decreased compared to the 1990s or early first decade of 21st century. Let us examine the behaviour of share of agriculture which is an important component of priority sector advances. Its share too is erratic and like the share of overall priority sector credit, there is a decline in its share in the recent years. Its share fluctuated between as low as 10% around 2000 and as high as over 14% in the early 1990s (col 8).Within the total priority sector advances, share of agriculture and allied activities worked out to 33% to 40% (col 7).

The foregoing analysis is essentially aggregate in nature. As aggregate averages often hide many realities and may be at variance at sectoral, sub-macro and micro levels of states, districts and bank-groups, in the succeeding chapters we turn to disaggregate analyses.

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ϕ Priority sector credit is a part of non-food credit.

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APPENDIX

TABLE 2.A

Inflation in India—Index Numbers of Wholesale & Consumer Prices and GDP Deflator

Year	WPI	CPI(IW)		National Income Deflator
	1	2		3
1960-1=100			1960-1=100	
1970-71		186		181
1971-72		192		191
1972-73		207		210
1973-74		250		247
1974-75		317		287
1975-76		313		279
1976-77		301		297
1977-78		324		315
1978-79		331		321
1979-80		360		369
1980-81	1981-82=100	401		412
1981-82	100	451		454
1982-83	105	486		491
1983-84	113	540		534
1984-85	120	573		574
1985-86	125	612		578
1986-87	133	666		659
1987-88	144	724		720
1988-89	154	792		782
1989-90	166	841		847
	(1980-81=100)		(1960-61=100)	
1990-91	183	938		935
1991-92	208	1064		1065
1992-93	229	1166		1158
1993-94	248	1254		1269
1994-95	279	1380		1389

Year	WPI	CPI(IW)	National Income Deflator
	1	2	3
1995-96	301	1521	1514
1996-97	315	1662	1627
1997-98	329	1779	1735
1998-99	349	2012	1872
1999-2000	360	2080	1973
2000-01	386	2158	2038
2001-02	400	2250	2099
2002-03	413	2343	2179
2003-04	436	2430	2253
2004-05	464	2527	2378
2005-06	485	2634	2422
2006-07	517	2814	2611
2007-08	538	2994	2714
2008-09	585	3266	2895
2009-10	607	3669	3005*
2010-11	667	4053	3294*

Source : Basic Data from Handbook of Statistics on Indian economy 2010-11.

Notes : 1. Through splicing method, single base is arrived at (from different base years of 1960, 1982, 2001=100 (for CPI), 1981-2, 1993-4, 2004-5=100 (for WPI). Between 1950-1&1960-1, increase in prices in the decade is 16% (or 1.6%p.a.). 2. National Income Deflator is worked by dividing GDP at current prices by GDP at prices.3.*Provisional.

CHAPTER-III

Sectoral Pattern of Priority Sector Advances by all SCBs in India & Direct-indirect Credit to Size Classes of Farmers

Aim & Chapter Frame:

The Chapter aims at analysing priority sector credit advanced by all the SCBs in India to main sectors with focus on direct credit to agriculture as well as different size classes of farmers by all the SCBs in India. Organising the Chapter under two Sections, Section I examines pattern of outstanding priority sector credit among main sub-sectors. It probes into pattern of corresponding number of accounts and computes per account credit. Section II first discusses relative shares of size class of farmers in the total disbursements and outstanding credit. Per capita credit are calculated and compared by size class of farmers. Thereafter, growth of direct credit lent to agriculture vis-à-vis growth of total bank credit and total priority sector credit are examined. It estimates elasticity of direct credit to farmers with respect to total ANBC and total priority sector credit.

I

PATTERN OF ALLOCATION OF PRIORITY SECTOR CREDIT TO DIFFERENT SECTORS—SCBs IN INDIA:

3.2 In the foregoing Chapter, priority sector credit to agriculture was discussed without distinguishing direct and indirect credit, and also without decomposition of the credit given to other sub-sectors. We now take up decomposition analysis. Total priority sector credit is divided under 6 broad heads, including direct and indirect advances to agriculture. As break up data are available from 1995-96, we confine the analysis for the period of 1995-2010.

3.3 As shown in Table 3.1, priority sector credit is broadly divided under 8 sub-heads. A close examination of the Table points out that until 2000-01, agriculture followed by SSI sector accounted for about 70% of the total priority sector credit (cols.1&4). Housing sub-sector has been gaining importance in credit allocation from 2002-03. Its share varied between 20% to 28% (col. 7). Thus at present agriculture, SSI and housing together account for over 90% of the total priority sector and in the previous 8 years about 80%.

3.4 Changes occurred in the relative shares of sub-sectors during the period of the study. Focusing attention on the agricultural sector, we find that as proportion of ANBC allocated to priority sector as a whole and agricultural sector in particular was enhanced from the 1990s, the share of agriculture rose from about a third of the total priority sector to 2/5ths (col 1). However, the increased share to agriculture was mainly not in direct lending but mainly through indirect lending (col 4). The latter, more than doubled from 15% to 32% during 1995-2010. The implication is that the relative share of direct credit decreased in the total credit allocated to the agricultural sector. It also means that banks are evading lending more to individual farmers to minimise risk and instead safely lending to institutions and large borrowers (such as NABARD, suppliers of farm inputs including farm machinery and equipment and Rural Electricity Corporation)

3.5 Mere doubling or even trebling of agricultural credit does not necessarily mean that all farmers including MF and SF would secure higher amounts. In India, institutional finance to farm sector more than doubled (2½ times) during 2005-11 from Rs.1.8 lakh crores to Rs.4.5 lakh crores. Notwithstanding increase in the share of MF and SF in total holdings and total acreage, their share in total agricultural credit declined (to 48% from 54% during 1993-2003).

TABLE 3.1

Pattern of Purpose-wise Distribution of Priority Sector Credit (Outstanding) by SCBs in India

(%)

Items→ Year↓ (end March)	Ag.& Direct	of which Indirect	col 3 as%	SSI Setting	incl.	*Small Business	Education	Housing	Other Priority Sectors (exports etc.)	Total (10=1+ 5 to 9)
	1	2	3	4	5	6	7	8	9	10
1995-96	34	29	5	15	42	16	neg.	3	5	100 (808)
1996-97	35	29	6	17	41	16	neg.	3	5	100 (938)
1997-98	33	27	6	18	42	15	neg.	4	6	100 (1100)
1998-99	32	26	6	19	40	15	neg.	6	7	100 (1263)
1999-2000	32	23	9	28	37	15	neg.	8	8	100 (1558)
2000-01	36	26	10	28	33	14	1	11	5	100 (1823)
2001-02	32	23	9	28	36	14	1	14	3	100 (2026)
2002-03	32	23	9	28	25	17	1	21	4	100 (2510)
2003-04	32	23	9	28	23	13	1	25	6	100 (3113)
2004-05	33	24	9	27	21	12	2	28	4	100 (3957)
2005-06	35	25	10	29	19	16	2	23	5	100 (5458)
2006-07	36	24	12	30	18	14	2	27	3	100 (7038)
2007-08	37	26	11	30	26	9	3	24	1	100 (8248)
2008-09	39	27	12	31	27	8	3	22	1	100 (9674)
2009-10	41	28	13	32	32	2	3	20	2	100 (11384)

Source : Statistical Tables Relating to Banks in India, RBI.

Notes :

1. Figures in parentheses refer to credit in Rs.billions.
2. SHGs=Self Help Groups.
3. *From 2006-07, Small Business includes micro credit, credit given to SHGs,etc.
4. In other Priority Sector Advances (col 8), export# credit share is neg. in 2006-07,2007-8, 2008-9 &2009-10.

It is officially reported that the per account credit to large farmers was Rs.1.13 lakh and for MF and SF Rs.0.39 lakh and Rs. 0.53 lakh respectively (in 2007-08)[1].More on this shortly.

3.6 Other noteworthy aspects in the pattern of priority sector credit deployment are changes in the relative shares of SSI, small business and housing advances. While downward trend is observed in the case of both SSI and small business sectors (cols 5 & 6), with regard to housing the trend is upwards. Housing sector could improve its share substantially from about less than a tenth upto 2000 to 1/5th by 2009-10 (and in some preceding years its share was a fourth).

Sector-wise Distribution of Accounts of Priority sector credit Beneficiaries—SCBs in India:

3.7 In the foregoing analysis, pattern and growth of priority sector credit was examined in terms of total amount of outstanding advances. We now move to examine corresponding number of Accounts (beneficiaries) and changes in the relative shares of sub-sector number of accounts (proxy for number of beneficiaries). Sector-wise details of accounts in terms of relative shares are given in Table 3.2. As against continuous growth of outstanding advances (Table 3.1, col 10), number of accounts (outstanding) did not increase year after year but decreased in about 7 years out of the 15 year study period (col 9).

3.8 Ignoring year to year variations, comparing the two end points of the study, the growth in accounts is over one-and one half times during 1995-2010. Within agriculture, hardly 2% of the accounts are indirect (cf cols 2 & 3).

TABLE 3.2

Distribution of No.of Accounts (Outstanding) of Sectors Under Total Priority Sector Advances by All SCBs in India

(%)

Items→ Year↓ (end March) (1=2+3)	Ag & Allied	<u>of which</u> Direct	SSI Indirect	incl. Setting up Indl. Estates	*Small Business	Education	Housing	Other Priority Sectors (Exports etc.)	Total (9=2 to 8)
	1	2	3	4	5	6	7	8	9
1995-96	58	57	1	9	32	neg.	neg.	neg	100(34155)
-97	57	56	1	10	32	neg.	1	neg.	100(33761)
-98	58	57	1	9	31	neg.	1	neg.	100 (29919)
-99	58	57	1	9	31	neg.	1	1	100 (29524)
-2000	60	59	1	8	29	neg	2	neg.	100 (27444)
2000-01	63	62	1	7	25	neg.	2	neg.	100 (29684)
-02	61	59	2	7	27	1	3	neg.	100 (26728)
-03	64	63	1	7	23	1	4	1	100 (28323)
-04	62	61	1	6	22	2	6	2	100 (31740)
-05	63	61	2	5	20	2	8	2	100 (33829)
-06	65	61	4	5	17	2	8	3	100 (39778)
-07	63	60	3	6	20	2	9	neg.	100 (43887)
-08	67	66	1	11	10	3	9	neg.	100 (45580)
-09	67	66	1	10	11	3	9	neg.	100 (50792)
2009-10	70	69	1	14	4	4	8	neg.	100 (56318)

Source : Statistical Tables Relating to Banks in India, RBI.

Notes :

1. Figures in parentheses refer to No. of Accounts in 000s.
2. SHGs=Self Help Groups.
3. *From 2006-07, Small Business includes micro credit, credit given to SHGs etc.
4. In Other Priority Sector Advances (col 8), export credit share is neg. in 2006-7, 2008-9 & 2009-10.

When one closely compares cols 2 and 3 of Table 3.1 with the same cols of Table 3.2, the hidden fact is that on an average the amounts advanced per account under indirect agricultural credit is many times higher than corresponding average amount under direct credit. This can be vouched from Table 3.3 which we examine shortly. The two other sectors in order of importance are small business and SSI sector (cols 5 &4). Until 2006-07, the relative share of small business was about 20% as observed in outstanding amounts of priority sector credit, in terms of number of accounts too, housing has been improving its relative share since 2000 (col. 7).

Per Capita (Per Account) Outstanding Priority sector credit:

3.9 When farmers are viewed as a single family, growth in total advances to them is a welcome feature. However, when one considers gains to individual farmers and other borrowers, growth in per capita credit is equally (or more) important. Details of per account (outstanding) amount of priority sector credit are furnished in Table 3.3. This Table is derived from Tables 3.1 and 3.2 (by dividing outstanding amounts by corresponding figures number of accounts[∂]).A few observations deserve

∂ In the Tables only % figures are given except in the last column where in parentheses we recorded absolute figures. Absolute figures can be worked out based on the totals in the last columns.

TABLE 3.3

Sector-wise Per Capita (Per Account) Priority sector credit— All SCBs in India

(Rs.00s)

Items→ Year↓ (end March)	Ag & Allied	**of which** Direct	Indirect	SSI incl. Setting up Industrial Estates	Small Business	Education	Housing	Other Priority Sectors (SHGs & Exports etc.)	Total (9=2 to 8)
	1	2	3	4	5	6	7	8	9
1995-96	139	123	680	1151	119	264	823	3071	237
		(1: 6)							
1996-97	168	146	1213	1177	142	250	1105	NA	278
		(1: 8)							
1997-98	203	170	2030	1789	180	410	1407	5132	367
		(1: 12)							
1998-99	240	196	2679	2044	216	342	1763	2946	428
		(1: 14)							
1999-2000	298	224	4143	2455	293	804	2635	32405	568
		(1: 19)							
2000-01	338	244	6652	2909	329	935	3601	13652	614
		(1: 27)							
2001-02	396	294	3662	3756	307	983	3609	3685	758
		(1: 13)							
2002-03	464	334	6907	3561	576	1216	3664	3344	886
		(1: 21)							
2003-04	500	360	10763	3945	558	1213	3725	4266	838
		(1: 30)							
2004-05	698	457	4914	4875	718	1366	4124	2997	1170
		(1: 11)							
2005-06	737	556	3136	5777	226	1687	1887	3439	1372
		(1: 6)							
2006-07	920	657	5514	4906	1177	1403	4775	17694	1604
		(1:8)							
2007-08	1003	710	18927	4402	1568	1625	4766	51371	1810
		(1: 27)							
2008-09	1101	791	18574	5280	1288	1721	4860	20089	1905
		(1:23)							
2009-10	1181	824	22504	4564	1248	1872	5192	3289	2021
		(1:27)							

Source : Tables 2.3 and 2.4.

attention. Looking at col 9, we note that per capita credit continuously increased, which is in part due to impact of inflation but major part due to real enhancement of credit per account. The real increase in per capita credit is in line with growing volume production and needs of the clientele.

Notes :

1. The per capita figures are worked out by dividing amounts outstanding by corresponding No. of Accounts.
2. Figures in parentheses under cols 2&3 are Ratios of Direct to Indirect Credit.
3. In the last 3 years, indirect credit (col 3) advanced per account witnessed substantial increase (in 2007-8, Rs.18927 is more than three times higher than in Rs. 5514 in the preceding year) mainly due to sharp decrease number of accounts rather than increase in the outstanding amount.

3.10 As noted in the preceding paras, there has been substantial increase in the priority sector credit allocated to agriculture under indirect advances. This is why Table 3.3 clearly tells substantial difference in the per account credit under direct and indirect advances (cols 2 & 3). As shown in the parentheses under cols 2 and 3, the Ratio of Direct to Indirect agricultural (per account) credit has been rising, save in a few years, from 1:6 to 1: 27, implying the difference substantially widened over the years, adversely affecting credit secured by individual farmers.

3.11 In the last 3 years, indirect credit (col 3) advanced per account witnessed manifold increase (in 2007-8, Rs.18927 is more than three times higher than in Rs. 5514 in the preceding year) mainly due to sharp decrease in number of accounts rather than increase in the outstanding amount. While in 2006-7, number of accounts under indirect credit stood at about 15 lakh (outstanding amount about Rs.82600 crores), in 2007-8, the number of accounts were thrice lower at about 5 lakhs, without much increase in outstanding amount (at Rs. 93500 crores). In 2008-9 and 2009-10 also, the number of accounts under indirect credit were around 6 lakh and outstanding amount about Rs. 110000 and Rs. 146000 crores.

II

GROWTH OF DIRECT CREDIT TO AGRICULTURE BY SCBs IN INDIA & ELASTICITY OF FARM CREDIT TO ANBC & TOTAL PRIORITY SECTOR CREDIT

Disbursements and Outstanding -Size Class of Farmers:

3.12 Having noted in the preceding that whole agricultural sector including its allied activities falls under the scope of priority sector. The advances are composed of both direct and indirect. In this analysis, we concentrate on agricultural sector proper and direct lending to different size class of farmers. The staple food for the analysis is the time series data gathered from an RBI annual publication[2]. All the cultivating farmers are classified under 3 categories MF (operating upto 1 ha of land), SF (1-2 ha) and Large Farmers (LF >2 ha or 5 acres). We examine both disbursements (in the year) and outstanding (end June in a given year).In all the years outstanding amounts of credit are higher than disbursements in the respective years. While in 1982-83, disbursements were Rs.3800 crores, outstanding credit was Rs.4120 crores. The corresponding figures in the recent year of 2008-09 are Rs.63779 crores and Rs.68199 crores. First we look at relative shares of different size class of farmers.

Changes in Relative Shares of MF, SF & LF:

3.13 To understand trends, as shown in Table 3.4 for 4 select years, processed data are presented covering the period of 1982-2009[⊕]. It contains relative shares of the size classes of farmers both in disbursements and outstanding credit. Data are provided both for number of Accounts (approximately holdings) and credit allocated. A close scrutiny of the data permits to unravel a few facts. We find that in terms of both disbursements and outstanding, the share of large farmers in terms of number of accounts marginally increased. However, in terms of credit availed, in disbursements there is marginal improvement but in outstanding their share slipped from 58% to 45% during the study period. In any case, their share in the total direct lending to the farm community is about one-half (cols 5 & 6).

⊕ Continuous time series data are presented in Appendix Tables 3.A and 3.B, along with per account credit.

TABLE 3.4

Direct Finance to Farmers by SCBs in India—Short & Long Term Credit

(Units : No. of Accounts: 000s, Amount: Rs. Crores)

Year↓	Marginal Farmers		Small Farmers		Large Farmers		All (Size Classes)Farmers	
Items→	Accts.	Amt.	Accts.	Amt.	Accts.	Amt.	Accts.	Amt.
	1	2	3	4	5	6	7	8
DISBURSEMENTS								
1982-83	1304	290	652	211	616	476	2571	977
	(51	**30**	**25**	**22**	**24**	**49**	**100**	**100)**
1990-91	1960	1181	1219	952	899	1782	4078	3915
	(48	**30**	**30**	**24**	**22**	**46**	**100**	**100)**
2000-01	2382	3740	1860	3642	1599	7135	6970	14516
	(40	**26**	**32**	**25**	**28**	**49**	**100**	**100)**
2008-09	8544	34267	6641	33280	6811	72753	21998	140300
	(39	**24**	**30**	**24**	**31**	**52**	**100**	**100)**
OUTSTANDING								
1982-83	3573	762	2147	668	1963	7840	8224	3393
	(44	**22**	**26**	**20**	**30**	**58**	**100**	**100)**
1990-91	6137	2896	4346	2870	3563	6624	14045	12389
	(44	**23**	**31**	**23**	**25**	**54**	**100**	**100)**
2000-01	4600	7215	3689	7308	3555	16963	11844	31488
	(39	**23**	**31**	**23**	**30**	**54**	**100**	**100)**
2008-09	11708	60199	9570	59792	10884	99349	321622	19340
	(36	**28**	**30**	**27**	**34**	**45**	**100**	**100)**

Source : Source: Tables 3.A & 3.B

Note : Figures in parentheses are % shares of the variables in their respective totals. Sum of 1+3+5 adds to 100 and also sum of cols 2+4+6 adds to 100.

3.14 MF and SF together account for a share of about 2/3rds among the total farmers (accounts) but in credit availed their share in disbursements worked out to less than one-half (48%), vide cols 1 and 3 and 2 &4. However, in outstanding credit, they secured more than one half (55%). The LF as a group, accounting for a third, are still able to get relatively a higher share in the scarce institutional finance deployed by all the SCBs in India. This is mainly due to non-stipulation of sub-target for the MF and SF[β].

3.15 Having noted from Table 3.4 that outstanding amounts are relatively higher than disbursements, for simplicity and easy understanding, we concentrate on outstanding amounts. For growth analysis it is meaningful to count the variables in real terms. Hence, the nominal values of the advances are transformed into credit in real terms by deflating with same WPI which we used in Ch II (Table 2.2, col.3).

Direct Finance to Farmers—ST & LT Credit Outstanding (at end June)

(a) Number of Accounts :

3.16 Regression estimates reveal that the number of outstanding accounts to farmers grew by an average rate of 10.9% p.a. till 1987. In this period, the annual disbursements of accounts to farmers grew by 13% p.a. In the second period (1988-2001), there was a decline in the number of outstanding accounts of farmers, and

β As noted in para 2.15, the Nair Committee too recommended (but RBi did not accept) a sub-target of only 9% to MF and SF in the overall target of 18% to agriculture.

a negative trend of -1.6% p.a. In this period, the annual disbursement of accounts to farmers grew by 3.2% p.a. Since 2002, there was a sharp acceleration and the average rate of growth of outstanding accounts of farmers was 15.9%. In this period, the annual disbursement of accounts to farmers grew by 17.3% p.a.

(b) Trend in Total Credit to Farmers [Constant (1982-83) Prices]

3.17 Looking at the credit extended to farmers in constant prices, we find four distinct periods of growth in its expansion. The first period extends from 1983 to 1989, the second from 1990-95, the third period extends from 1996 to 2001, and the last period is from 2002 thereafter.

3.18 From 1983 to 1989, the credit outstanding to farmers at constant prices grew at an annual trend of 12.8%, while the credit disbursed to farmers at constant prices grew slightly faster by 13.2% p.a. From 1990-95, the credit to farmers at constant prices declined, with the outstanding credit declining by an annual average of -4.3%, while the annual disbursements declined annually by -1%. Growth of credit to farmers at constant prices, revived after 1996. Between 1996-2001, the growth of credit outstanding at constant prices was 6.1% p.a., while the annual disbursements at constant prices grew by 9.1%. After 2002, growth of credit at constant prices accelerated sharply and steeply. Outstanding credit to farmers at constant prices grew annually by 25.9%, while annual disbursements showed an annual trend of 29.3% p.a.

(c) Credit Per Account:

3.19 From 1983 to 1989, the credit outstanding per account at constant prices was 2.8% p.a., while annual disbursements grew annually by 3.9% p.a. From 1990-95, credit per account to farmers at constant prices declined. The annual trend in credit outstanding per account was negative at -3% p.a., while annual disbursements per account declined even more sharply at -5.5% p.a.

3.20 Growth of credit to farmers at constant prices, revived after 1996. Between 1996-2001, outstanding credit per account at constant prices grew sharply at 9.1% p.a., while annual disbursements of credit per account grew more modestly at 4.7% p.a. After 2002, outstanding credit per account at constant prices decelerated somewhat to rise at 8.6% p.a., while the annual disbursements per account at constant prices accelerated sharply to 10.4% p.a.

Elasticity of Accounts of Farmers to Total Advances :

3.21 The number of accounts of farmers were significantly impacted by the total advances of the banking sector. It appears that the elasticity of outstanding accounts to total advances was significantly higher than unity, while the elasticity of annually disbursed accounts to total advances was slightly but not significantly higher than unity. Outstanding accounts of farmers grew more than proportionately than total advances, cet. par. The elasticity of outstanding accounts to total advances was 1.48, cet. par. That is to say, if total advances grow by 10%, the number of outstanding accounts of farmers tend to grow by 15% cet. par. The elasticity of annual disbursement of accounts to total advances was smaller at 1.16, cet.par. This was not significantly different from unity. That is to say that, cet.par., a 10% increase in total advances would be accompanied by an equal increase in annual disbursement of accounts to farmers.

Elasticity of Credit of Farmers to Total Advances:

3.23 The study also reveals that the amount of credit to farmers is significantly impacted by total advances. The elasticity of outstanding credit to total advances is estimated at 1.07, but not significantly different from unity. This suggests that cet. par., a 10% growth in total advances will increase outstanding credit by at least as much (10%), or by slightly more (10.7%). The elasticity of credit disbursement annually to farmers to total advances however, was 1.24. This was significantly higher than unity. This implies that a 10% growth in total advances will stimulate disbursed credit by 12.4%.

Elasticity of Accounts of Farmers to Priority Sector Advances:

3.24 The number of accounts with farmers is highly sensitive to the volume of priority sector advances. The elasticity of outstanding accounts with farmers to priority sector advances is significantly and substantially higher that unity. It is estimated at 1.75. This means that cet. par., a 10% increase in priority sector advances may stimulate the number of outstanding accounts by more than 10%, presumably by 17.5%.

Elasticity of Credit of Farmers to Priority Sector Advances

3.25 The amount of credit extended to farmers is highly sensitive to the volume of priority sector advances. The elasticity of outstanding credit farmers to priority sector advances is significantly and substantially higher that unity. It is estimated at 1.83. This means that cet. par., a 10% increase in priority sector advances may stimulate the number of outstanding credit to farmers by more than 10%, presumably by 18.3%. The annual trend in number of outstanding accounts after 2002, was over 15% for both small and marginal farmers, and slightly higher for large farmers at 17.9%.

REFERENCES

1. For details see, S Kishan Rao, **Macro Economics of Indian economy 1950-2011**, National Akademi of Development, Hderabad, 2012, p 53.
2. RBI, **Hand Books of Statistics on the Indian Economy**, Mumbai (various years).

APPENDIX

TABLE 3.A

Direct Finance to Farmers by SCBs in India— Disbursements (in the year)
(Short & Long Term Credit) (Accts. : No. of Accounts : 000s, Amt. : Rs. crores, Per Capita=Rs.)

Year↓	Marginal Farmers			Small Farmers			Large Farmers			All (Size Classes) Farmers		
Items→	Accts.	Amt.	Per Capita	Accts.	Amt.	Per Capita	Accts.	Amt.	Per Capita	Accts.	Amt.	Per Capita
	1	2	3	4	5	6	7	8	9	10	11	12
1982-83	1304	290	2224	652	211	3236	616	476	7727	2571	977	3800
1983-84	1831	404	2206	1072	372	3470	835	743	8898	3738	1519	4064
1984-85	1829	506	2767	1241	482	3884	903	950	10521	3972	1938	4879
1985-86	1950	617	3164	1232	589	4781	988	1037	10496	4170	2243	5379
1986-87	2045	758	3797	1386	708	5108	1044	1278	12241	4475	2744	6132
1987-88	2236	824	3685	1442	760	5271	1038	1360	13102	4716	2945	6033
1988-89	2194	881	4916	1453	835	5747	990	1471	14859	4634	3187	6877
1989-90	2057	1033	5022	1337	890	6657	947	1607	16969	4341	3530	8132
1990-91	1960	1181	6026	1219	952	7810	899	1782	19822	4078	3915	9600
1991-92	1862	1172	6294	1289	1013	7859	949	1887	19884	4100	4072	9932
1992-93	1871	1171	6259	1336	1033	7732	1000	2003	20030	4206	4206	10000
1993-94	1886	1312	6957	1341	1176	8770	1192	2070	17366	4812	4558	9472
1994-95	2032	1692	8327	1518	1474	9710	1261	2970	23553	5416	6137	11331
1995-96	2024	2061	10183	1689	1952	11557	1703	3703	21744	5496	7657	13932
1996-97	2076	2176	10482	1676	2289	13658	1745	4511	25851	5336	8976	16822
1997-98	2104	2288	10875	1811	2413	13324	1420	4827	33993	5845	9528	16301
1998-99	2308	2787	12075	1878	3161	16832	1659	5862	35335	5794	11826	20411
1999-2000	2342	3338	14253	1871	3467	18530	1581	7281	46053	5841	14014	23993
2000-01	2382	3740	15701	1860	3642	19581	1599	7135	44622	6970	14516	20826
2001-02	2679	4352	16245	1933	4371	22613	2359	7578	32124	6411	16300	25425
2002-03	2494	4834	19383	1934	5578	28842	1983	11445	57716	8665	21857	25225
2003-04	3711	7953	21431	2695	7340	27236	2259	16592	73448	8665	31885	36798
2004-05	4478	10833	24192	3172	10550	33260	2535	19735	77851	10185	41119	40372
2005-06	5004	16823	33619	3670	17619	48008	3670	32682	89052	12344	67124	54378
2006-07	5963	23246	38984	4008	21588	53862	4379	49335	112663	14350	94169	65622
2007-08	6605	25352	38383	4463	23215	52017	4932	48140	97608	16000	96707	60442
2008-09	8544	34267	40107	6641	33280	50113	6811	72753	106817	21998	140300	63779

Source : Handbook of Statistics on Indian Economy, RBI.Notes:1.M F=Upto 2.5 acres (upto 1 ha).2.SF=2.5 to 5 acres. (1-2 ha).3.L F=More than 5 acres (>2 ha).4.Per Capita Credit=Per Account Credit (=Total Amount ÷ No.of Accounts, fore.g. col 3= col 2÷i.e.)

APPENDIX

TABLE 3.B

Direct Finance to Farmers by SCBs in India— Disbursements (in the year)
(Short & Long Term Credit) (Accts. : No. of Accounts : 000s, Amt. : Rs. crores, Per Capita=Rs.)

Year↓	Marginal Farmers			Small Farmers			Large Farmers			All (Size Classes)Farmers		
Items→	Accts.	Amt.	Per Capita	Accts.	Amt.	Per Capita	Accts.	Amt.	Per Capita	Accts.	Amt.	Per Capita
	1	2	3	4	5	6	7	8	9	10	11	12
1982-83	3573	762	2133	2147	668	3111	2504	1963	7840	8224	3393	4126
1983-84	4029	948	2353	2564	911	3553	2414	2444	10124	9007	4302	4776
1984-85	4397	1158	2634	3001	1158	3859	2649	2941	11102	10046	5258	5234
1985-86	5104	1520	2978	3557	1483	4169	3135	3678	11732	11796	6687	5838
1986-87	5227	1682	3218	3707	1683	4540	3116	4023	12911	12050	7388	6131
1987-88	5871	2015	3432	4190	2044	4878	3542	5029	14198	13603	9088	6678
1988-89	6073	2324	3827	4354	2312	5310	3593	5460	15196	14020	10099	7203
1989-90	6082	2727	4484	4351	2673	6143	3706	6494	17529	14140	11894	8412
1990-91	6137	2896	4719	4346	2870	6604	3563	6624	18591	14045	12389	8821
1991-92	6063	3239	5342	4439	3050	6871	3669	7058	19237	14170	13346	9418
1992-93	6057	3437	5674	4460	3328	7462	3878	7444	19196	14395	14210	9872
1993-94	6007	3596	5986	4282	3411	7966	3637	7902	21727	13926	14908	10705
1994-95	6463	3889	6017	4047	3659	9041	3492	8359	23938	13002	15908	12235
1995-96	5557	4326	7785	4255	4295	10094	3461	9265	26770	13273	17885	13475
1996-97	5296	4894	9070	4219	5033	11929	3575	10469	29284	13090	20396	15581
1997-98	4890	5056	10340	4034	5442	13490	3354	11752	35039	12278	22252	18123
1998-99	4408	5511	12502	3711	5680	15306	3389	12651	37330	11507	23842	20720
1999-2000	4544	6185	13611	3777	6445	17064	3379	14719	43560	11700	27349	23375
2000-01	4600	7215	15685	3689	7308	19810	3555	16963	47716	11844	31488	2.6586
2001-02	4902	8759	17868	3961	9686	24453	3394	19083	56226	12257	27529	22460
2002-03	4749	9813	20663	4092	11316	27654	3835	23831	62154	12676	44961	35469
2003-04	6086	14805	24326	4806	13974	29076	4377	28786	65767	16268	67565	41533
2004-05	7299	20499	28085	5874	20759	35341	5274	37218	70569	18447	78476	42541
2005-06	8239	29719	36071	6677	29255	43815	6321	52769	83482	21237	111743	52617
2006-07	9954	37336	37509	7548	37815	50099	6985	64510	92355	24487	139961	57157
2007-08	11345	48457	42712	9512	46631	49023	8739	80956	92638	29596	174044	58807
2008-09	11708	60199	51417	9570	59792	62479	10884	99349	91280	32162	219340	68199

Source : Handbook of Statistics on Indian Economy, RBI. Notes:1.M F=Upto 2.5 acres (upto 1 ha).2.SF=2.5 to 5 acres. (1-2 ha).3.L F=More than 5 acres (>2 ha).4.Per Capita Credit=Per Account Credit (=Total Amount ÷ No.of Accounts, fore.g. col 3= col 2÷i.e.)

CHAPTER-IV

Disaggregate Analysis: Equity Across Major States & Sectoral Allocation of Priority Sector Credit (Bank Group-wise)

Aim & Chapter Frame:

In the foregoing two Chapters, the focus was on aggregate analysis as if India and banks as two homogeneous entities. In this and succeeding Chapters, we aim at disaggregate temporal analysis both spatially and bank group-wise. Constrained by our limited time and financial resources, from the 28 states (+5 Union Territories) and over 200 banks, we chose about half a dozen states and condense various banks under half a dozen groups. The aim of this Chapter is spatial disaggregate analysis of sectoral allocation of priority sector credit across 5 major states and bank-groups. Set out in two Sections, while Section I analyses allocation pattern of priority sector credit among the states, an examination of priority sector credit deployment across bank-groups is taken up in Section II.

I

DISPARITIES IN PRIORITY SECTOR CREDIT DISTRIBUTION ACROSS STATES

Selected States & Their Shares in Total Population:

4.2 One of the set objectives of the study is to analyse pattern of allocation of priority sector advances across select states to various targeted groups with a view to know equitable distribution among the states pattern in sectoral allocations. For this purpose, as explained in Ch I (para 1.13), we selected 5 states viz. Bihar, Maharashtra, Uttar Pradesh (UP), West Bengal and Andhra Pradesh (AP). The selection is based on population and they are top 5 states among the 28 states of India. Table 4.1 explains relative shares of the 5 states in India's total population during the recent 3 census decades.

TABLE 4.1

Sample States—Relative Shares in Population

(%)

Year→/ Population↓	1981	1991	2001
	1	2	3
1. AP	7.8 (5.36)	7.9 (6.65)	7.4 (7.62)
2. Bihar	7.7 (5.23)	7.6 (6.45)	8.1 (8.30)
3. Maharashtra	9.2 (6.28)	9.3 (7.89)	9.4 (9.69)
4. UP	15.4 (10.51)	15.6 (13.21)	16.2 (16.62)
5. West Bengal	8.0 (5.46)	8.1 (6.81)	7.8 (8.02)
India	100 (68.33)	100 (84.64)	100 (102.87)

Source : Economic Survey 2011-12, Government of India.

4.3 In the 3 census decadal years of 1991, 2001 and 2011, among the 5 states, UP stood at the top followed by Maharashtra. Today, save UP (16%), the other 4 states have somewhat equal share in the total population of India (around 8%). As can be understood from the Table that the selected 5 states together account for one-half of the total population of India.

4.4 Incidentally, the states may be viewed as representatives of 5 broad regions of India, spread over different parts of India. With regard to pattern of priority sector credit allocation at sub-macro level of states (including India as a whole), about half a dozen sectors and sub-sectors are included. We examine both volume of outstanding credit advanced by all the Scheduled Commercial Banks (SCBs) located in the states and corresponding number of accounts.

Assessment of Disparities & Comparison:

4.5 Turning to the issue of extent of inequalities among the states, we calculate sectoral and total priority sector shares of individual states and compare them. In other words, distribution pattern is examined in terms of relative shares of the states in the total credit distributed in India. We compare the proportions of total priority sector credit, credit advanced to agriculture, SSI, Small Business and Weaker Sections, keeping in view relative shares of the states in population of India.

4.6 Upto the 1990s, decomposed sectoral data at the state level were published by the RBI only for three main sectors, together with a few details of sub-sectors within them. These three are Agriculture, SSI and Small Business. From the 2000s, for a few more sectors such as education, housing, weaker sections and exports data have been published. In some of the years, data related to weaker sections are explicitly given and in other years the data are merged under other heads. For convenient handling of data and analysis, in almost all the analyses (at aggregate and disaggregate), we condense the detailed data given under about 20 heads into about half a dozen heads. Within them, we concentrate mainly on Agriculture, SSI (Small Scale Industries), Small Business and Weaker Sections.

Important Priority sector credit Sector Beneficiaries:

4.7 Lending to agriculture as a whole including its allied activities (such as poultry, dairy, sericulture, pisciculture, goats-sheep rearing and plantation crops) is a major component of priority sector. Also lending to it both directly and indirectly is permitted, subject to a ceiling on indirect lending♥. From the consideration of equity and inclusiveness, it is direct lending to farmers that should be emphasised. Hence, in the present analysis we also examine the share allocated for direct lending under agriculture.

4.8 For temporal analysis, processed data are presented covering the time span of 1980-81 to 2009-10, with continuous data from 2000-01 and for the earlier period only 2 decadal years of 1980-81 and 1990-91 are considered. Regarding SSI sector, it includes credit advanced to micro and small manufacturing and service units, setting up of industrial estates, village artisans and Village-Khadi-Cottage industries. Small business is composed of retail trade, small road and water transport, micro credit to self-employed etc. We included lending to SHGs (Self Help Groups) and exports in "Other Priority Sectors". Credit to SCs, STs (Scheduled Castes & Tribes), Minorities, DRI (Differential Rate of Interest) beneficiaries etc. are the principal components of "Weaker Sections".

Disparities in proportionate shares in priority (Outstanding) Credit Allocations Across States:

4.9 We now closely examine spatial pattern of sectoral distribution of priority sector credit. As shown in Table 4.2, sectoral deployment of outstanding priority sector credit of the SCBs is shown under 7 heads together with total priority sector credit. All the data are posted in % terms and in the case of India, absolute figures are given in parentheses. As can been seen from the Table that upto, 1990-91, state-wise total priority sector credit as well as weaker section, education and housing allocations are not available under either individual heads or their summation under col. 8. Ignoring for

TABLE 4.2

State-wise Sectoral Distribution of Priority Sector Advances by All Scheduled Commercial Banks (Outstanding Amounts, %)

Items→/ Year↓ (end March)	Ag & Allied	of which Direct	SSI Sector	Small Business	Weaker Sec-tions (SC, ST etc.)	Educa-tion	Housing	Other Priority Sector (incl. Exports etc.)	Total (9=1+3 to 8)
	1	2	3	4	5	6	7	8	9
1980-81									
1. AP	13	14	6	3	NA	NA	NA	NA	NA
2. Bihar	5	4	3	5	NA	NA	NA	NA	NA
3. Maharashtra	10	9	18	14	NA	NA	NA	NA	NA

♥ In the overall agricultural credit target of 18% of ANBC, permitted indirect credit is upto 4.5%.

Items→/ Year↓ (end March)	Ag & Allied	of which Direct	SSI Sector	Small Business	Weaker Sec-tions (SC, ST etc.)	Educa-tion	Housing	Other Priority Sector (incl. Exports etc.)	Total (9=1+3 to 8)
	1	2	3	4	5	6	7	8	9
4. UP	12	11	9	13	NA	NA	NA	NA	NA
5. WB	4	4	7	7	NA	NA	NA	NA	NA
6. India	100	100	100	100	NA	NA	NA	NA	NA
	(4658)	(3586)	(4009)	(997)	—	—	—	—	—-
1990-91									
1. AP	12	12	6	4	NA	NA	NA	NA	NA
2. Bihar	5	5	3	6	NA	NA	NA	NA	NA
3. Maharashtra	10	9	18	10	NA	NA	NA	NA	NA
4. UP	11	11	9	12	NA	NA	NA	NA	NA
5. WB	4	4	7	8	NA	NA	NA	NA	NA
6. India	100	100	100	100	NA	NA	NA	NA	NA
	(17334)	(16145)	(7998)	(2679)	—	—	—	—	—-
2000-01									
1. AP	11	12	7	8	4	NA	25	5	8
2. Bihar	2	3	1	6	4	NA	1	1	2
3. Maharashtra	18	5	24	14	37	NA	10	35	23
4. UP	8	11	5	14	3	NA	3	5	7
5. WB	5	2	5	5	neg.	NA	2	2	5
6. India	100	100	100	100	100	NA	100	100	100
	(59310)	(40485)	(60141)	(24737)	(1224)	—	(1085)	(36358)	182855)
2001-02									
1. AP	11	13	7	7	15	24	7	3	8
2. Bihar	2	3	1	4	neg.	1	1	neg.	2
3. Maharashtra	13	8	28	4	43	9	26	44	21
4. UP	11	12	6	10	7	4	4	3	8
5. WB	5	5	5	5	neg.	3	2	5	6
6. India	100	100	100	100	100	100	100	100	100
	(64819)	(46581)	(67176	(34321)	(2862)	(1602)	(29413)	(5413)	(205606)
2002-03									
1. AP	11	12	7	3	9	23	8	2	8
2. Bihar	2	2	1	3	NA	2	1	neg.	2
3. Maharashtra	16	9	24	5	43	10	23	56	21
4. UP	9	11	7	11	1	5	4	1	7
5. WB	5	5	4	6	1	3	3	17	5
6. India	100	100	100	100	100	100	100	100	100
	(80547)	(56858)	(64762)	(41058)	(1824)	(3053)	(51515)	(8230)	(250989)

Items→/ Year↓ (end March)	Ag & Allied	of which Direct	SSI Sector	Small Business	Weaker Sec-tions (SC, ST etc.)	Educa-tion	Housing	Other Priority Sector (incl. Exports etc.)	Total (9=1+3 to 8)
	1	2	3	4	5	6	7	8	9
2003-04									
1. AP	10	12	6	8	6	20	8	4	8
2. Bihar	2	2	1	3	NA	2	1	2	1
3. Maharashtra	16	9	24	12	65	10	24	43	20
4. UP	9	11	7	11	neg.	6	5	1	7
5. WB	5	5	6	5	2	3	3	9	5
6. India	100	100	100	100	100	100	100	100	100
	(99302)	(70781)	(71209)	(46056)	(2719)	(4393)	(76582)	(11075)	(311336)
2004-05									
1. AP	12	12	6	7	8	20	7	3	8
2. Bihar	2	3	1	3	neg.	1 1	neg.	2	
3. Maharashtra	11	9	25	16	14	9	23	56	19
4. UP	9	11	7	8	1	5	5	1	7
5. WB	5	5	5	6	3	3	4	3	5
6. India	100	100	100	100	100	100	100	100	100
	(131636)	(95565)	(83799)	(53445)	(2945)	(6695)	(110283)	(12072)	(400775)
2005-06									
1. AP	12	13	6	8	neg.	18	7	1	9
2. Bihar	2	3	1	4	neg.	2	neg.	neg.	2
3. Maharashtra	8	10	25	14	51	9	26	11	19
4. UP	9	11	7	8	neg.	6	4	neg.	7
5. WB	5	5	5	8	neg.	3	3	1	5
6. India	100	100	100	100	100	100	100	100	100
	(91973)	(134798)	(101568)	(93868)	(4076)	(11019)	(12671)	(131599)	(546774)
2006-07									
1. AP	11	13	5	7		16	9	3	9
2. Bihar	2	2	1	3		1	neg.	2	1
3. Maharashtra	15	9	24	18		9	26	45	21
4. UP	9	11	1	7		5	5	1	7
5. WB	4	5	6	8		4	4	6	5
6. India	100	100	100	100		100	100	100	100
	(254693)	(172131)	(127646)	(96565)		(14391)	(186937)	(23527)	(703759)
2007-08									
1. AP	11	12	4	12		15	8	3	9
2. Bihar	2	2	1	2		2	1	1	1
3. Maharashtra	15	11	24	19		9	28	29	21

Items→/ Year↓ (end March)	Ag & Allied	of which Direct	SSI Sector	Small Business	Weaker Sections (SC, ST etc.)	Education	Housing	Other Priority Sector (incl. Exports etc.)	Total (9=1+3 to 8)
	1	2	3	4	5	6	7	8	9
4. UP	9	10	5	8		6	5	4	7
5. WB	5	4	6	7		4	5	3	5
6. India	100	100	100	100		100	100	100	100
	(308087)	(214644)	(200239)	(84892)		(18258)	(201204)	(12093)	(824773)
2008-09									
1. AP	12	13	5	16		2	9	2	10
2. Bihar	2	3	neg.	3		neg.	1	3	1
3. Maharashtra	12	10	24	10		1	27	53	19
4. UP	8	9	5	8		1	5	neg.	7
5. WB	5	4	6	6		neg.	4	5	5
6. India	100	100	100	100		100	100	100	100
	(375593)	(264892)	(256128)	(72918)		(217300)	(10678)	(24121)	(967416)
2009-10									
1. AP	13	14	46	38		13	10	4	10
2. Bihar	2	2	1	1		3	1	neg.	1
3. Maharashtra	11	10	20	4		6	24	87	17
4. UP	8	9	7	5		8	5	8	7
5. WB	5	4	8	6		3	10	3	6
6. India	100	100	100	100		100	100	100	100
	(463323)	(317769)	(362291)	(27161)		(36923)	(230817)	(17894)	(1138409)

Source : Statistical Tables Relating to Banks in India, RBI.

Note :

1. From 2006-07, Weaker Sections credit is shown in other relevant heads, including other priority sector. It includes credit given to SHGs, SCs, STs, DRI (Differential Rate of Interest).
2. SSI includes setting up of Industrial Estates & credit to Micro Enterprises
3. India is inclusive of the cited 5 States and other 23 states (+Union Territories)
4. Figures in parentheses are Rs. crores.

a moment the yearly variations from 2001-02 to 2008-09, let us concentrate on variations during the 4 decadal years (1980-81, 1990-91, 2000-01 and 2009-10).

4.10 Agricultural Sector : With regard to agricultural sector, among the 5 states always AP stood at the top with 11% to 13% share in the total agricultural credit distributed in India (col 1). UP with its share in population more than twice that of AP stood at the second place. However, from 2000-01 due to faster growth in agricultural credit, the relatively richer state of Maharashtra overtook UP (its share in total priority sector credit of India increased from 10% to 18% in 2000-01 and slipped to 11% by 2009-10. Even with its 11% share, Maharashtra's share is still higher than UP whose share in 2009-10 was 8%. Save in 2005-06 where its share was 8%, in other years its share has been about 11%—16%.The relative shares of Bihar and West Bengal remained around 4%-5%. Due to rounding off, the differences in the share of direct and total lending to agriculture (col 2) over time and across states are not conspicuous. The behaviour of direct lending to Agriculture resembles that of aggregate direct and indirect lending.

4.11 SSI Sector & Small Business : Turning to allocations to SSI across the states, we observe a different picture with domination of Maharashtra (col 3). Its share in the total SSI sector advances in India as a whole has been around 18% —24%, followed by UP and West Bengal. Turning to Small Business sector, we observe that here again among the 5 states, Maharashtra scores first rank in most of the years of the study. Next to it, we find UP and AP in different years.

4.12 Weaker Sections : One notable finding is that only in Maharashtra, credit to weaker sections is sizeable. In total weaker section lending to all the (28) states in India, in Maharashtra from 2000-01, substantial part was allocated to weaker sections, compared to other states. To be precise, its share (in India) was high at 43% in 2000-01 and in the next 4 succeeding years the shares of Maharashtra are 43%,65%,14% and 51%. Also from 2006-07, similar trend is visible. Next to Maharashtra, AP claims 2nd place with 4%-15% shares in different years. In the other 3 states, the allocations were marginal.

4.13 In sum, the spatial sectoral analysis of priority sector credit allocation reveal that allocations to major sectors of priority sector credit remained skewed among the states and the distributive pattern appears to be not aligned to size of population of the states. Maharashtra and AP appears to have performed better than other 3 states.

Changes in No. of Accounts of Outstanding Credit Across States :

4.14 Having examined sectoral allocation pattern of priority sector credit among 5 states, we now move to analyse corresponding number of accounts. Number of accounts may be viewed as proxies of number of beneficiaries. To gauge the picture and economise space, as shown in Table 4.3, yearly variations from 2000-01 are ignored and only 4 decadal years are considered *viz*. 1980-81,1990-91,2000-01 and 2009-10.

TABLE 4.3

State-wise Distribution of No.of Outstanding Accounts Pertaining to Priority Sector Advances by All Scheduled Commercial Banks (%)

Items→/ Year↓ (incl SC, ST, DRI)	Ag & Allied	of which Direct	SSI	Small Business	Weaker Sections	Educa-tion	Housing	Other Priority Sectors (Exports etc.)	Total 9=1+3 to 8
	1	2	3	4	5	6	7	8	9
1980-81									
1. AP	18	18	8	7	NA	NA	NA	NA	NA
2. Bihar	5	5	6	13	NA	NA	NA	NA	NA
3. Maharashtra	6	6	7	10	NA	NA	NA	NA	NA
4. UP	10	10	12	13	NA	NA	NA	NA	NA
5. WB	6	5	8	10	NA	NA	NA	NA	NA
6. India	100	100	100	100	NA	NA	NA	NA	NA
	(112.0)	(99.1)	(9.61)	(3.60)	—	—	—	—	—
1990-91									
1. AP	13	13	8	9	NA	NA	NA	NA	NA
2. Bihar	7	7	8	27	NA	NA	NA	NA	NA
3. Maharashtra	8	8	6	8	NA	NA	NA	NA	NA
4. UP	12	12	13	13	NA	NA	NA	NA	NA

Items→/ Year↓ (incl SC, ST, DRI)	Ag & Allied	of which Direct	SSI	Small Business	Weaker Sections	Educa-tion	Housing	Other Priority Sectors (Exports etc.)	Total 9=1+3 to 8
	1	2	3	4	5	6	7	8	9
5. WB	6	6	18	13	NA	NA	NA	NA	NA
6. India	100	100	100	100	NA	NA	NA	NA	NA
	(20.8)	(20.2)	(27.0)	(7.76)	—	—	—	—	—
2000-01									
1. AP	15	14	7	10	32	11	9	neg	13
2. Bihar	4	4	6	7	24	1	1	—	5
3. Maharashtra	7	7	6	8	7	8	12	50	8
4. UP	24	24	11	11	neg.	7	7	neg.	19
5. WB	3	3	18	7	1	1	4	neg.	5
6. India	100	100	100	100	100	100	100	100	100
	(193.2)	(190.4)	(20.7)	(76.1)	(0.75)	(1.61)	(5.79)	(0.02)	(298.3)
2009-10									
1. AP	13	14	46	38		13	10	4	10
2. Bihar	2	2	1	1		3	1	neg.	1
3. Maharashtra	11	10	20	4		6	24	87	17
4. UP	8	9	7	5		8	5	8	7
5. WB	5	4	8	6		3	10	3	6
6. India	100	100	100	100		100	100	100	100
	(463323)	(317769)	(362291)	(27161)		(36923)	(230817)	(17894)	(1138409)

Source : Statistical Tables Relating to Banks in India, RBI.

Note :

1. From 2006-07, Weaker Sections credit is shown in other relevant heads, including other priority sector. It includes credit given to SHGs, SCs, STs. DRI (Differential Rate of Interest).
2. Figures in parentheses are number of Accounts in lakhs.

4.15 A close scrutiny of the Table points out a few hidden interesting facts. With regard to number of accounts in agriculture(col 1), UP and AP always scored the top 2 ranks. These two states together accounted for a share of about 30% or a third in the total number of agricultural outstanding credit Accounts.

Comparing with their corresponding shares in outstanding credit, their shares in terms of credit are lower than their shares in accounts, which mean the size of credit advanced per account (dividing outstanding credit amount by number of accounts) has been relatively higher. With regard to Maharashtra, its relative shares in Agricultural Accounts have been fairly stable around 6%—8%. It is interesting to juxtapose shares of Maharashtra in Accounts with its corresponding shares in outstanding amounts. In all the years, its shares in outstanding are much higher than its share in Accounts, implying per account the amounts lent were higher. The behaviour of relative shares of the states in the number of accounts of direct lending to agriculture is in line with total number of agricultural accounts.

4.16 Pertaining to behaviour of SSI accounts (col 3), save in the two end points of the study period, in all other years West Bengal compared to UP claimed higher shares (10%-18%, as against the shares of UP at 8%—13%). In the case of Small Business (col 4), among the 5 states in most of the years, AP stood at the top with about 10% share in the total Small Business accounts in India.

II

BANK GROUP-WISE SECTORAL ANALYSIS OF PRIORITY SECTOR CREDIT

Data Constraints & Methodological Note:

4.17 Depending on the availability required length of decomposed data, we followed slightly different classification of banks. Sectoral priority sector credit data with about half a dozen components are available only for Public Sector Banks. For the recent 6 years, sectoral data for just 3 sectors are available separately for Public Sector, Private Sector, Foreign Banks and Public +Private +Foreign Banks as a whole. The RBI in one of its publications[1] provides details of total advances of different groups of banks deployed abroad and in India together with amount of priority sector credit. In this case, for longer period data are available covering the time span of 17 years during 1994-2011. The data enable to work out proportionate share of priority sector credit in total advances to verify whether the banks achieved the targeted allocations.

Priority sector credit of RRBs— Data Constraints:

4.18 Admittedly, in the break up data pooled from the publications of the RBI, RRBs (Regional Rural Banks) are conspicuous by their absence. The poor solace is that we could include them in the aggregate analysis of all the banks covered in Chs II and III. We shall include them explicitly when we take up the analysis of Credit-Deposit Ratio. In total bank branches, the share of RRBs varied between about 10% and 20%[2]. However, in terms of business handled, represented by size of their credit advanced and deposits mobilised, their share is about 3%[3] only .This is one reason for non-availability of break up data of RRBs on priority sector credit.

In what follows, in three stages we analyse Bank Group wise priority sector credit.

I. Domestic : Foreign Advances & Priority sector credit Allocations by Different Groups of Banks— Ratio Analysis:

4.19 To understand variations in the Ratios of domestic to foreign advances and Ratio of priority sector credit to ANBC of different groups of banks, condensed data for 17 years (covering 1994-2011) are given in Table 4.4. As shown in the Table, all the SCBs are classified under 5 groups. It is evident from the Table that advances of foreign banks abroad are *nil* in all the years [Row 4.(i)]. Same is the case with Other Scheduled Banks *i.e.* Private Sector banks until recently and in the recent 5 years they lent abroad about 10% of their total advances [Row V(i)]. In the case of of all other groups of banks, the Ratio of domestic to foreign credit about 90% :10%. Thus, for all the banks, domestic credit constituted about 90% of the total ANBC defined as sum of domestic and foreign advances. We are not sure whether officially banks include foreign advance in the denominator (ANBC) while calculating % of credit allocated to priority sector.

4.20 We now look at the behaviour of proportion of ANBC allocated by the banks to priority sector as a whole. We observed a puzzle. Rows (iii) provide the needed information. These proportions are worked out by us based on the published data in Statistical Tables Relating to Banks in India, RBI. If ANBC is interpreted to mean both internal and external advances. no bank even in 2010-11 could achieve the set target of 40%.

4.21 Assuming that priority sector credit is to be expressed as proportion to total advances within India, the proportions would improve by 2% points to 4% points and therefore no bank group

TABLE 4.4

Bank-Group-wise Advances Within in India & Abroad Including to Priority Sector

(Rs. crores)

Years→/ (end March) Items↓	1994-95	1995-96	1996-97	1997-98	1998-99
	1	2	4	5	6
I. SBI & Its Subsidiaries					
1. Total Advances	64405	78126	82902	97567	108425

Years→/ (end March) Items↓	1994-95	1995-96	1996-97	1997-98	1998-99
	1	2	4	5	6
(i). Ratio of domestic to foreign advances	(88%: 12%	90%: 10%	91 %: 9%	89%: 11%	90%: 10%)
(ii) of the Total, to Priority Credit	17628	21693	24208	28111	33086
iii) % Share of Priority sector credit	27	28	29	29	31
II. Nationalised Banks					
1. Total Advances	113361	129414	137349	162336	188925
(i). Ratio of domestic to foreign advances	(91%: 9%	91% : 9%	92%: 8%	92%: 8%	92%: 8%)
(ii) of the Total, to Priority Credit	34777	40416	44723	52463	60626
(iii) % Share of Priority sector credit	31	31	33	32	32
III. Public Sector Banks(I+II)					
1. Total Advances	177766	207540	220251	259903	297350
(i) Ratio of domestic to foreign advances	(91%: 9%	90%: 10%	91%: 9%	91%: 9%	91% : 9%)
(ii) of the Total, to Priority Credit	52405	62109	68931	80574	93712
(iii) % Share of Priority sector credit	30	30	31	31	36
IV. Foreign Banks					
1. Total Advances	13187	22496	26528	29290	29507
(i) Ratio of domestic to foreign advances	(100%: 0%	100%: 0%	100%: 0%	100%: 0%	100% 0%)
(ii) of the Total, to Priority Credit	2982	4440	5095	5417	6516
(iii) % Share of Priority sector credit	23	20	19	19	22
V. Other Scheduled (Private)Banks					
1. Total Advances	15560	21932	28062	35449	42713
(i). Ratio of domestic to foreign advances (i) 1% of Total	(99%: 1%	99%: 1%	99%: 1%	100% : 0%	100%: 0%)
(ii) of the Total, to Priority Credit	4226	5895	8730	9975	12054
(iii)% Share of Priority sector credit	27	27	31	28	28
VI. All SCBs (VI=III+IV+V)					
1. Total Advances	206513	251968	274841	324643	369570
(i) Ratio of domestic to foreign advances	(91%: 9%	92%: 8%	93%: 7%	93%: 7%	93%: 7%)
(ii) of the Total, to Priority sector credit	59614	72144	82755	95966	112282

(CONTN. TABLE 4.4)

Bank-Group-wise Advances within in India & Abroad Including to Priority Sector

(Rs. crores)

Years→ (end March) Items→	1999-2000	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
	1	2	3	4	5	6	7
I. SBI & Its Subsidiaries-							
1. Total Advances	129034	150391	164589	189205	220516	284754	371519
(i). Ratio of domestic to foreign advances	(90%: 10%	90%: 10%	92%: 8%	93%: 7%	93%: 7%	92%: 8%	93%: 7%)
(ii) of the Total, to Priority Credit	37607	43713	47566	54766	67949	92068	125025
(iii)% Share of Priority sector	29	29	29	29	31	32	34
II. Nationalised Banks							
1. Total Advances	223376	264237	316047	360470	412224	549460	734469
(i) Ratio of domestic to foreign advances	(93% : 7%	93%: 7%	93%: 7%	93%: 7%	94% 6%	92%: 8%	96%: 4%)
(ii) of the Total, to Priority sector credit	70602	83303	100072	121508	149535	202167	265806
(iii)% Share of Priority sector	32	32	33	34	36	37	36
III. Public Sector Banks (III=!+II)							
1. Total Advances	352410	414628	480636	549675	632740	834214	1105988
(i). Ratio of domestic to foreign advances	(93%: 7%	92%: 8%	92%: 8%	93%: 7%	94%: 6%	96%: 4%	95%: 5%)
(ii) of the Total, to Priority Credit	108209	127016	147638	176274	217484	294235	390831
(iii)% Share of Priority sector	31	31	31	32	34	35	35
IV. Foreign Banks							
1. Total Advances	35617	42997	48632	52171	60587	75318	97555
1. Ratio of domestic to Foreign Advances	(100%: 0%	95%: 5%	100%: 0%	100%: 0%	100%: 0%	100%: 0%	100%: 0%)
(ii) of the Total, to Priority Credit	7614	9082	10492	11431	14058	19412	26218
(iii)% Share of Priority sector credit	21	21	22	22	23	26	2
V. Other Scheduled(Private Banks)							
1. Total Advances	55742	68058	116430	137711	170896	221304	312874
(i). Ratio of domestic to Foreign Advances	(100%: 0%	100%: 5%	100%: 0%	100%: 0%	100%: 0%	100%: 0%	96%: 4%)
(ii) of the Total, to Priority Credit	14761	16636	19598	30556	45590	56057	95688
(iii) % Share of Priority sector	27	24	17	22	27	25	31

Years→ (end March) Items→	1999-2000	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
	1	2	3	4	5	6	7
VI. All SCBs(VI=III+IV+							
1. Total Advances	443469	525683	665743	739231	864141	1150834	1516556
(i). Ratio of domestic to foreign advances	(94%: 6%	94%; 6%	92%: 8%	95%: 5%	95%: 5%	95%: 5%	95: 5%)
(ii) of the total, to Priority Sector	130584	152733	177718	218250	277132	370602	512736
(iii) % Share of Priority sector	29	29	27	30	32	32	34

(CONTN.4.4) TABLE

Bank-Group-wise Advances within in India Including to Priority Sector & Abroad

(Rs. crores)

Years→/ (end March) Items↓	2006-07	2007-08	2008-09	2009-10	2010-11
	1	2	3	4	5
I. SBI & Its Subsidiaries					
1. Total Advances	482269	593723	739459	857939	994154
(i) Ratio of domestic to Foreign Advances	(92%: 8%	91%: 9%	88%: 12%	89%: 11%	89 %: 11%)
(ii) of the total to Priority Credit	157426	182958	212215	252668	318386
(iii) % Share of Priority sector credit	33	31	29	30	32
II. Nationalised Banks					
1. Total Advances	957877	1203781	1519762	1843082	2311478
(i) Ratio of domestic to foreign advances	(95%: 5%	95 %: 5%	94%: 6%	93%: 7%	92%: 8%)
(ii) of the Total, to Priority Credit	332265	391903	469110	581713	691290
(iii) % Share of Priority sector credit	35	33	31	32	30
III. Public Sector Banks (III=I+II)					
1. Total Advances	1440146	1797504	2259221	2701021	3305632
(i) Ratio of domestic to	(94%: 6%	93%: 7%	92%: 8%	92%: 8%	91%: 9%)
(iii) of the Total, to Priority Credit	489691	574861	681325	834381	1009676
(iii) % Share of Priority sector credit	34	32	30	37	31
IV. Foreign Banks					
1. Total Advances	126339	161133	165385	163260	195539
(i) Ratio of Domestic to Foreign Advances	(100%: 0%	100%: 0%	100%: 0%	100%: 0%	100%: 0%)

Years→/ (end March) Items↓	2006-07	2007-08	2008-09	2009-10	2010-11
	1	2	3	4	5
(ii) of the Total, Priority sector credit	34665	47683	50647	55399	63913
(iii) % Share of Priority sector	27	30	31	34	33
V. Other Scheduled(Private Sector) Banks					
1. Total Advances	414752	518402	575328	632441	797534
(i) Ratio of domestic to foreign advances	(94%: 6%	90%: 10%	89%: 11%	91%: 9%	90%: 10%)
(ii) of the Total, to Priority Credit	130961	151721	176957	201730	242272
(iii) % Share of Priority sector	32	29	31	32	30
VI. All SCBs(VI=III+IV+V)					
1. Total Advances	1981235	2477037	2999924	3496720	4298704
(i) Ratio of domestic to foreign advances	(94%: 6%	93%: 6%	92%: 7%	92%: 8%	92%: 8%
(iii) of the Total, to Priority Credit	655316	774265	908929	1091510	1315861
(iv) % Share of Priority sector credit	33	31	30	31	31

Sources : Statistical Tables Relating to Banks in India, RBI.

Notes :

1. #Advances in India constitute over 90% of total advances (92% within India & 8% abroad in 2010-11).
2. * Within in India, priority sector advances is one component (31%) and advances to "Others"(other than to Public Sector & Banks,8% each) is the largest constituent of advances(52%).
3. 'Others' include trade, medium-large "industries-transport-communication etc."
4. Suim of figures in parentheses in Rows (i)& (ii) adds to 100 (=Total Advances)

could achieve 40% targeted advances to the priority sector even in 2010-11. This is one puzzling finding of our study and needs deeper investigation. The puzzle may be due to treating total advances as equal to ANBC. We admit that we are unaware of what are included in the calculation of ANBC/CEOBE (Adjusted Net Bank Credit & Credit Equivalent of Off Balance Sheet Exposure). Probably, the figures under "total or domestic advances" need netting/adjustment. We presumed that total bank advances are ANBC. For the recent year, the realised Ratios of priority sector credit to total advances including and excluding foreign advances are given below:

2010-11

SBI Group	Nationalised Banks	Public Sector Banks	Foreign Banks	Other SCBs	Total of Public+ Private + Foreign
1	2	3	4	5	6
32% (36%)	30% (32%)	31% (33%)	33% (33%)	3% (3%)	31% (33%)

Note : Figures in parentheses are priority sector credit as % of total domestic advances and the figures outside the brackets are priority sector credit as % of total advances including foreign advances.

II. Public, Private & Foreign Banks—Analysis of Three Main Components of Priority sector credit—2005-11:

4.22 Economic Surveys[4] of the Government of India started publishing since 3 years compiled data on priority sector credit under 3 main sectors for three groups of banks separately. Unlike the classification referred to in Table 4.4, in this classification, SBI Group is subsumed under the rubric of public sector banks. One useful information contained in this data is relative share of each bank group in terms of total priority sector credit as well as allocations to main 3 sectors in the respective total advances of all the banks in India.

4.23 As shown in Table 4.5, a threefold classification of the bank groups is followed for this analysis. Row IV is summation of Rows I+II+III. For each bank group, absolute data in Rs. billions and proportions in % are given for 4 variables. As explained at the foot of the Table, % figures in square [ ] parentheses refer to shares of a bank group in respective totals of all the banks. The figures in round parentheses denote % shares to ANBC. First, let us examine relative share of each bank group in the total banking sector of India. About three-fourths of total priority sector credit in India flows from Public Sector Banks *i.e.* the balance of a fourth from other banks such as private sector and foreign banks. In the 25% share, Private Sector accounts for about 20% points (Row II) and foreign banks about 5% points (Row III).

4.24 During the recent 6 year period of the study, all the 3 groups of banks achieved the set overall target of 40% and 32% credit (prescribed for domestic and foreign banks respectively). In fact, the target was overshot. The realised targets of Private Sector banks are higher than the Public Sector banks by about 2% points to 6% points. In the case of foreign banks the target of 32% was exceeded by about 2% points to 6% points. However, as to the sub-target set for Agriculture (18%), both Public and Private Sector banks failed to achieve in 2-3 years out of the 6 year period.

4.25 The achievement of the banks with respect to allocation to the SME sector is fairly laudable. However, priority sector credit allocated to weaker sections appears to be rather poor (Rows I.c &I I.c).It is happily noted from the Table that with regard to export (12%) for the foreign banks, the realisation is twice higher than the target (Row III.b).

TABLE 4.5

Deployment of Priority Sector Advances by Public, Private & Foreign Banks in India

(Amount =Rs. Billions)

Year→ Items↓	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
	1	2	3	4	5	6
I. Public Sector Banks						
Total Priority	4098 [74]	5214 [74]	6105 [74]	7242 [75]	8638 [76]	10286[77]
Sector Advances of which	(40.3)	(44.7)	(44.7)	(42.8)	(41.6)	(41.3)
(a) Agriculture & Allied Activities	1552 [81] (15.3)	2026 [80] (18.3)	2494 [81] (18.5)	2994 [80] (17.)	3725 [80] (17.3)	4150 [82] (16.5)
(b) Small & Micro Enterprises	824 [81] (8.1)	1026 [80] (11.1)	1511 [71] (11.1)	1914 [75] (11.3)	2763 [76] (13.3)	3766[78] (15.1)
(c) Weaker sections	782 [95] (7.7)	938 [95] (8.9)	1217 [945] (8.9)	658 [82] (9.9)	2114 [89] (10.2)	2463[98] (9.9)
II. Private Sector Banks						
Total Priority	1066 [20]	1446 [21]	1641 [20]	1879 [19]	2147 [19]	2488 [19]
Sector Advances of which	(42.8)	(47.8)	(47.8)	(46.2)	(45.8)	(46.6)
(a) Agriculture & Allied Activities	367 [19] (13.6)	520 [20] (17.0)	586 [19] (17.0)	761[20] (18.7)	907 [20] (15.6)	921 [18] (15.8)
(b) Small & Micro Enterprises	104 [10] (14.2)	136 [11] (13.7)	469 [22] (13.7)	467 [18] (11.5)	648 [18] (13.8)	879 [18] (16.5)
(c) Weaker sections	42 [5] (1.7)	52 [5] (2.0)	72 [6] (2.0)	143 [18] (3.5)	255 [18] (5.4)	60 [2] (5.6)

Year→ Items↓	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
	1	2	3	4	5	6
III. Foreign Banks						
Total Priority	304 [6]	378 [5]	503 [6]	554 [6]	600 [5]	666 [5]
Sector Advances of which	(34.4)	(39.5)	(39.5)	(34.3)	(36.0)	(38.6)
(a) Small & Micro Enterprises	84 [9] (9.5)	116 [9] (12.2)	155 [7] (12.2)	181 [7] (11.2)	212 [6] (12.7)	215 [4] (12.5)
(c) Export Credit	173	207	290	315	352	425
	(19.6)	(22.7)	(22.7)	(19.4)	(21.1)	(24.7)
1V. Total of Public +Private + Foreign Banks (IV=I+II+III)						
1. Total Priority	5468[100]	7038[100]	8249[100]	9675[100]	11385[100]	3440[100]
Sector Advances of which						
(a) Agriculture &Allied Activities	1919	2546	3080	3755	4632	5071
(b) Small & Micro Enterprises	1012	1278	2135	2562	3623	4860
(c) Weaker sections	824	990	1289	801	2369	2523
(c1) Export Credit	173	207	290	315	352	425

Source : Economic Surveys, Government of India, 2008-09 to 2011-12..

Notes :

1. Figures in round ( ) parentheses are % to ANBC(Aggregate Net Bank Credit).
2. Figures in square [ ] parentheses are % to respective totals of all types of banks (Public + Private + Foreign Banks).3.Export of other banks (domestic banks) are merged in other heads and hence not shown separately.

III. Public Sector Banks—Pattern of Sectoral Distribution of Priority sector credit—1980-2011:

4.26 Finally, we examine sectoral distribution of outstanding priority sector credit by Public Sector Banks. As noted in para 4.23, the Public Sector banks together account for about three-fourths share in total priority sector credit allocated by all the SCBs in India. As shown in Table 4.6, the Public Sector banks are classified under 3 sub heads viz. (a) SBI Group as a whole, (b)within it SBI and (c)Nationalised banks.

4.27 Achievement of Overall Target : To glean a broad picture of sectoral pattern among the bank groups and over the 3 decade period of 1980-2011, as a first step, we ignore yearly variations from 2001-02 to 2009-10 and focus attention on 4 decadal years given in Table 4.6. First, we look at the last column (11) which gives information about overall % achievement of priority sector credit. Except in one year (1980-81) in the case of SBI, SBI Group and all the Public Sector banks as a whole, in all the other years, all the sub-group banks individually and hence Public Sector Banks as a whole could oblige the set priority sector credit of 40%. Also, in many years, their achievements exceeded the stipulated target.

4.28 Achievement of Agriculture Overall & Sub-Targets : It is only from 2007-08, information as to direct and indirect agricultural advances by bank group-wise are shown separately. Therefore, we are unable to discern any trend regarding the achievement of the sub -targets within agriculture for the 3 decade period. However, based on the recent 4 year data(for which break up data are available) a couple observations can be made on the accomplishment of sub-targets. The data in terms of % shares in ANBC are worked out and recorded in Table 4.7. While the over all target for Agriculture is 18%, maximum lending permitted for indirect lending is not exceeding 4.5% of ANBC, which means that direct lending should be at least 13.5%. Keeping the overall and sub-targets in view, let us examine Table 4.7, derived from Table 4.6.

TABLE 4.6

State-wise Distribution of Outstanding Amounts Pertaining to Priority Sector Advances by All Scheduled Commercial Banks

(%)

Items→/ Year↓	Ag & Allied	*of which* Direct	SSI	Small Business	Weaker Sections	Education	Housing	Other Priority Sectors (SC,ST, DRI to 8) Exports etc.)	Total PSA (9=1+3	Total ANBC	col 10 as % of
	1	2	3	4	5	6	7	8	9	10	11
1980-81											
1. SBI Group	43	NA	22	13	3	neg.	NA	9	100(42.3)	(94.3)	[45]
2. of which SBI	42	NA	31	12	3	neg	NA	12	100(34.7)	(76.0)	[46]
3. Nationalised Banks	36	NA	2	18	2	neg.	NA	12	100(75.9)	(172)	[44]
4. Public Sector Banks (4=1+3)	38	NA	32	16	3	neg.	NA	11	100(119)	(266)	[45]
1990-91											
1. SBI Group	39	NA	44	11	2	neg.	NA	4	100(149)	(393)	[38]
2. of which SBI	39	NA	45	10	2	neg.	NA	4	100(113)	(303)	[37]
3. Nationalised Banks	40	NA	38	15	3	neg.	NA	5	100(275)	(684)	[40]
4. Public Sector Banks (4=1+3)	40	NA	40	12	2	neg.	NA	5	100(423)	(1076)	[39]
2000-01											
1. SBI Group	39	NA	34	12	9	1	NA	5	100(525)	(1222)	[43]
2. of which SBI	39	NA	33	10	9	1	NA	8	100(382)	(899)	[43]
3. Nationalised Banks	34	NA	32	15	14	1	NA	4	100(967)	(2191)	[44]
4. Public Sector Banks (4=1+3)	36	NA	33	14	12	1	NA	4	100(1491)	(3413)	[44]
2001-02											
1. SBI Group	33	NA	38	13	13	1	NA	3	100(575)	(1273)	[45]
2. of which SBI	31	NA	40	11	13	1	NA	4	100(403)	(899)	[45]
3. Nationalised Banks	35	NA	29	15	17	1	NA	3	100(1139)	(2668)	[43]
4. Public Sector Banks (4=1+3)	34	NA	32	15	16	1	NA	2	100(1715)	(3941)	[44]
2002-03											
1. SBI Group	36	NA	28	2	neg.	NA	NA	33	100(655)	(1632)	[40]
2. of which SBI	36	NA	28	27	neg.	NA	NA	9	100(437)	(1150)	[38]

Items→/ Year↓	Ag & Allied	*of which* Direct	SSI	Small Business	Weaker Sections	Education	Housing	Other Priority Sectors (SC,ST, DRI to 8) Exports etc.)	Total PSA (9=1+3	Total ANBC	col 10 as % of
	1	2	3	4	5	6	7	8	9	10	11
3. Nationalised Banks	36	NA	25	3	neg.	NA	NA	36	100(1386)	(3147)	[44]
4. Public Sector Banks (4=1+3)	36	NA	26	3	neg.	NA	NA	35	100(2050)	(4779)	[43]
2003-04											
1. SBI Group	34	NA	25	2	17	NA	NA	27	100(776)	(19230)	[40]
2. of which SBI	32	NA	25	3	19	NA	NA	21	100(514)	(1329)	[39]
3. Nationalised Banks	35	NA	23	2	12	NA	NA	27	100(1669)	(3678)	[45]
4. Public Sector Banks (4=1+3)	35	NA	24	2	14	NA	NA	26	100(2435)	(5608)	[43]
2004-05											
1. SBI Group	35	NA	23	4	7	NA	NA	31	100(965)	(2502)	[39]
2. of which SBI	33	NA	24	4	6	NA	NA	34	100(627)	(1712)	[37]
3. Nationalised Banks	37	NA	21	2	15	NA	NA	25	100(2142)	(4581)	[37]
4. Public Sector Banks (4=1+3)	36	NA	22	3	12	NA	NA	27	100(3107)	(7082)	[44]
2005-06											
1. SBI Group	45	NA	21	3	6	NA	NA	25	100(1284)	(3315)	[39]
2. of which SBI	38	NA	22	4	6	NA	NA	30	100(829)	(2238)	[37]
3. Nationalised Banks	38	NA	20	2	15	NA	NA	25	100(2813)	6865)	[41]
4. Public Sector Banks (4=1+3)	40	NA	20	2	12	NA	NA	26	100(4098)	(10179)	[40]
2006-07											
1. SBI Group	38	NA	20	3	—	NA	NA	39	100(1668)	(4297)	[39]
2. of which SBI	38	NA	21	6	—	NA	NA	35	100(1104)	(2876)	[38]
3. Nationalised Banks	40	NA	20	2	—	NA	NA	38	100(3544)	(8890)	[40]
4. Public Sector Bans (4=1+3)	39	NA	29	2	—	NA	NA	39	100(5212)	(13177)	[40]
2007-08											
1. SBI Group	41	32	23	6	—	3	27	—	100(996)	(4500)	[44]
2. of which SBI	42	32	21	6	—	3	28	—	100(1332)	(3039)	[44]
3. Nationalised Banks	41	27	25	8	—	3	23	neg.	100(4094)	(9142)	[45]
4. Public Sector Banks (4=1+3)	41	29	24	7	—	3	24	1	100(6090)	(13643)	[45]

Items→/ Year↓	Ag & Allied	*of which* Direct	SSI	Small Busi-ness	Weaker Sections	Educa-tion	Hous-ing	Other Priority Sectors (SC,ST, DRI to 8) Exports etc.)	Total PSA (9=1+3	Total ANBC	col 10 as % of
	1	2	3	4	5	6	7	8	9	10	11
2008-09											
1. SBI Group	41	32	24	6	—	4	25	neg.	100(2325)	(5491)	[42]
2. of which SBI	43	33	21	6	—	4	26	neg.	100(1609)	(3783)	[43]
3. Nationalised Banks	41	29	28	7	—	4	20	neg.	100(4872)	(11443)	[43]
4. Public Sector Banks (4=1+3)	41	30	27	7	—	5	20	neg.	100(7198)	(16934)	[43]
2009-10											
1. SBI Group	43	33	26	neg.	—	5	26	neg.	100(2721)	(6608)	[41]
2. of which SBI	44	33	22	—	—	6	28	——	100(1882)	(4619)	[41]
3. Nationalised Banks	43	30	34	1	—	4	17	1	100(5929)	(14436)	[41]
4. Public Sector Banks (4=1+3)	43	31	32	1	—	4	20	neg.	100(8650)	(21044)	[41]
2010-11											
1. SBI Group	39	29	33	neg.	—	4	23	neg.	100(3299)	(7733)	[43]
2. of which SBI	40	29	32	—	—	4	24	neg.	100(2389)	(5681)	[42]
3. Nationalised Banks	41	29	38	1	—	4	16	1	100(6987)	(17202)	[41]
4. Public Sector Banks (4=1+3)	40	29	37	1	—	4	18	neg.	100(10286)	(24935)	[41]

Source : Statistical Tables Relating to Banks in India, RBI.

Notes :

1. From 2006-07, Weaker Sections credit is shown in other relevant heads, including other priority sector.
2. While figures in round ( ) parentheses are Rs. Billions, those in square {] parentheses in col 1 are % of total priority sector credit in ANBC.

4.29 It is surprising to observe that including in the recent year of 2010-11 and in most of the years, all the bank groups could not oblige the overall target of 18%. While in the recent year, the target achieved is 17% (1% shortfall), in other years the shortfall has been 1%—2% (cols 1). Turning to the sub-targets within agriculture, in the 4 year period(2007-11),nationalised banks became defaulters as they preferred to lend a little more indirectly and a little less directly. The performance of the SBI and SBI group was better than the nationalised banks (cols 2 &3).

4.30 Weaker Section Target : Although the RBI set the target of 10% (for foreign banks 12%) of ANBC for advances to weaker sections under priority sector credit, as there is no precise definition of the term, banks often interpret to define to suit their lending. For e.g. lending to an SC/ST farmer upto certain limit can be included in agriculture, weaker sections, micro credit/ small business or self-employed. While clubbing certain advances, we might have erred. This is one reason why the values of the figures (col 5) for 2002-03 shown in Table 4.6 are very low. Also, from 2006-07 we clubbed weaker sections advances under “Other Priority Sectors).

4.31 To facilitate easy comparison, the figures given in Table 4.6 representing % to total priority sector credit are transformed into % to ANBC. In view of the limitations in the compiled data including errors in clubbing, with much caution, we proceed to examine the data. In the 1980s and 1990s, credit advanced to weaker sections was meagre—about 1% of ANBC. From 2000s, the allocation to the sector increased significantly to about 5%—6%. Thus the allocations to weaker sections too appear to have fallen short of the targeted proportion of 10%

TABLE 4.7

Agricultural Sub Targets (% of ANBC)—Bank Group-wise

Sector→/ Bank Group↓	Agl Sector 1	Direct 2	Indirect 3		Agl Sector 1	Direct 2	Indirect 3
1980-81							
1. SBI Group	19	NA	NA				
2. of which SBI	19	NA	NA				
3. Nationalised	16	NA	NA				
4. Public Sector Banks	17	NA	NA				
1990-91				2005-06			
1. SBI Group	15	NA	NA	1. SBI Group	19	NA	NA
2. of which SBI	14	NA	NA	2. of which SBI	19	NA	NA
3. Nationalised	16	NA	NA	3. Nationalised	16	NA	NA
4. Public Sector Banks	16	NA	NA	4. Public Sector Banks	16	NA	NA
2000-01				2006-07			
1. SBI Group	17	NA	NA	1. SBI Group	18	NA	NA
2. of which SBI	17	NA	NA	2. of which SBI	19	NA	NA
3. Nationalised	15	NA	NA	3. Nationalised	18	NA	NA
4. Public Sector Banks	16	NA	NA	4. Public Sector Banks	18	NA	NA
2001-02				2007-08			
1. SBI Group	15	NA	NA	1. SBI Group	17	13	4
2. of which SBI	14	NA	NA	2. of which SBI	18	14	4
3. Nationalised	15	NA	NA	3. Nationalised	18	12	6
4. Public Sector Banks	15	NA	NA	4. Public Sector Banks	18	13	5
2002-03				2008-09			
1. SBI Group	15	NA	NA	1. SBI Group	17	13	4
2. of which SBI	14	NA	NA	2. of which SBI	18	14	4
3. Nationalised	16	NA	NA	3. Nationalised	18	12	6
4. Public Sector Banks	15	NA	NA	4. Public Sector Banks	18	12	6
2003-04				2009-10			
1. SBI Group	13	NA	NA	1. SBI Group	18	14	4
2. of which SBI	13	NA	NA	2. of which SBI	18	14	4
3. Nationalised	16	NA	NA	3. Nationalised	18	12	6
4. Public Sector Banks	15	NA	NA	4. Public Sector Banks	18	13	5

Sector→/ Bank Group↓	Agl Sector 1	Direct 2	Indirect 3		Agl Sector 1	Direct 2	Indirect 3
2004-05				2010-11			
1. SBI Group	13	NA	NA	1. SBI Group	17	12	5
2. of which SBI	12	NA	NA	2. of which SBI	17	12	5
3. Nationalised	17	NA	NA	3. Nationalised	17	12	5
4. Public Sector Banks	16	NA	NA	4. Public Sector Banks	17	12	5

Source: Table 4.6.

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1. RBI, **Statistical Tables Relating to Banks in India**, Mumbai, (various years).
2. Government of India, **Economic Surveys**, Ministry of Finance, New Delhi,(various years).
3. RBI, **Statistical Tables Relating to Banks in India,** op.cit.
4. Government of India, **Economic Surveys**, Ministry of Finance, New Delhi, (2009-10 to 2011-12).

APPENDIX

TABLE 4.A

State-wise Distribution of No.of Outstanding Accounts Pertaining to Priority Sector Advances by All Scheduled Commercial Banks (Lakhs)

Items→/ Year↓ (incl SC, ST, DRI)	Ag & Allied	of which Direct	SSI	Small Business	Weaker Sections	Educa-tion	Housing	Other Priority Sectors (Exports etc.)	Total 9=1+3+ ….8)
	1	2	3	4	5	6	7	8	9
1980-81									
1. AP	19.7	17.9	0.80	0.24	NA	NA	NA	NA	NA
2. Bihar	5.16	5.03	0.54	0.46	NA	NA	NA	NA	NA
3. Maharashtra	6.87	5.85	0.65	0.37	NA	NA	NA	NA	NA
4. UP	11.4	10.1	1.11	0.47	NA	NA	NA	NA	NA
5. WB	6.66	5.34	0.77	0.35	NA	NA	NA	NA	NA
6. India	112.0	99.1	9.61	3.60	NA	NA	NA	NA	NA
1990-91									
1. AP	26.6	26.2	2.15	0.66	NA	NA	NA	NA	NA
2. Bihar	14.1	14.3	2.09	2.07	NA	NA	NA	NA	NA
3. Maharashtra	15.8	15.7	1.62	0.62	NA	NA	NA	NA	NA
4. UP	24.7	24.1	3.44	1.02	NA	NA	NA	NA	NA
5. WB	12.2	11.2	4.78	1.02	NA	NA	NA	NA	NA
6. India	20.8	20.2	27.0	7.76	NA	NA	NA	NA	NA
2000-01									
1. AP	28.5	27.6	1.42	7.39	0.24	0.18	0.52	neg.	38.5
2. Bihar	7.41	7.32	1.19	5.56	0.18	0.01	0.05	—	14.4

Items→/ Year↓ (incl SC, ST, DRI)	Ag & Allied	of which Direct	SSI	Small Business	Weaker Sections	Educa-tion	Housing	Other Priority Sectors (Exports etc.)	Total 9=1+3+ ….8)
	1	2	3	4	5	6	7	8	9
3. Maharashtra	14.1	13.9	1.25	6.33	0.05	0.13	0.68	0.01	22.6
4. UP	46.8	46.6	2.20	8.02	neg.	0.11	0.39	neg.	57.5
5. WB	6.61	6.51	3.66	5.69	0.01	0.02	0.22	neg.	16.2
6. India	193.2	190.4	20.7	76.1	0.75	1.61	5.79	0.02	298.3
2001-02									
1. AP	28.2	27.3	1.50	6.62	0.10	neg.	0.22	neg.	37.7
2. Bihar	6.37	6.25	0.92	5.45	neg.	0.24	0.96	nil	13.1
3. Maharashtra	10.7	10.4	1.00	5.78	0.01	0.19	0.89	0.01	18.7
4. UP	18.6	18.5	2.03	7.19	neg.	0.11	0.40	neg.	28.6
5. WB	6.34	6.12	3.31	5.32	0.08	0.04	0.35	neg.	15.5
6. India	163.5	158.5	19.3	74.7	0.37	1.63	8.15	0.02	269.4
2002-03									
1. AP	30.6	29.8	1.13	6.60	0.19	0.47	1.64	neg	40.8
2. Bihar	6.28	6.15	1.00	8.54	neg.	0.03	0.17	—	12.6
3. Maharashtra	11.2	10.8	1.17	5.71	0.06	0.22	1.96	0.01	20.8
4. UP	19.3	19.1	1.82	7.99	neg.	0.19	0.83	neg.	30.4
5. WB	6.92	6.60	3.21	5.76	0.03	0.07	0.69	neg	17.0
6. India	173.5	170.0	18.2	75.4	0.70	2.51	14.1	0.02	286.9
2003-04									
1. AP	24.2	23.4	0.73	7.69	0.18	0.66	2.34	neg.	36.0
2. Bihar	7.81	7.71	0.90	4.31	neg.	0.10	0.19	nil	13.6
3. Maharashtra	9.60	9.34	1.10	7.09	0.01	0.29	0.97	0.06	21.5
4. UP	23.6	23.4	1.78	7.39	neg.	0.32	2.16	neg.	35.5
5. WB	7.26	7.20	3.85	5.04	0.01	0.09	0.86	neg.	17.5
6. India	199.0	196.3	18.1	76.3	0.29	3.62	20.6	0.23	320.9
2004-05									
1. AP	42.1	40.0	0.67	7.26	0.04	0.88	2.21	neg.	53.3
2. Bihar	6.82	6.64	0.73	4.01	neg.	0.06	0.34	nil	12.1
3. Maharashtra	12.9	12.1	0.91	7.14	0.06	0.41	3.55	0.01	25.1
4. UP	26.7	26.3	1.73	7.29	0.01	0.26	1.67	neg.	25.1
5. WB	8.03	7.72	2.72	4.89	0.01	0.15	1.17	neg.	17.0
6. India	216.7	209.3	14.8	77.7	0.51	4.90	26.7	0.02	342.6
2005-06									
1. AP	51.9	45.2	1.08	9.54	0.01	1.06	2.72	0.01	66.4

Items→/ Year↓ (incl SC, ST, DRI)	Ag & Allied	of which Direct	SSI	Small Business	Weaker Sections	Educa-tion	Housing	Other Priority Sectors (Exports etc.)	Total 9=1+3+ ….8)
	1	2	3	4	5	6	7	8	9
2. Bihar	7.73	7.41	0.72	3.22	neg.	0.08	0.39	neg.	12.2
3. Maharashtra	69.6	63.6	1.25	7.52	0.02	0.56	4.54	0.10	28.7
4. UP	31.1	30.4	2.03	6.97	neg.	0.33	1.95	neg.	43.5
5. WB	9.51	8.82	3.09	5.81	0.01	0.21	1.26	0.01	19.9
6. India	260.5	242.3	18.1	80.7	0.29	6.65	32.6	0.17	400.3

(CONTN.OF TABLE…4.A…)

State-wise Distribution of No.of Outstanding Accounts Pertaining to Priority Sector Advances by All Scheduled Commercial Banks (Lakhs)

Items→/ Year↓ 8=1+3+ Exports etc.)	Ag & Allied	of which Direct	SSI	Small Business	Educa-tion	Housing	Other Priority Sectors incl.Weaker Sections,	Total . 8=1+3 to 7)
	1	2	3	4	5	6	7	8
2006-07								
1. AP	48.7	44.3	1.06	8.15	1.49	4.58	0.08	64.1
2. Bihar	9.70	9.31	0.81	4.78	0.29	0.40	0.02	16.0
3. Maharashtra	15.8	15.3	1.24	7.59	0.76	6.87	0.22	32.5
4. UP	33.8	33.4	2.01	7.26	0.51	2.70	0.3.	46.3
5. WB	9.62	9.02	3.05	6.56	0.35	1.64	0.2	21.4
6. India	296.9	261.9	18.2	81.3	8.3	33.5	0.3	438.9
2007-08								
1. AP	54.7	54.3	1.8	7.1	1.7	4.0	neg.	69.3
2. Bihar	11.7	11.5	1.5	1.1	0.2	0.7	1.1	16.3
3. Maharashtra	18.6	18.2	3.9	4.7	0.9	6.4	0.2	34.7
4. UP	40.4	40.0	3.3	5.6	0.7	3.0	0.1	53.1
5. WB	11.1	10.6	3.7	3.5	0.4	2.3	0.4	21.3
6. India	307.2	302.2	38.2	55.2	12.5	42.2	0.2	455.8
2008-09								
1. AP	69.9	69.6	3.7	11.0	2.0	5.3	0.2	92.1
2. Bihar	11.4	11.2	1.7	2.1	0.4	0.4	0.1	16.1
3. Maharashtra	25.6	25.4	4.0	4.8	1.0	7.3	0.1	42.8
4. UP	38.9	38.5	3.4	5.5	0.8	2.6	neg.	51.2
5. WB	13.7	12.8	4.0	3.6	0.5	2.4	0.1	24.3
6. India	341.0	335.1	40.1	65.4	16.2	44.4	0.8	507.9

Items→/ Year↓ 8=1+3+ Exports etc.)	Ag & Allied	of which Direct	SSI	Small Business	Educa-tion	Housing	Other Priority Sectors incl.Weaker Sections,	Total . 8=1+3 to 7)
	1	2	3	4	5	6	7	8
2009-10								
1. AP	93.0	91.5	3.7	9.8	2.2	5.0	0.7	113.8
2. Bihar	13.6	13.3	3.2	0.9	0.4	0.4	0.1	18.6
3. Maharashtra	28.6	28.3	7.0	2.0	1.3	7.2	0.2	46.3
4. UP	40.3	39.8	6.9	1.7	1.1	2.6	0.1	52.7
5. WB	12.2	11.4	5.5	2.0	0.6	2.2	0.1	22.6
6. India	392.3	385.8	67.1	37.1	19.7	44.5	2.5	563.2

Source : Statistical Tables Relating to Banks in India, RBI.

Note : From 2006-07, Weaker Sections credit is shown in other relevant heads, including other priority sector.

CHAPTER-V

Magnitude of non-performing assets of priority & non-priority sectors and credit-deposit ratios across States & bank-groups in India

Aim & Chapter Frame:

This Chapter aims to analyse the behavioural pattern of Non-Performing Assets (NPAs) and Credit Deposit Ratios (CD RATIO) over time, spatially and across bank-groups. It is structured under three Sections. While the first two Sections are concerned with an analysis of NPAs with focus on NPAs of PSA (Priority Sector Advances), Section III examines behaviour of CD RATIOs. Section I begins with classification of assets and analyses NPAs of all the SCBs as a whole and separately for three bank-groups. It also decomposes NPAs of priority and non-priority sectors and compares their shares in their respective advances. In Section II also NPAs are studied by undertaking regression and graphical analysis to discern trends. The final Section analyses growth in Credit, Deposits and CD RATIOs. It tests whether credit to agriculture is impacted by credit allocation to PSA, as it may be filtered through the policies to target the priority sector. Also it examines to what extent the priority sector credit, total credit and deposits moved in unison.

I

GROSS-NET NPAs AND, NPAs OF PRIORITY & NON-PRIORITY SECTORS IN INDIA

Meaning of NPAS:

5.1 In India, Banks use different terms such as dues, overdues, unpaid or non-recovered loans/advances and NPAs to convey more or less the same meaning. Use of the term NPAs (Non-Performing Assets) has become popular in the post-reform period. Guidelines were issued by the RBI and based on them from March end 2001, NPA means any loan (advance, bill or overdraft) whose interest and/or instalment of principal amount remain overdue for a period of 180 days. For agricultural advances, the period is 2 harvest seasons or maximum 1 yearϕ. In practice, many banks initiate the process of recovery of the loans with preparation of Demand. Non-recovered loan is expressed as % to Demand. Two Ratios are employed viz. NPAs (overdues) as % of advances and as % of assets. The value of assets is higher than advances because, asset is a broader term that includes not only the advances but also investments (in securities/bonds) and "buildings-furniture-fixtures & vehicles".

5.2 Basel norms, effected by guidelines issued by the RBI, direct the banks to maintain accounts more transparent and make adequate provisions against the NPAs. The norms related to Provisions are being tightened by asking the banks to increase capital to be set aside equal to 2% of the loan amount. This is being raised to 5% in the case of restructuring of standard assetϕ. In the present study, looking from the angle of viability and profitability, we prefer the concept of gross to net NPAs. We examine gross NPAs as proportion of gross advances.

Classification of Assets of Banks

5.3 In the banking industry, the major assets are advances/loansψ and are popularly known as assets. The total advances may be classified under 4 heads viz. (a) Standard Assets, (b) Sub-Standard Assets, (c) Doubtful Assets and (d)Loss Assets. A sub-standard asset is one which remains as NPA upto 18 months and doubtful assets remain as NPAs for more than 18 months. A loss asset is one which is identified as loss by the bank, auditors or RBI but it has not been written off. What is popularly called NPAs are simply the sum of the last 3 types of assets (mentioned under b, c & d). Thus total advances are equal to NPAs and Standard Assets.

Level of NPAs in India Across Bank-Groups of All SCBs during 2006-11:

5.4 Data related to decomposed advances under the aforementioned 4 categories are readily available just

ϕ Later, with a view to move closer to international best practices and encourage greater transparency, the duration is reduced to 90 days.

ψ A fraction of their total assets comprise investment in securities and fixed assets such as buildings, furniture and fixtures.

for the recent 6 years. Dividing the bank-groups under Public Sector Banks, Private Sector Banks, Foreign Banks and all the SCBs as a whole, we present the relevant data in Table 5.1. We happily observe that in all the 6 years and for all types of banks, Standard Assets worked out to about 97%, which implicitly means that NPAs are about 3% (=100-97) of the total advances (col.1). In the total NPAs of about 3% (col 10), Loss Assets are less than or just 0.5% point (col 8). Doubtful Assets are higher than Loss Assets and Sub-standard Assets and they are about 1% point each (cols 6&4). What we observed from the Table pertains to all India. At state level and in particular at district level, the picture is not the same. We examine the level of NPAs in detail at sub macro level including at district level in the next Chapter.

Analysis of Gross & Net Advances and NPAs of SCBs —1998-2010:

5.5 To avoid ambiguity, let us distinguish the gross and net figures of advances and NPAs. The publications "Hand Books of Statistics"[2] provide details of gross and net advances and NPAs both as % of assets and advances for the period of 1998-2010 by bank groups wise. As noted earlier (para 5.3), assets include

TABLE 5.1

Bank-Group-wise Classification of Loan Assets

(Amount: Rs. Crores)

Bank Group/	Standard Assets		Sub-Standard Assets		Doubtful Assets		Loss Assets		Gross NPAs		Total Advances
Years (End March)	Amt	%	Amt	%	Amt	%	Amt	%	Amt	%	Amt
	1	2	3	4	5	6	7	8	9	10	11
Public Sector Banks											
2006	1029493	96.1	11394	1.1	24804	2.3	5180	0.5	41378	3.9	1070872
2007	1335175	97.2	14147	1.0	19944	1.5	4510	0.3	38602	2.8	1373777
2008	1656585	97.7	16870	1.0	19167	1.1	3712	0.2	39749	2.3	1696333
2009	2059725	97.9	19521	0.9	20715	1.0	3803	0.2	44039	3.1	2103763
2010	2462030	97.7	27688	1.1	24685	1.0	4928	0.2	57301	2.3	2519331
2011	3008757	97.7	33614	1.1	31919	1.0	5514	0.2	71047	2.3	3079804
Private Sector Banks											
2006	296020	97.4	2396	0.8	4438	1.5	940	0.3	7774	2.6	303793
2007	382630	97.6	4368	1.1	3930	1.0	941	0.2	9239	2.4	391889
2008	459369	97.3	7280	1.5	4452	0.9	1244	0.3	12976	2.7	472346
2009	502768	96.8	10526	2.0	5017	1.0	1345	0.3	16886	3.2	519655
2010	567207	97.0	8676	1.5	6542	1.1	2166	0.3	17384	3.0	684591
2011	714338	97.5	4398	0.6	10735	1.5	2839	0.4	17972	2.5	232310
Foreign Banks											
2006	96772	97.9	946	1.0	698	0.7	446	0.5	2090	2.1	98862
2007	125415	98.1	1367	1.1	631	0.5	454	0.4	2452	1.9	127867
2008	159882	98.1	1963	1.2	768	0.5	387	0.2	3118	1.9	162999
2009	162420	95.7	5874	3.5	1004	0.6	416	0.2	7294	4.3	169714
2010	160311	95.7	4930	9 1	441	0.9	757	0.5	7129	4.3	187439
2011	194257	97.5	1865	0.9	2113	1.1	1087	0.5	5065	2.5	199321
All Scheduled Commercial Banks											
2006	1422285	96.5	14737	1.0	29940	2.0	6565	0.4	51242	3.5	1473527
2007	1843220	97.3	19883	1.1	24505	1.3	5905	0.3	50293	2.7	1693513

Bank Group/ Years (End March)	Standard Assets Amt	Standard Assets %	Sub-Standard Assets Amt	Sub-Standard Assets %	Doubtful Assets Amt	Doubtful Assets %	Loss Assets Amt	Loss Assets %	Gross NPAs Amt	Gross NPAs %	Total Advances Amt
	1	2	3	4	5	6	7	8	9	10	11
2008	2275836	97.6	26113	1.1	24386	1.0	5343	0.2	55842	2.4	2331678
2009	2724912	97.6	35921	1.3	26736	1.0	5564	0.2	68220	2.4	2793133
2010	3189548	97.5	41294	1.3	32668	1.0	7850	0.2	81813	2.5	3271361
2011	3917351	97.7	39878	1.0	44767	1.1	9440	0.2	94084	2.3	4011435

Source : Statistical Tables Relating to Banks in India, 2010-11,RBI.

Notes :1.Sum of Standard Assets (col 1) and NPAs (col 9) is equal to Total Advances (col 11= col 1+col 9).2.Sum of Sub Standard, Doubtful & Loss Assets is equal to total NPAs (col 9=cols 3+5+7).

investments and fixed assets, apart from advances. Hence, assets are always higher than advances. However, often NPAs are expressed as % of advances. By definition values of gross figures are higher than net figures. Net NPAs are net of provisions made. Table 5.2 contains details of absolute and % figures of gross and net advances and NPAs for all the SCBs in India and for 4 sub-groups of banks viz. Public Sector, Old Private Sector, New Private Sector and Foreign Banks. It also contains data related to gross and net NPAs as % of total assets (cols 6 &8).

5.6 A close examination of the data in cols 5 to 8 reveals that the proportions of gross and net NPAs (as % of advances and assets) were relatively higher in the initial 5 years. Thereafter, the NPAs were significantly reduced. During the reform period, intensified efforts in collection of loans and adoption of revised Basel Norms led to downsizing of the NPAs. Also, the decrease in NPAs was partly due to provisioning and sale of NPAs to asset management companies. To sum up, today (2009-10) with respect to all the SCBs, Net NPAs are about 2% of advances and gross NPAs about 4% (cols 5 to 8).

5.7 We calculated the mean values of the Ratios of Gross NPAs to Gross Advances and Net NPAs to Net Advances for the period 1998-2010. The average values of the gross and net Ratios for all the SCBs are 4.5% and 2% respectively. In the case of Old Private Sector Banks, the corresponding values of gross and net are the highest among the 4 bank groups at 5.1% and 2.6% respectively. We observe that the ratios are the least with regard to the New Private Sector Banks at 3.1%(gross) and 1.3% (Net), followed by Foreign Banks at 3.6% (gross) and 1.3% (Net). The corresponding mean values of the Public Sector Banks are close to the overall average (of all the SCBs).

TABLE 5.2

Bank-Group-wise Gross & Net NPAs——All SCBs

Items→ Year↓ (end March) (Rupees Billions)	Advances: Gross Amt.	Advances: Net Amt. Advances	NPAs: Gross Amt. Assets	NPAs: Net Amt. Advances	Gross NPAs: as % of Gross Assets	Gross NPAs: % of Total	Net NPAs as: Net	Net NPAs as: Total
	1	2	3	4	5	6	7	8
All Scheduled Commercial Banks								
1998-99	3994	3670	587	280	14.7	6.2	7.6	2.9
1999-2000	4751	4443	604	302	12.7	5.5	6.8	2.7
2000-01	5588	5263	637	325	11.4	4.9	6.2	2.5
2001-02	6810	6459	709	356	10.4	4.6	5.5	2.3
2002-03	7780	7451	687	297	8.8	4.1	4.0	1.8

Items→	Advances		N P As		Gross NPAs		Net NPAs as	
Year↓ (end March) (Rupees Billions)	Gross Amt.	Net Amt. Advances	Gross Amt. Assets	Net Amt. Advances	as % of Gross Assets	% of Total	Net	Total
	1	2	3	4	5	6	7	8
2003-04	9020	8626	848	244	7.2	3.3	2.8	1.2
2004-05	11528	11157	594	218	5.2	2.5	2.0	0.9
2005-06	15514	15168	611	185	3.3	1.8	1.2	0.7
2006-07	20125	19812	505	201	2.5	1.5	1.0	0.6
2007-08	25077	24769	563	247	2.3	1.3	1.0	0.6
2008-09	30383	29999	683	316	2.3	1.3	1.1	0.6
2009-10	35450	34971	848	391	2.4	1.4	1.1	0.7
Mean*					4.5	—	2.0	—
Public Sector Banks								
1998-99	3263	2978	517	242	15.9	6.7	8.1	3.1
1999-2000	3205	3522	530	262	14.0	6.0	7.4	2.9
2000-01	4421	4152	547	280	12.4	5.3	6.7	2.7
2001-02	5094	4807	565	280	11.1	4.9	5.8	2.4
2002-03	5778	5494	541	249	9.4	4.2	4.5	1.8
2003-04	6620	6314	515	193	7.8	3.5	3.1	1.3
2004-05	8778	8489	484	169	5.5	2.7	2.1	1.0
2005-06	11347	11063	414	146	3.6	2.1	1.3	0.7
2006-07	14645	14402	390	162	2.7	1.6	1.1	0.6
2007-08	18191	17974	405	178	2.2	1.2	1.0	0.6
2008-09	22835	22592	450	212	2.0	1.2	0.9	0.6
2009-10	27335	27013	599	296	2.2	1.4	1.1	0.7
Mean*					4.5	—	2.1	—
Old Private Sector Banks								
1998-99	290	260	38	23	1.1	5.8	9.0	3.6
1999-2000	354	339	38	24	10.8	5.2	7.1	3.3
2000-01	397	380	44	28	10.9	5.1	7.3	3.3
2001-02	441	423	49	30	11.0	5.2	7.1	3.2
2002-03	513	494	46	36	8.9	4.3	5.2	2.5
2003-04	579	557	44	21	7.6	3.8	3.8	1.8
2004-05	704	677	42	19	6.0	3.1	2.2	1.4
2005-06	852	830	38	14	4.4	2.5	1.7	0.9
2006-07	949	929	30	9	3.1	1.9	1.0	0.6
2007-08	1134	1117	26	7	2.3	1.2	0.7	0.4
2008-09	1304	1285	31	12	2.4	1.3	0.9	0.5
2009-10	1564	1541	36	13	2.3	1.4	0.8	0.9
Mean*					5.1	—	2.6	—

Items→	Advances		N P As		Gross NPAs		Net NPAs as	
Year↓ (end March) (Rupees Billions)	Gross Amt.	Net Amt. Advances	Gross Amt. Assets	Net Amt. Advances	as % of Gross Assets	% of Total	Net	Total
	1	2	3	4	5	6	7	8
New Private Sector Banks								
1998-99	141	137	9	6	6.2	2.3	4.5	1.0
1999-2000	228	222	10	6	4.1	1.5	2.9	1.5
2000-01	315	200	16	9	5.1	2.1	3.1	1.2
2001-02	769	741	68	39	8.9	3.9	4.9	2.1
2002-03	947	895	22	14	7.6	3.8	1.5	0.7
2003-04	1195	1151	60	20	5.0	2.9	1.7	0.8
2004-05	1274	1237	46	24	3.6	1.6	1.9	0.8
2005-06	2325	2300	41	18	1.7	1.0	0.8	0.4
2006-07	3253	3219	83	21	1.9	1.1	1.0	0.5
2007-08	4124	4087	104	40	2.5	1.4	1.2	0.7
2008-09	4547	4468	139	63	3.1	1.7	1.4	0.8
2009-10	4877	4784	149	52	2.9	1.6	1.1	0.6
Mean*					3.1	—	1.3	—
Foreign Banks in India								
1998-99	311	295	24	9	7.6	3.1	2.9	1.1
1999-2000	374	355	26	9	7.0	3.2	2.4	1.0
2000-01	454	431	31	8	6.8	3.0	1.8	0.8
2001-02	506	487	27	9	5.4	2.4	1.9	0.8
2002-03	542	522	29	9	5.2	2.4	1.7	0.8
2003-04	628	605	29	9	4.6	2.1	1.6	0.7
2004-05	770	754	22	8	2.8	1.4	0.8	0.4
2005-06	990	976	19	8	1.9	1.0	0.8	0.4
2006-07	1279	1283	23	9	1.8	0.8	0.7	0.3
2007-08	1630	1611	29	13	1.8	0.5	0.8	0.3
2008-09	1697	1654	64	30	3.8	1.5	1.8	0.7
2009-10	1674	1633	72	30	4.3	1.7	1.8	0..7
Mean*					3.6	—	1.3	—

Source : Handbook of Statistics of the Indian Economy, RBI.

Note : Mean is worked out by adding 12 year figures of NPAs and similarly 12 years figures of Advances and then dividing the former by the latter. As both are in current prices and as we are considering Ratios, impact of inflation does not vitiate.

Analysis of NPAs of Priority & Non-Priority Sectors in India—Public Sector Banks—1995-2011 :

5.8 Finally, we compare NPAs of Priority Sector Advances with corresponding NPAs of non-priority sector advances. Actually in the RBI's publication[2], advances and NPAs are classified under three heads viz. Priority Sector, Non-Priority Sector and Public Sector. The Appendix Table 5.A (col 6) clearly tells that the share of the Public Sector NPAs in total NPAs of all the sectors is insignificant (about 1%). Also as the advances given to the sector are least risky, it is appropriate to club them with Non-Priority Sector. Detailed data under twofold classification of advances and NPAs are given in Table 5.3. We could pool data only for Public Sector Banks with break up of SBI Group and Nationalised Banks covering the period of 1995-2011. The RBI publication ("Statistical Tables .....") prior to 1995 did not distinguish priority sector and non-priority sector NPAs.

5.9 A few interesting revelations can be unveiled from the Table. There appears to be a visible break point around 2002. From the mid 2000s to early 2000s spanning about a decade, the NPAs of the public sector banks, both sub group-wise and jointly were of a high order compared to the later 6 year period. NPAs of priority sector advances are nearly twice higher during the first sub period.

II

NPAs—REGRESSION ANALYSIS & GRAPHICAL DEPICTION

5.10 We examine trends in growth of NPAs both in terms of absolute values and their proportions to advances. NPAs of priority and non-priority sector and their summation are analysed separately. Further, the analysis is taken up in three stages beginning with all the public sector banks as a single entity, followed by SBI group and nationalised banks.

TABLE 5.3

Priority & Non-Priority Sector NPAs—Public Sector Banks

(Amount in cols1 to 6: Rs.crores)

Items→/ Bank- Group &Year↓ (end March)	Priority Sector NPAs NPAs	*Non-Priority Sector	Total NPAs (3=1+2)	Total Advances (4=5+6)	Priority Sector Advances	Non-Priority Sector Advances
	1	2	3	4	5	6
I. SBI & Its Associates						
1995	6966(40)	6305(14)	13271(21)	64405	17628	46777
1996	7041(32)	6079(11)	13120(17)	78126	21693	56433
1997	7247(30)	7120(12)	14367(17)	82902	24208	58694
1998	7470(27)	8052(12)	15522(16)	97567	28111	69456
1999	8318(25)	10323(14)	18641(17)	108425	33086	75339
2000	8947(24)	10826(12)	19773(15)	129034	37607	91427
2001	8928(20)	11263(11)	20191(13)	150391	43717	106674
2002	8977(19)	10118(8.7)	19095(12)	164589	47566	117023
2003	8053(15)	8905(6.6)	16958(9.0)	189205	54766	134439
2004	7136(11)	8023(5.3)	15159(6.9)	220516	67949	152567
Mean	(25.1)	(11.1)				
2005	7017(7.6)	7792(4.0)	14809(5.2)	284754	92068	192686
2006	7249(5.8)	5944(2.4)	13193(3.6)	371519	125023	246496
2007	7176(4.6)	5380(1.7)	12556(2.6)	482269	157426	324843
2008	8901(4.9)	6319(1.5)	15220(2.6)	593723	182958	410765
2009	8447(4.0)	9427(1.8)	17874(2.4)	739459	212215	527244
2010	10940(4.3)	10891(1.8)	21831(2.5)	857939	252668	605271
2011	15567(4.9)	12573(1.9)	28140(2.8)	994151	318386	675765
Mean	(4.1)	(1.6)				
II. Nationalised Banks						
1995	12242(35)	12873(16)	25115(22)	113361	34777	78584
1996	12065(30)	14399(16)	26464(21)	129414	40416	88998

Items→/ Bank- Group &Year↓ (end March)	Priority Sector NPAs NPAs	*Non-Priority Sector	Total NPAs (3=1+2)	Total Advances (4=5+6)	Priority Sector Advances	Non-Priority Sector Advances
	1	2	3	4	5	6
1997	13527(30)	15682(17)	29209(21)	137349	44723	92626
1998	13714(26)	16417(15)	30130(19)	162336	52463	109873
1999	14288(24)	18781(15)	33069(18)	188925	60626	128299
2000	14769(21)	18753(12)	33521(15)	223376	70602	152770
2001	15228(18)	17755(9.8)	32983(13)	264237	83303	180934
2002	16174(16)	19154(8.9)	35328(11)	316047	100072	215975
2003	16886(14)	18963(7.9)	35849(10)	360470	121508	238962
2004	16705(11)	18285(7.0)	34990(8.5)	412224	149535	262689
Mean	(22.5)	(12.5)				
2005	16381(8.1)	16508(4.8)	32888(6.0)	549460	202167	347293
2006	15124(5.7)	13061(2.8)	28185(3.8)	734469	265806	468663
2007	15780(4.8)	10268(1.6)	26048(2.7)	957877	332265	625612
2008	16385(4.2)	8143(1.0)	24528(2.0)	1203781	391903	811878
2009	15871(3.4)	10298(1.0)	26169(1.7)	1519762	469110	1050652
2010	19907(3.4)	15563(1.2)	35470(1.9)	1843082	581713	1261369
2011	25679(3.7)	17228(1.1)	42907(1.9)	2311478	691290	1620188
Mean	(4.8)	(1.9)				
III. Public Sector Banks Rs.in Crores (III=I+II)						
1995	19209(37)	19177(15)	38385(22)	177766	52405	125321
1996	19106(31)	20474(14)	39584(19)	207540	62109	145431
1997	20774(30)	22802(15)	43575(20)	220251	68931	151320
1998	21184(26)	24469(14)	45653(18)	259903	80574	179329
1999	22606(24)	29104(14)	51710(17)	297350	93712	203638
2000	23715(22)	29579(12)	53294(15)	352410	108209	244201
2001	24156(19)	29018(10)	53174(13)	414628	127016	287612
2002	25151(17)	29272(8.8)	54423(11)	480636	147638	332998
2003	24939(14)	27868(7.5)	52807(10)	549675	176274	373401
2004	23841(11)	26307(6.3)	50148(7.9)	632740	217484	415256
Mean	(23.1)	(12.7)				
2005	23399(8.0)	24299(4.5)	47698(5.7)	834214	294235	539979
2006	22373(5.7)	19005(2.7)	41378(3.7)	1105988	390831	715157
2007	22954(4.7)	15648(1.7)	38602(2.7)	1440146	489691	950455
2008	25286(4.4)	14463(1.2)	39749(2.2)	1797504	574861	1222643
2009	24317(3.6)	19725(1.3)	44042(2.0)	2259224	681325	1577899
2010	30847(3.7)	26454(1.4)	57301(2.1)	2701021	834381	1866640
2011	41245(4.1)	29802(1.3)	71047(2.2)	3305637	1009676	2295961
Mean	(4.7)	(2.0)				

Source :Statistical Tables Relating to Banks in India, (1994-95 to 2010-11), RBI.

Notes : 1*Including NPAs of Public Sector. 2.Public sector NPAs & advances are merged under the head Non-Priority Sector.3.Figures in parentheses in cols 1,2 &3 are shares of NPAs expressed as %s to their respective advances.

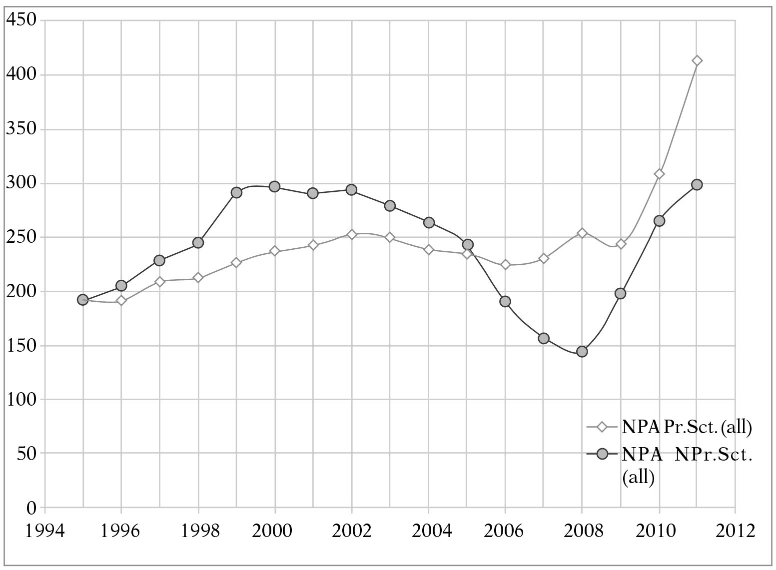
I. NPAs of All Public Sector Banks—1995-2011

Trends in Growth of Absolute Values of NPAs—Priority & Non-Priority Sectors:

5.11 At the outset we are aware of the limitation of the trend analysis of nominal variables over time as they are affected by inflation. As we have not adjusted the money values (of NPAs and advances) for changes in prices, the rates of growth observed should be cautiously interpreted. The NPAs of priority sector have risen till 2002 and, after a mild fall till 2006, they moved up steeply, vide Graph 5.1.

GRAPH 5.1

Behaviour of NPAs of All Public Sector Banks—Priority & Non-Priority Sectors (Absolute Amounts)



5.12 Over the entire time period, they increased. The NPAs in non-priority sector rose till 2000, then fell till 2008, followed by upward movement. There is no evidence of long term trend. The shifts in trends in the non-priority sector NPAs have been sharper than the shifts in trend in its counterpart of priority sector.

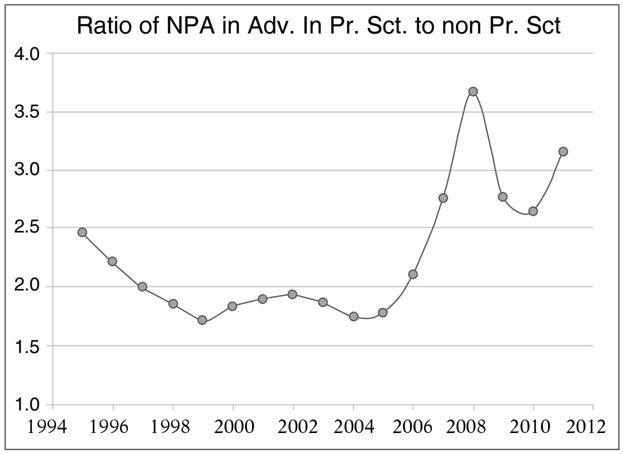
5.13 Results of Regression Analysis : A semi-log regression with breakpoints reveals that the trend in growth in NPAs of <u>priority sector</u> till 2002 was 4.4% p.a. Between 2002—06, they declined annually by 2.9%. This trend got reversed since 2007 and they have been growing by an explosive rate of 14.7% p.a. As to the NPAs of <u>non-priority sector</u>, a semi-log regression with breakpoints reveals that the trend in growth was high at 10.6% p.a. till 2000, followed by fall by about 8.2% p.a. till 2007. Since then, they have been rising explosively at 27.9% p.a. In general, the average trend of NPAs of non-priority sector has been twice or more than the average trend in priority sector NPAs, whether they are rising or falling.

Trends in Shares of NPAs—Priority &Non-Priority Sectors :

5.14 Looking at the share of NPAs of priority and non-priority sectors in total advances, we see that both have been declining since 1995 till 2006, after which they seem to have stabilized, vide Graph 5.2. While the decline in the share of NPAs of priority sector in advances has been fairly continuous till 2006, the decline in share of NPAs of non-priority sector in advances was mild and uncertain for the first few years before gathering momentum.

GRAPH 5.2

% Shares of NPAs—Priority & Non-Priority Sectors-All PSBs



5.15 Regression analysis reveals that NPAs of non-priority sector may be negatively impacted by the rate of expansion in the sector, although the influence is significant only at 15%. On the other hand, there seems to be an average time trend of 3.3% p.a.

	Coefficients (unstandardised)	Significance
Rsq.=0.620		
(constant)	5.415	0.000
Time2	0.033	0.001
Growth rate of Priority Sector Advances	-0.014	0.118

Dependent Variable = NPAs of Priority Sector

5.16 In the non-priority sector, there is a negative impact of the rate of expansion nof credit on NPAs, which is significant at 10%. In general a 1% point increase in the growth rate of credit to non-priority sector will reduce NPAs by about 2.5%.

	Coefficients (unstandardised)	Significance
(constant)	5.810	0.000
Time2	0.037	0.633
Growth Rate	-0.025	0.051

of Priority Sector Advances (Dependent Variable= NPAs of Non-Priority Sector)

A weak evidence on the negative effect growth of credit on NPAs suggests possible efficiencies of expansion. This is more evident in non-priority sector and less evident in the priority sector

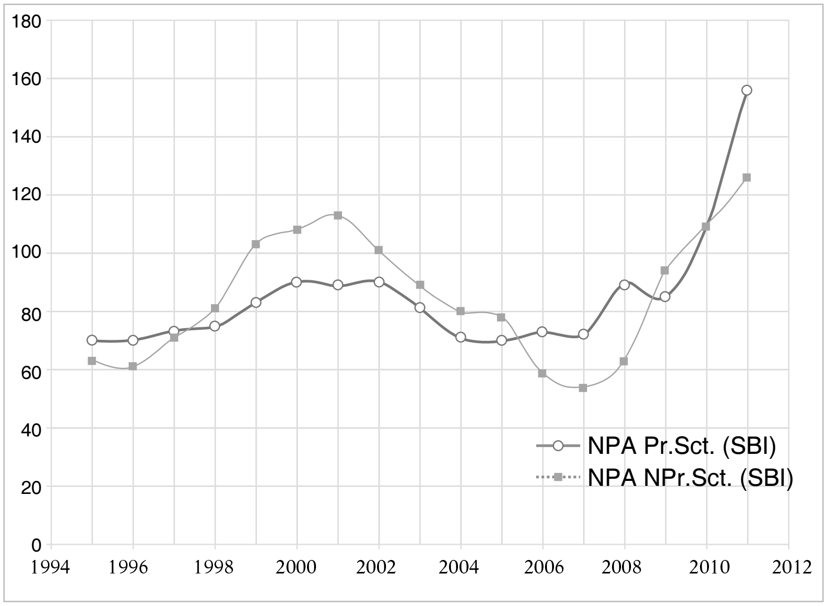
2. Trends in NPAS of SBI Group—1995-2011

Growth in Absolute Values of NPAs—Priority & Non-Priority Sectors :

5.17 The NPAs of SBI group (SBI and its Associates) showed varying trend over time. They tended to increase from 1994-2001, declined to 2007 and then started rising again, vide Graph 5.3. The rise and fall in NPAs of the non-priority sector were more rapid and sharper than that of priority sector.

GRAPH 5.3

Behaviour of NPAs of SBI Group—Priority& Non-Priority Sectors (Absolute Amounts)—All Public Sector Banks



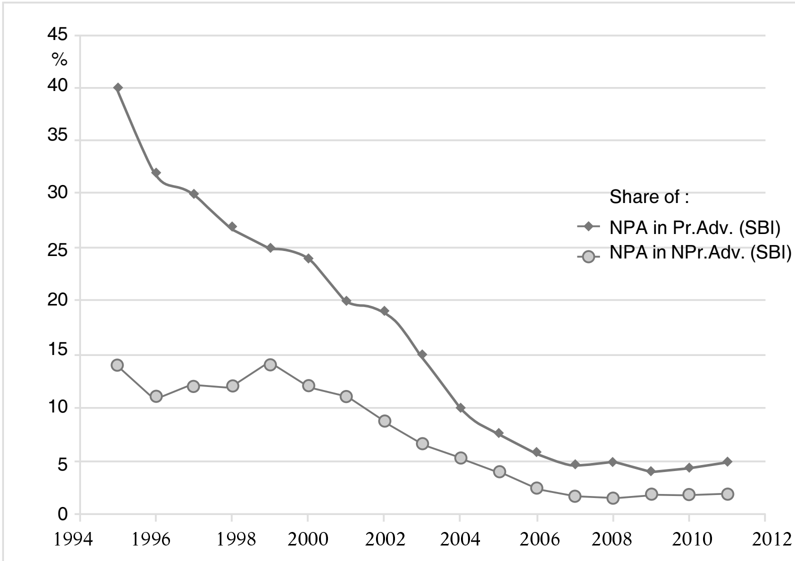
5.18 A semi log regression with breakpoints of 2001 and 2006 give the estimated trend in NPAs to priority sector at 4.9% till 2001, -5.5% p.a. between 2002-06 and 19.1% p.a thereafter. For the non-priority sector, the NPAs grew at 12.4% p.a., till 2001, at -11.4% p.a. between 2002-06 and at 25.1% p.a. thereafter. Thus the analysis reveals a steady increase in NPAs till 2001 of priority sector (4.9% p.a.) and non-priority sector (12.4% p.a.), followed by a period of decline in NPAs between 2002-06—priority sector -5.5%, non-priority sector -11.4% p.a. Post 2007 period, we find that there has been a tremendous acceleration in NPAs in both priority sector (19.1%) and of non-priority sector (25.1%). Until 2007, the trend in NPAs Non-Priority Sector was twice that of priority sector, but since 2007 it has been only 30% higher. One of the reasons of changes in the NPAs is the trend in advances made by the banks. For this reason, it makes sense to look at the share of NPAs in the advances made to the 2 sectors.

Share of NPAs—Priority & Non-Priority Sectors:

5.19 It can be seen from Graph 5.4 that the share of NPAs in total advances has been declining both for priority and non priority sectors. The fall in share was sharper for priority sector (40% in 1995 to 4.9% in 2011) and milder in the non-priority sector (14% in 1995 to 1.9% in 2011). The decline in the share of NPAs of priority sector in advances has been continuous since 1995 till 2007, while the decline in the share of NPAs of non-priority sector started only in 1999 and continued till 2007 and later for both the sectors share of NPAs evened out.

GRAPH 5.4

% Shares of NPAs—Priority & Non-Priority Sectors—SBI Group



Trends in Shares of NPAs—Priority & Non-Priority Sectors

5.20 Regression analysis of the NPAs of the priority sector reveals that they are negatively impacted by the rate of expansion of advances to that sector, although this result is significant only at 1% level. It also shows that NPAs of priority sector tend to grow at an average annual rate of 3% p.a..

	Coefficients (unstandardised)	Significance
Rsq.=0.413		
(constant)	4.402	0.000
Time2	0.029	0.021
Growth of Advances	-0.01511	0.119

Dependent Variable = NPAs of Priority Sector

5.21 Regression analysis of the NPAs of non-priority sector informs that they are negatively impacted by the growth rate of advances to that sector. In general a 1% point increase in growth rate of advances to the non-priority sector tends to decrease the NPAs by 2.9%. This suggests efficiencies of expansion in the non-priority sector.NPAs of the non-priority sector seem to be expanding by about 2% p.a., although this effect is significant only at 15%.

	Coefficients (unstandardised)	Significance
Rsq.=0.354		
(constant)	4.666	0.000
Time2	0.020	0.148
Growth of Advances to Priority Sector	0.028	0.022

Dependent Variable=NPAs of Priority Sector

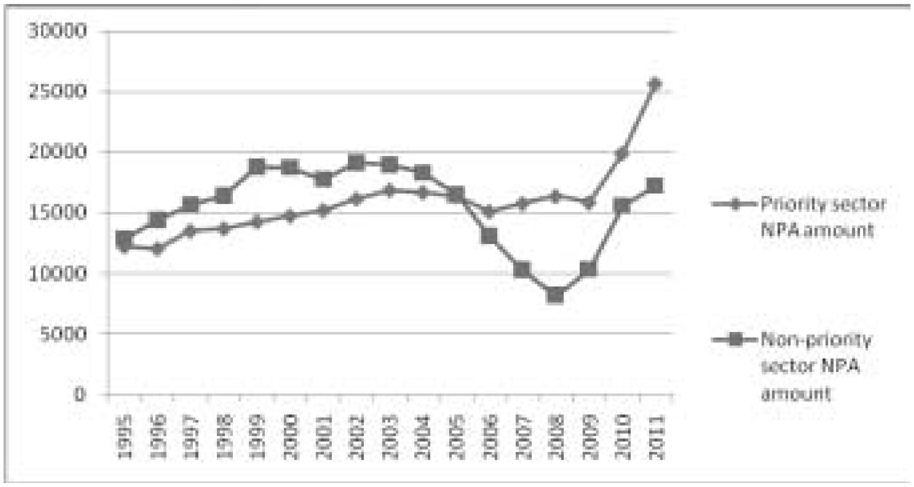
3. Trends in NPAs of Nationalised Banks—1995-2011

Trends in Growth of Absolute Values of NPAs—Priority & Non-Priority Sectors

5.22 The NPAs in priority sector have been rising mildly between 1995- 2003, flattened between 2003-09, and then accelerated steeply. Overall, there is a long run trend in this variable. The NPAs in the non-priority sector rose between 1995-2002, fell between 2002-08, and then rose sharply. Overall, there seems to be no long run trend in this variable.

GRAPH 5.5

Behaviour of NPAS (Nationalised Banks) - Priority & Non-Priority advances (Amount in Rs. crore)



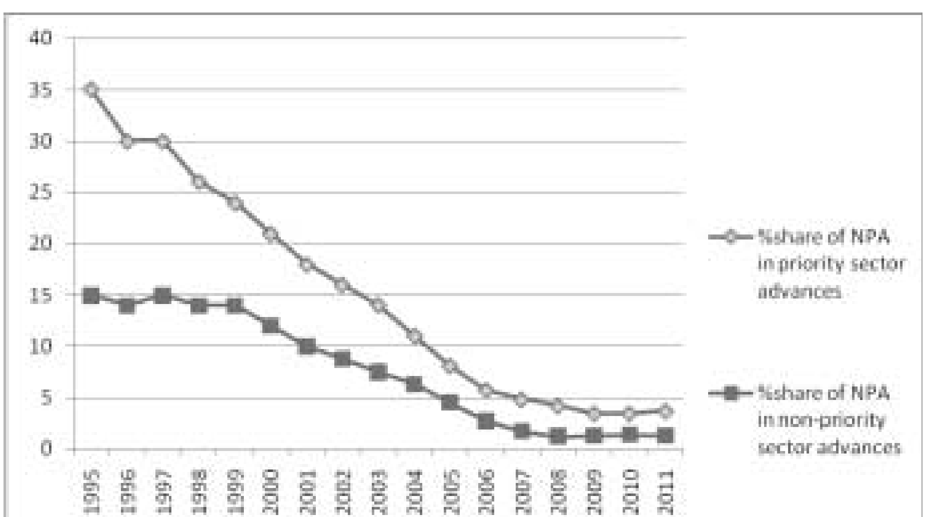
5.23 A semi-log regression on time with breakpoints reveals that the trend growth rate in NPAs in priority sector was at 4.1% p.a. from 1995 to 2003. Between 2003-09, there was mild trend of decline of -1.1% p.a. After 2009, there was sharp acceleration to a high trend rate of 27.1% p.a. In the case of NPAs in non-priority sector, the trend growth from 1995 to 2002 was pegged at 6.2% p.a. between 2002-06, there was a sharp declining trend of -11.6% between 2006-2008, thereafter a high trend growth at 30.7% p.a. was observed. Thus in both, there was an extremely high growth of NPAs after 2008-09 at nearly 30% p.a. In the preceding years, the trend in NPAs of non-priority sector was sharper and steeper than trend in NPAs of priority sector, whether rising or falling.

Trends in Shares of NPAs—Priority & Non-Priority Sectors

5.24 If we look at the shares of NPAs in their relevant (priority and non-priority sectors advances), we find that in both the sectors, they were declining, vide Graph 5.6. The share of NPAs of priority sector in advances declined from 35% in 1995 to 3.7% in 2007. The decline was fairly consistent .However, the decline started only in 1997 and evened out after 2008.Finally the regression analysis failed to pick up sensitivity of NPAs to credit expansion in both the sectors, even at 15% level of significance.

GRAPH 5.6

Behaviour Of % Share of NPAs (Nationalised Banks) - Priority & Non-priority advances



III

CREDIT DEPOSIT RATIO—RELATION BETWEEN GROWTH OF TOTAL CREDIT, DEPOSITS & PRIORITY CREDIT IN INDIA—1980-2010

Regime change:

5.25 The purpose of examining the CD Ratios is to find out whether growth in total credit, priority sector credit and agricultural credit moved closely with growth in deposits. On examining credit-deposit Ratio at the all India level of all SCBs, we find two clear phases in terms of the long term trend vide Table 5.4 Graph 5.7. It can be seen that the CD RATIO was generally falling from 1980 to 1999, and rising thereafter. This suggests that the expansion of credit and deposits can be examined in two time frames, before 2000 and after 2000.The estimates of growth rates in monetary and real terms are done by using exponential regression with interval and time dummies at the year 2000. The estimated growth rates in bare results of the regressions are appended(AppendixTable5.B) and annual compound terms are presented in the main text and the bare results of the regressions are appended (Appendix Table 5.B).

Growth in Current Prices:

5.26 In nominal terms, the deposits seem to have grown at a fairly steady pace of nearly 18% p.a. before 2000, and 19% p.a. thereafter. However, growth of total credit sees a big jump between the two periods. Before 2000, total credit was growing slower that deposits at 16% p.a.; while after 2000, it grew faster at 23% p.a.

TABLE 5.4

All Scheduled Commercial Banks in India CD Ratios

(cols 1,2,4 & 5 Rs.billion)

Year	Credit Col 1	Deposit Col 2	CD RATIO(%) Col 3	Total PSA Col 4	Credit to Ag only Col 5
1980-81	254	380	67	107	46
1981-82	237	437	68	123	53
1982-83	355	514	69	149	61
1983-84	413	606	68	184	77
1984-85	490	722	68	216	91
1985-86	561	854	66	251	106
1986-87	633	1027	62	291	120
1987-88	705	1181	60	342	140
1988-89	847	1402	60	403	165
1989-90	1014	16780	61	429	168
1990-91	1163	1925	60	454	182
1991-92	1256	2308	54	498	200
1992-93	1520	2686	57	539	212
1993-94	1644	3151	52	642	240
1994-95	2116	3869	55	733	270
1995-96	2405	4338	55	849	‘314
1996-97	2784	5056	55	995	349
1997-98	3241	5985	54	1146	396
1998-99	3688	7140	52	1318	444

(cols 1,2,4 & 5 Rs.billion)

Year	Credit Col 1	Deposit Col 2	CD RATIO(%) Col 3	Total PSA Col 4	Credit to Ag only Col 5
1999-2000	4360	8134	54	1544	519
2000-01	5564	9507	60	1753	608
2001-02	6361	1971	62	2116	735
2002-03	7592	12787	59	2638	905
2003-04	8909	15172	59	3815	1253
2004-05	11578	17532	66	5107	1740
2005-06	15175	20930	73	6360	2304
2006-07	19496	25988	75	7481	2753
2007-08	23947	32248	74	9325	3387
2008-09	34356	46019	75	10923	4161
2009-10	40769	54265	75	12394	4603

Sources : Handbook of Statistics Relating to the Indian Economy 2008-09, RBI and Statistical Tables Relating to Banks in India, RBI.

Note : PSA=Priority Sector Advances, CD RATIO=Credit-Deposit Ratio

GRAPH 5.7

Behaviour of Cd-Ratios during 1980-2010

5.27 As can be seen from Table 5.4 that priority sector advances were growing much slower than total credit and deposits at 14.5% p.a. before 2000, while after 2000, they grew faster than both total credit and deposits, at nearly 25% p.a. The annual trend in PSA after 2000 was about 1.7 times the annual trend in the earlier period. Credit to agriculture grew much slower than total priority sector credit, total credit and deposits. Growth of credit to agriculture was at about 13% p.a. before 2000 but after 2000 it grew faster than all others at about 26% p.a. The annual trend in credit to agriculture after 2000 was nearly twice that of the annual trend in the earlier period. Thus, after 2000 we see a jump in credit to all sectors and even steeper jump in credit and advances to priority sector and especially agriculture.

Deposits, Total & Priority Sector Credit —Growth in Real Terms:

5.28 In constant(1980-81) prices, the post 2000 period marked a sharp drop in the rate of inflation. This fact further widens the disparities in growth rates between the two periods for every variable. The estimates of the real growth rates are presented below.

Constant Prices	Deposits	Total Credit	PSA total	Ag. Only
Annual growth before 2000	8.0%	6.6%	5.1%	3.9%
Annual growth after 2000	13.3%	16.9%	18.5%	19.8%

Deposits in constant prices grew at 8% p.a. before 2000, and over 13% p.a. thereafter. This was 1.67 times the annual growth of the previous period. Before 2000, real total credit was growing slower than deposits at 6.6% p.a.; while after 2000, it grew faster at nearly 17% p.a. The real growth of total credit after 2000 was over 2 ½ times the growth in the previous period.

5.29 Priority sector advances in constant prices were growing much slower than total credit and deposits at 5.1% p.a. before 2000, while after 2000, they grew much faster than both total credit and deposits, at 18.5% p.a. The real annual trend in PSA after 2000 was about 3.6 times the annual trend in the earlier period. Credit to agriculture at constant prices grew much slower than PSA, total credit and deposits, at about 4% p.a. before 2000, but after 2000 it grew faster than all others at about 20% p.a. The annual trend in credit to agriculture after 2000 was nearly five times that of the annual trend in the earlier period. Thus, after 2000 we see a sharp jump in real credit to all sectors and even sharper and steeper jump in real credit and advances to priority sector and especially agriculture.

Relation Between Total Credit & Priority Sector Credit—Results of Regression Analysis:

5.30 Regressing—Total PSA : The first question that arises is whether the elasticity of PSA (Priority Sector Advances) to total credit is equal to unity. Put differently, we hypothesise unitary elasticity. If it is equal to unity, the implication is that the PSA rise proportionately with total credit and if it is not unitary elasticity, the % change in PSA may be greater or less than that of total credit. To test the hypothesis, we run a double log regression of PSA in current values on total credit in current values and CD RATIO. Summary results of the regression are presented below.

Adj. Rsq 0.996	= Unstandardized Coefficients	Std. Error	T	Sig.
(Constant)	-1.015	.144	-7.031	.000
CD RATIO(%)	.007	.002	3.019	.005
PSA in current prices	.934	.011	82.837	.000

Dependent Variable: PSA in current prices

5.31 The regression has a very high Rsquare of 0.996. Thus most of the variations in PSA are explained by credit expansion and the CD RATIO. PSA is positively impacted by the CD RATIO. It is estimated that if the CD RATIO rises by 100 basis points, PSA credit will rise by 0.7%. This estimate is highly significant at 1% level. PSA credit is elastic to total credit expansion, but the elasticity is somewhat smaller than unity, at 0.934. This means that if total credit doubles, PSA credit will rise by 93% only. This result is highly significant at 1%.

Regression: Advances to Agriculture

5.32 We now move to examine the elasticity of credit advanced to Agriculture alone with respect to total credit and CD RATIO.

Adj. Rsq = 0.993	Unstandardized Coefficients	Std. Error	T	Sig.
(Constant)	-1.884	0.183	-10.292	.000
CD RATIO(%)	0.012	0.003	4.021	.000
Agl credit in current prices	0.884	0.014	61.794	.000

Dependent Variable: Credit to Agriculture in current prices.

The results of regression show a high degree of explanation at 0.993.The regression shows that credit to agriculture is positively impacted by the CD RATIO. If the CD RATIO rises by 100 basis points, credit to agriculture will increase by 1.2%. Although this point estimate is larger than the response of total PSA to CD RATIO, it is not significantly different.

5.33 The regression also shows that the elasticity of credit to agriculture with respect total credit is substantially below unity, at 0.884. This result is highly significant at 1%. This means that if total credit doubles, credit to the agricultural sector would have expanded by 88%. The elasticity of credit to agriculture with respect to total credit is also significantly lower than the elasticity of total PSA which was estimated to be 0.934.

Credit to Agriculture is a Function of CD RATIO & PSA—Testing:

5.34 It may be pointed out that the allocation of credit to agriculture may be impacted by credit to PSA, and is filtered through the policies to target the priority sector. Hence, it might also be worthwhile to estimate the elasticity of credit to agriculture with respect to PSA. Further, the general CD RATIO Ratio also may impact credit to agriculture. This is tested through a double log regression.

Adj. Rsq = 0.999	Unstandardized Coefficients	Std. Error	T	Sig.
(Constant)	-0.927	0.072	-12.910	.000
CD RATIO(%)	0.005	0.001	4.306	.000
PSA in current prices	0.947	0.006	154.653	.000

Dependent Variable: Credit to Agriculture in current prices.

5.35 The regression has a very high adj. Rsquare of 0.999. The elasticity of credit to agriculture with respect to total PSA is somewhat less than unity. It is estimated at 0.947. This means that if priority sector credit doubles, credit to agriculture increases by 95%. The regression also detects responsiveness of credit to agriculture to the CD RATIO. If CD RATIO rises by 100 basis points, credit to agriculture will rise by ½%. This result is highly significant at 1%.

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3. RBI, **Statistical Tables Relating to Banks in India,** Mumbai (various years).

APPENDIX

TABLE 5.A

NPAs of Public Sector Banks

(Amount Rs.crores)

Items→/ Bank-Group &Year↓	Priority Sector		Non-Priority Sector		Public Sector		Total Amount
	Amount	%	Amount	%	Amount	%	
	1	2	3	4	5	6	7
SBI & Its Associates							
2002	8977	47.0	9628	50.4	490	2.6	19095
2003	8053	47.5	8379	49.4	526	3.1	16958
2004	7136	47.1	7803	61.5	220	1.5	15159
2005	7017	47.4	7624	51.5	168	1.1	14608
2006	7250	55.0	5919	44.1	126	1.0	13193
2007	7175	57.2	5193	41.4	186	1.5	12556
2008	8902	58.5	6222	40.9	97	0.6	15220
2009	8447	47.3	9250	51.8	177	1.0	17874
2010	10940	50.1	10646	48.8	244	1.1	21631
2011	15567	55.3	12567	44.7	6	0.02	28140

Items→/ Bank-Group &Year↓	Priority Sector		Non-Priority Sector		Public Sector		Total Amount
	Amount	%	Amount	%	Amount	%	
	1	2	3	4	5	6	7
Nationalised Banks							
2002	16173	45.8	18742	53.1	413	1.1	35328
2003	16886	47.1	18402	51.3	561	1.6	35849
2004	16705	47.7	17895	51.1	290	1.1	34996
2005	16381	49.8	16225	49.3	283	0.9	32888
2006	15124	53.7	12845	45.6	216	0.3	26185
2007	15779	60.6	9965	38.3	302.	1.2	26046
2008	16385	66.8	7941	32.4	202	0.8	24528
2009	15871	60.7	10001	38.2	297	1.1	26169
2010	19908	56.1	15283	43.1	280	0.8	35470
2011	25676	59.8	16957	39.5	273	0.6	42907
Public Sector Banks							
2002	25150	46.2	28371	52.1	902	1.7	54423
2003	24938	47.2	26781	50.7	1087	2.1	52807
2004	23840	47.5	25698	51.2	610	1.2	50148
2005	23397	49.1	23849	50.0	450	0.9	47698
2006	22374	54.1	18664	45.1	341	0.8	47696
2007	22954	59.5	15158	39.3	490	1.3	38602
2008	25287	63.6	14163	35.6	270	0.8	39749
2009	24318	65.2	19251	43.7	474	1.1	44042
2010	30849	53.9	25929	45.3	524	0.9	57301
2011	41246	58.1	29524	41.6	278	0.4	71047

Source : Statistical Tables Relating to Banks in India, (2010-11 & other Years), RBI.

CHAPTER-VI

Priority Sector Advances & their Relation to Credit-Deposit Ratio in AP

6.1 Aim & Chapter Frame:

Having examined various facets of priority sector credit at all India level, in this Chapter we concentrate at the sub macro level of AP state. Before we shift to examine primary data, as AP state is chosen for focused study, first we probe into the size of priority sector credit distributed by all the SCBs in AP over a period. This Chapter aims to analyse pattern of sectoral distribution of priority sector credit in the AP state and an analysis of CD RATIO both at the levels of AP and the 3 sample districts. Dividing the Chapter under three Sections, analysis of sectoral allocations of outstanding credit amounts, accounts and per account credit is taken up in Section I. This is followed by an examination of the behaviour of credit deposit Ratio of all the SCBs in AP in Section II. The final Section examines behaviour of CD Ratio and its relation with credit allocation to total priority sector and agriculture in the study district of Nizamabad in AP state.

I

OUTSTANDING ADVANCES, ACCOUNTS & PER ACCOUNT PRIORITY SECTOR CREDIT IN AP

6.2 Growth of Total Priority Sector Advances in AP

Consistent breakup data are available from 1995-96 to 2009-10. Trends in growth of priority sector credit can be discerned by closely looking at Table 6.1.The total priority sector credit increased by 16½ times from less than Rs.7000 crores to about Rs.113000 crores during the 16 year period (col 1). This manifold growth is inclusive of the impact of inflation. To understand real growth, we deflated the nominal values with the help of WPI (Wholesale Price Index), vide col 2. Even after deflation, the real growth in the credit is over 8 times. This can be easily understood by looking at the index numbers of priority sector credit (total credit counted in constant prices (of 1995-96), vide col.4. To be sure, the annual rate of growth worked out to 16%.

TABLE 6.1

Growth of Priority Sector Outstanding Advances in AP

(Rs.crores)

Items→/ Year↓ (end March) in Current Prices (1995-96=100)	Total Priority Sector Advances	Price Index (WPI)	Total Priority Sector Advances (in Constant Prices)	Index Numbers of col 3 (1995-96 =100)
1	2	3	4	
1995-96	6807	100.0	6807	100
-97	7800	104.7	7450	109
-98	9597	109.3	8780	129
-99	12412	116.0	10700	148
-2000	12560	119.6	10502	154
-01	14495	128.2	11307	166
-02	16678	132.9	12549	184
-03	20727	137.2	15107	222
-04	25602	144.9	17669	260
-05	33750	154.2	21887	322
-06	47855	161.1	29705	436
-07	60966	171.8	35528	522
-08	70669	178.7	39546	581
-09	93271	194.4	47979	705
2009-10	112611	201.7	55831	820

Source : Basic Statistical Returns of SCBs & Statistical Tables Relating to Banks in India, RBI. For WPI, data are compiled from Economic Surveys.

6.3 Sectoral Distribution of Priority Sector Outstanding Advances in AP:

Having examined the trend rate of growth in total advances under priority sector, we now proceed to analyse pattern of sectoral allocation of outstanding credit. As shown in Table 6.2, decomposed data are presented under 8 heads, including 2 sub sectors of agriculture. A scrutiny of the detailed data suggests that the SCBs as a whole could allocate total priority sector amount equal to the stipulated target of 40% of ANBC. Instead of examining absolute amounts of the credit allocated, we concentrate on proportionate shares, treating the total advances as 100. While examining the shares, we keep in mind that the banks are required to set apart 18% of ANBC or 45% of total priority sector credit to agriculture and within agriculture, banks are required to apportion about 34% and 11% to direct and indirect lending to the farmers.

6.4 Save in 5 years, the banking community in AP succeeded in achieving the overall target of lending to agriculture at least 45% of total priority advances (col 1). Also, the banks could fulfil the sub target of not more than 4.5% of ANBC or about 11% of total priority sector credit for indirect advances (col 3). In the case of advances to the SSI sector (col 4), from 2000s we observe diminution in its share from close to 30% to less than one-half of it in the later period (from 2003 onwards). Next in order of importance is advances to small business, to which the allocated credit was around 10% (col.5).

TABLE 6.2

Sectoral Distribution of Priority Sector Advances in AP by SCBs

(**Outstanding** Amounts) (%)

Items→/ Year↓ Sectors	Ag & of which Allied	Direct	Indirect	SSI	Small Business	Education	Housing	Other Priority	Total 9=1+4 to 8)
	1	2	3	4	5	6	7	8	9
1995-96	52	45	7	29	3	neg.	3	13	100(6807)
1996-97	53	46	7	29	NA	NA	NA	NA	100(7800)
1997-98	47	40	7	28	15	1	3	6	100(9507)
1998-99	41	34	7	24	12	1	4	18	100(12412)
1999-2000	45	37	8	28	14	1	8	4	100(12560)
2000-01	43	34	9	22	12	2	10	6	100(14495)
2001-02	41	35	6	30	13	2	12	3	100(16678)
2002-03	41	34	7	22	10	3	20	4	100(20727)
2003-04	39	33	6	16	12	3	24	6	100(25602)
2004-05	46	35	11	15	9	4	23	3	100(33750)
2005-06	48	36	12	12	12	4	19	5	100(47855)
2006-07	43	36	7	11	8	4	28	6	100(60966)
2007-08	47	37	10	12	14	4	22	1	100(70669)
2008-09	49	38	11	13	12	5	21	1	100(93271)
2009-10	52	38	14	15	9	4	19	1	100(112611)

Source : Basic Statistical Returns of SCBs & Statistical Tables Relating to Banks in India, RBI.

Notes : 1. Figures in parentheses are Rs. crores.

2. SSI include Setting up of Industrial Estates, Micro Enterprises.

3. Other Priority Sectors include DRI Advances under DRI, to SCs, STs, SHGs, Exports etc.

6.5 Sectoral Distribution of Priority Sector No. of Accounts (Outstanding) in AP:

As in the case of outstanding amounts, the same 8 sectors including 2 sub sectors of agriculture are considered to examine pattern of distribution of number of Accounts. Number of accounts crudely means number of customers. Details of the data are posted in Table 6.3. By juxtaposing this Table with Table 6.2 we find that the proportions of the Accounts of agriculture are much higher. Whereas the shares of agriculture and direct outstanding advances under it are around 40%-45% (cols 1&2 of Table 6.2), the corresponding shares in terms of Accounts are much higher at around 70% (cols 1&2 of Table 6.3). Even in the case of indirect credit, the same trend is observed. As relatively the % shares in Accounts are higher than the relevant shares in outstanding amounts, the implication is that per (Account) capita lending is smaller. This we vouch by computing per account outstanding advances.

6.6 Per Account Outstanding Amount:

Sectoral data related to per account outstanding amounts under 8 sectors are given in Table 6.4. In terms of per capita credit also, farmers gained much. Credit advanced to them increased from about Rs.13000 in 1995-96 to Rs.62700 by the terminal year of the study period. In the 15 year period, credit outstanding increased by 5 times in nominal terms. As noted earlier (Table 6.1), while prices doubled during the period, per capita farm credit increased significantly in real terms (cols 1, 2 &3). Comparison of cols 2 and 3 enables to observe that indirect lending per account has always been higher than direct lending to farmers. Overtime the difference in per capita lending widened, reflecting preference of the bankers to lend more to less risky indirect advances (corporate bodies) than directly to more risky individual farmers. On the whole, relatively compared to the size of per capita outstanding advances to the farm

TABLE 6.3

Sectoral Distribution of Priority Sector Outstanding Accounts in AP with SCBs

(%)

Items→/ Year↓ Sectors	Ag & of which Allied	Direct	Indirect	SSI	Small Business	Educa-tion	Housing	Other Priority	Total 9=1+4 to 8)
	1	2	3	4	5	6	7	8	9
1995-96	70	68	2	4	25	neg.	neg.	neg.	100(40.18)
1996-97	67	64	3	4	NA	NA	NA	NA	100(40.00)
1997-98	72	70	2	3	24	neg.	neg	neg	100(37.49)
1998-99	72	70	2	3	22	1	1	1	100(38.36)
1999-2000	73	70	3	4	20	neg.	1	1	100(38.65)
2000 -01	74	72	2	4	18	neg.	1	3	100(38.49)
2001-02	74	72	2	4	16	1	3	2	100(37.68)
2002-03	75	73	2	3	12	1	4	5	100(40.83)
2003-04	67	65	2	2	14	2	7	8	100(35.95)
2004-05	79	75	4	1	11	2	4	3	100(53.26)
2005-06	78	68	10	2	8	2	4	6	100(66.36)
2006-07	76	69	7	2	8	2	7	5	100(64.25)
2007-08	79	78	1	3	10	2	6	neg.	100(69.30)
2008-09	76	75	1	4	12	2	6	neg.	100(92.10)
2009-10	82	72	10	3	9	2	4	neg.	100(113.80)

Source : Basic Statistical Returns of SCBs & Statistical Tables Relating to Banks in India, RBI.

Notes :
1. Figures in parentheses are Number of Accounts in lakhs.
2. SSI include Setting up of Industrial Estates, Micro Enterprises.
3. Other Priority Sectors include DRI Advances under DRI, to SCs-STs, SHGs, Exports etc.

TABLE 6.4

Per Account (Per Capita) Sector-wise Priority Sector Outstanding Amounts Advanced by SCBs in AP

(Rupees 000s)

Items→/ Year↓ Sectors	Ag & of which			SSI	Small Business	Educa-tion	Housing	Other Priority	Total 9=1+4 to 8)
	Allied	Direct	Indirect						
	1	2	3	4	5	6	7	8	9
1995-96	12.5	11.2	53.0	124.3	2.3	33.3	70.3	1596.0	16.9
1996-97	15.5	14.0	59.4	142.1	NA	NA	NA	NA	19.5
1997-98	16.6	14.8	66.9	213.2	15.7	57.5	188.2	728.9	25.6
1998-99	18.9	16.1	108.7	226.8	17.8	15.3	99.8	711.2	32.3
1999-2000	20.0	17.2	93.2	231.4	22.7	80.7	300.0	NA	32.5
2000-01	22.3	18.1	153.7	277.3	25.5	148.9	276.5	NA	37.6
2001-02	24.3	21.7	101.2	333.9	35.0	160.4	208.6	NA	44.3
2002-03	27.6	23.7	178.4	390.4	41.6	150.0	250.1	NA	50.8
2003-04	41.2	36.4	179.5	571.1	57.3	133.5	267.0	NA	71.2
2004-05	36.5	29.4	168.3	735.1	54.0	153.6	358.3	NA	63.4
2005-06	43.9	38.3	81.2	527.8	111.8	190.0	333.2	NA	72.1
2006-07	54.6	50.1	100.6	645.2	91.5	156.5	374.8	NA	94.9
2007-08	60.2	48.1	1697	490.2	138.9	175.1	394.0	NA	102.0
2008-09	55.2	50.6	3458	335.4	105.2	198.5	195.6	NA	101.1
2009-10	62.7	47.1	1009	452.7	104.9	220.1	439.0	NA	99.9

Source : Calculated based on the data in Tables 6.2 and 6.3

Notes : 1. SSI include Setting up of Industrial Estates, Micro Enterprises.

2. Other Priority Sectors include DRI Advances under DRI, to SCs & STs, SHGs, Exports etc. sector are much lower than to all other sectors such as the beneficiaries under SSI, Small Business, Education and Housing (cols 4 to 7).

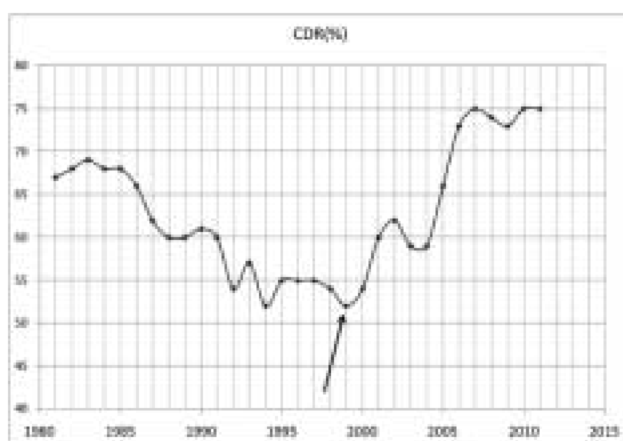
II

TRENDS IN THE BEHAVIOUR OF CD RATIO & GROWTH OF CREDIT, DEPOSITS, CREDIT TO TOTAL PRIORITY SECTOR & AGRICULTURE IN AP

6.7 Regime change:

Changes in credit-deposit Ratio signify the joint impact of changes in the deposit amounts and advances. Hence, before we study changes in the 2 components of the Ratio, let us comprehend a broad picture of it over a long period of 18 years, by posting CD RATIO data on a two dimensional plane as in Graph 6.1. Details of the absolute data including CD RATIO proportions are given in Table 6.5.

Graph 6.1 Credit-Deposit Ratio of All the SCBs in AP



Source : Table 6.5

Break up data of credit, deposits, CD RATIO and priority sector credit along with credit to agriculture and its allied activities are given in Table 6.5, covering the period of 1995-2012.

6.8 It can be seen from the above graph that the CD RATIO was falling generally from 1996 to 2002, and rising thereafter. This suggests that the expansion of credit and deposits can be examined in two time frames viz. before 2002 and after 2002.The breakpoint is close to the breakpoint year of 2000 which we observed in the case of the CD RATIO at the all India level (para 5.25).The growth rates estimated both in monetary and real terms, by using exponential regression with interval and time dummies at the year 2002.The estimated growth rates in annual compound terms are presented in Table 6.6 and the bare results of the regressions are placed in the Appendix Table 6.A.

TABLE 6.5

Credit, Deposits, CD RATIO, Credit to Total Priority Sector & Agriculture by All the SCBs in AP (Rs.billions)

Year	Credit	Deposit	CD RATIO (%)	Total PSA	Agriculture
	1	2	3	4	5
1995-96	175	220	79	68	35
1996-97	202	266	76	78	41
1997-98	234	321	73	96	45
1998-99	290	459	63	124	51
1999-2000	294	465	64	126	57
2000-2001	344	544	63	145	63
2001-2002	393	638	62	167	68
2002-2003	459	733	63	207	84
2003-2004	560	848	66	256	100
2004-2005	740	945	75	338	154
2005-2006	964	1175	82	479	228
2006-2007	1243	1420	88	609	266
2007-2008	1626	1776	92	707	329
2008-2009	2122	2175	98	933	456
2009-10	2622	250	105	1126	583
2010-11	3214	2923	110	NA	NA

Sources : Basic Statistical Returns of Scheduled Commercial Banks, RBI &Statistical Tables Relating to Banks in India, RBI.

TABLE 6.6

Summary of Estimated Growth Rates of 4 Variables, AP

Constant Prices	Deposits	Total Credit	Total Priority Sector Credit	Agriculture
Annual growth before 2002	13.5%	7.6%	10.0%	5.6%
Annual growth after 2002	13.5%	20.7%	21.5%	25.3%

Current Values	Deposits	Total Credit	PSA total	Only Only
Annual growth before 2002	20.6%	14.4%	17.0%	12.3%
Annual growth after 2002	20.6%	27.7%	27.9%	31.9%

Source : Calculated from Table 6.5.

6.9 In nominal values (current prices), the deposits have grown at a steady pace of nearly 21% p.a. in both periods. They seem to be unaffected by the regime change. However growth of total credit and advances saw a big jump between the two periods. Before 2000, total credit was growing slower than deposits at 14.4% p.a.; while after 2002, it grew faster at nearly 28% p.a. Thus the growth of total credit nearly doubled after 2002. Priority sector advances were growing faster than total credit but slower than deposits at 17% p.a. before 2002 but after 2002, they grew faster than both total credit and deposits, at nearly 28% p.a. The annual trend in PSA after 2002 was over 1.6 times the annual trend in the earlier period.

6.10 Credit to agriculture grew much slower than total priority sector advances, total credit to all sectors and deposits, at about 12% p.a. before 2002, but after 2002 it grew far faster than all others at about 32% p.a. The annual trend in credit to agriculture after 2000 was 2.6 times more than that of the annual trend in the earlier period. Thus, after 2002 we see a jump in credit to all sectors and even steeper jump in credit and advances to agriculture.

6.11 The post 2002 period marked a sharp drop in the rate of inflation. This fact further widens the disparities in growth rates between the two periods for every variable. In constant prices, real deposits seem to have grown at 13.5% p.a. throughout the period studied. It was not affected by regime change. Before 2002, real total credit was growing slower than deposits at 7.6% p.a.; while after 2002, it grew faster at nearly 21% p.a. The real growth of total credit after 2000 was over 2.7 times the growth in the previous period.

6.12 Priority sector advances in constant prices were growing much slower than total deposits but faster than total credit at 10% p.a. before 2002, while after 2002, they grew much faster than both total credit and deposits, at 21.5% p.a. The real annual trend in PSA after 2002 was about 2.1 times the annual trend in the earlier period.

6.13 Credit to agriculture at constant prices grew much slower than PSA, total credit and deposits, at 5.6% p.a. before 2002, but after 2002 it grew faster than all others at over 25% p.a. The annual trend in real credit to agriculture after 2002 was 4½ times that of the annual trend in the earlier period. Thus, after 2002 we see a sharp jump in real credit to all sectors and even sharper and steeper jump in real credit and advances to agriculture.

III

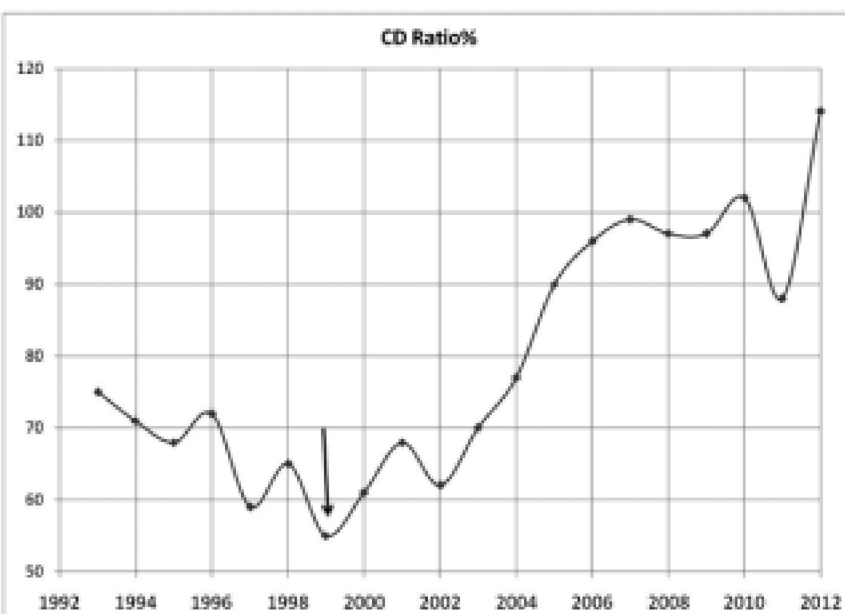
TRENDS IN THE BEHAVIOUR OF CD RATIO & GROWTH OF CREDIT, DEPOSITS CREDIT TO TOTAL PRIORITY SECTOR & AGRICULTURE IN NIZAMABAD

6.14 In the preceding Section, the analysis was on CD RATIO and related 2 variables pertaining to the whole state of AP. In this Section, we replicate the same analysis but at the district level. One of the study districts of the study is Nizamabad. We could succeed in getting required break up time series data only for Nizamabad . Regarding the other 2 districts of Krishna and Ananthapur, data are not made available. Hence, we present detailed analysis only for Nizamabad and in the succeeding Chapter only CD RATIO will be analysed for all the 3 districts.

6.15 Regime Change:

A close examination of the data points out a break-point around 2000. This is more clear from Graph 6.2. The graph pertains to all the banks operating in Nizamabad district. It can be seen that the CD RATIO was generally falling from 1996 to 2000, and rising thereafter. This suggests that the expansion of credit and deposits can be examined in two time frames, before 2000 and after 2000.

Graph 6.2 Credit Deposit Ratio in Nizamabad District



Detailed data on credit, deposits, CD RATIO and priority sector credit are presented in Table 6.7A

6.16 The estimates of growth rates in monetary and real terms are made by using exponential regression with interval and time dummies at the year 2000. The estimated growth rates in annual compound terms are presented in Table 6.7A and the bare results of the regressions are given in Appendix Table 6.B.

TABLE 6.7

Credit, Deposits, CD RATIO, Credit to Total Priority Sector & Agriculture in Nizamabad District -1992-2012

(Amount=Rs.crores)

Year	Credit	Deposits	CD Ratio%	Total Priority Sector Credit	Agriculture
1992-93	268	357	75	65	74
-94	307	432	71	79	88
-95	322	474	68	95	109
-96	376	522	72	117	136
-97	374	638	59	165	194
-98	491	753	65	152	200
-99	619	1118	55	175	212
-2000	688	1134	61	189	242
-2001	859	1261	68	158	203
-2002	869	1387	62	275	352
-2003	1056	1514	70	314	445
-2004	1239	1607	77	405	606
-2005	1547	1711	90	496	708
-2006	1761	1839	96	648	878
-2007	2168	2185	99	805	1087
-2008	2420	2421	97	890	1245
-2009	2619	3244	97	794	1138
-2010	3243	3189	102	941	1342
-2011	2985	3394	88	1196	1546
2011-12 (Feb)	4507	3964	114	1817	2068

Source : Annual Credit Plans, Nizamabad District, (various years).

TABLE 6.7A

Summary of Growth Rates of the 4 Variables— Nizamabad District

(*a*) In Current Prices:

Current Values	Deposits	Total Credit	Total PSA	Agriculture
Annual growth before 2000	18.8%	13.7%	18.8%	21.2%
Annual growth after 2000	11.1%	13.7%	18.8%	21.2%

(*b*) In Constant Prices:

Constant Prices	Deposits	Total Credit	PSA total	Ag. only
Annual growth before 2000	9.8%	5.0%	9.8%	11.9%

Constant Prices	Deposits	Total Credit	Total PSA	Ag. only
Annual growth after 2000	5.4%	10.0%	9.8%	11.9%

Source : Appendix Table 6.B.

6.17 In current prices, the deposits seem to have grown at a nearly 19% p.a. before 2000, but the growth rate fell to about 11% after 2000. Growth of deposits after 2000 was nearly 0.6 times the growth in the earlier period. However, total credit seems to have been unaffected by regime change. Before and after 2000, it remained at about 14%. Total credit expanded slower than total deposits before 2000 and grew faster than them after 2000.

6.18 The annual trend in priority sector credit after 2000 was the same as the trend in the earlier period, and priority sector credit was not affected by regime change. Its growth trend was uniform in both periods. Priority sector advances were growing faster than total credit but at the same rate as deposits at 18.8% p.a. before 2000 but after 2000, they grew faster than both total credit and deposits, at nearly 19% p.a. Credit to agriculture had a uniform trend in the two periods at about 21% p.a. This was faster than the trend in deposits, total credit as well as PSA in both periods.

6.19 Thus, after 2000 we see a fall in the rate of growth of deposits, while the growth rates of credit, priority sector credit and credit to agriculture and allied sectors remained stable. The post 2002 period marked a sharp drop in the rate of inflation.

6.20 In constant prices, real deposits seem have grown at nearly 10% before 2000. In the second period, their growth seems to have fallen to only 5.4%. This was nearly half the preceding period. Before 2002, real total credit was growing slower than deposits at 5% p.a.; while after 2002, it grew faster at nearly 10% p.a. The real growth of total credit after 2000 was twice the growth in the previous period.

6.21 Credit to total priority sector in constant prices grew at a stable rate of nearly 10% in both periods. Whereas before 2000 this was nearly twice the rate of growth of total credit, in the second period it was nearly the same. As to credit to agriculture at constant prices grew at a stable rate of nearly 12% in both the periods. While before 2000, this was more than twice the rate of growth of total credit, it was only slightly more than the latter in the second period. In both periods, the growth of credit to agriculture was slightly higher than the rate of growth of credit to the Priority sector.

APPENDIX

TABLE 6.A

Regression Results-Credit, Deposits, Credit to Total Priority Sector & Agriculture, AP

1. Deposits:	
Current Prices: Rsquare= 0.996	
Growth before and after 2002	20.6%
Time dummies do not test significant, indicating no change in the growth rate between the two periods.	
Constant Prices: Rsquare= 0.988	
growth before and after 2002	13.5%
Time dummies do not test significant, indicating no change in the growth rate between the two periods.	
2. Total Credit	
Current Prices: Rsquare= 0.998	
Growth before 2002	14.4%
growth after 2002	27.7%
Constant Prices : Rsquare= 0.994	
growth before 2002	7.6%
growth after 2002	20.7%
3. Total Priority Sector Credit:	
Current Prices: Rsquare: 0.996	
growth before 2002	17.0%
growth after 2002	27.9%
Constant Prices: Rsquare= 0.991	
growth before 2002	10.0%
growth after 2002	21.5%
4. Agriculture:	
Current: Rsquare: 0.995	
growth before 2002	12.3%
growth after 2002	31.9%
Constant Prices : Rsquare= 0.990	
growth before 2002	5.6%
growth after 2002	25.3%

Source : Calculated from the inputs in Table 6.5.

APPENDIX

TABLE 6.B

Regression Results—Growth Rates of Credit, Deposit, Priority Sector Credit in Current & Constant Prices, Nizamabad District.

1. Deposits: Current Prices : Rsquare= 0.989	
growth before 2000	18.8%
growth after 2000	11.1%
Constant Prices : Rsquare= 0.988	
growth before 2000	9.8%
growth after 2000	5.4%
2. Credit total: Current Prices : Rsquare= 0.992	
growth before and after 2000	13.7%
Real: Rsquare: 0.962	
growth before 2000	5.0%
growth after 2000	10.0%
3. Total Priority Sector Advances:	
Current Prices : Rsquare= 0.977	
growth before and after 2000	18.8%
Constsant Prices : Rsquare= 0.925	
growth before and after 2000	9.8%
4. Agriculture:Current Prices: Rsquare= 0.977	
growth before and after 2000	21.2%
Real: Rsquare: 0.928	
growth before and after 2000	11.9%

Source: Calculated from Table 6.8. The data are pooled from the Annual Credit Plans, Nizamabad District (various years).

CHAPTER-VII

Profiles of the study districts and analysis of CD ratio & priority sector credit allocation in study areas in AP

Aim & Chapter Frame:

7.1 The Chapter aims to present profiles and to analyse priority sector credit allocations was well as CD RATIO in the 3 study districts of Andhra Pradesh (AP). It is set out in three Sections. Historical origins, location etc. of the 3 districts of Nizamabad, Kadapa and Krishna belonging to 3 regions of AP are explained in Section I. This is followed by a comparative examination of socio-economic features of the study districts, including availability of banking services in the mid Section. The third Section, whose inputs are mainly sourced from Annual Credit Plans of the districts, analyses CD RATIOs, main sector-wise credit allocation etc.

I

PROFILES OF THE STUDY DISTRICTS

As explained in para 1.15, randomly we chose Nizamabad district from Telangana region, Kadapa district from Rayalaseema and Krishna district from Coastal Andhra region of AP. The accompanying map indicates their location. We begin with brief profile of Nizamabad.

Profile of Nizamabad District:

7.2 This is one of the 10 districts in Telangana region. Its name owes to the Nizam of Hyderabad, Asaf Jahi VI. Prior to the Nizam rule, it was known as Indur, derived from the name of Indradatta, the king who ruled the region during 5th century[1]. Consequent on the restructuring of the administrative units into smaller units in 1985 during NT Rama Rao government, its former 9 Taluks were reorganized into 35 Mandals. For administrative purpose, there are 3 Revenue Divisions viz. Nizamabad, Bodhan and Kamareddy and each division encompasses over 10 Mandals[2]. The district is inhabited by 4.85 lakh households settled in 854 villages and 3 cities/towns[3].

7.3 It is bounded on the North by Adilabad district, on the East by Karimnagar district, on the South by Medak district and on the West by Nanded district of Maharashtra state and Bidar district of Karnataka. It is served by different types of banks with their network of branches spread over the district. There are 19 Public Sector Banks with 162 branches, 8 Private Sector Banks having 18 branches, Deccan Grameen Bank with 32 branches and the Nizamabad District Central Cooperative Bank whose presence is conspicuous in almost all the Mandals with 32 branches. Also credit facility is extended by the AP state Finance Corporation[4].

Profile of Kadapa District:

7.4 After the death of the former Chief Minister YSR Reddy, it is renamed as YSR district but still many call it Kadapa. The word “Kadapa” in Telugu means threshold/entry point of house. It was threshold point (god’s Kadapa) to cross before entering into the famous pilgrim temple of Tirupati[5]. The district is bounded by Kurnool district in the North, on South by Chittur district, on the East by Nellore and on the West by Ananthapur district.

7.5 For administrative purpose, it is organized under 3 Revenue Divisions composed of 51 Mandals. Penna is the major river flowing through the district. It is inhabited by 5.86 lakh households living in 876 villages and 9 cities/towns[6]. It is served by various types of banks with 240 branches, of which the share of nationalized banks is over 60% followed by the branches of Regional Rural Banks (RRBs) accounting for a third. In the cooperative field, there are 77 Primary Agricultural Cooperative Credit Societies (PACS) that are funded by the 16 branches of the District Central Cooperative Bank (DCCB).

Profile of Krishna District:

7.6 The name of the district owes to the perennial river Krishna flowing through the district. Earlier its name was Machilipatnam and therefore even now its head quarters are at Machilipatnam. The district is surrounded in the East by Bay of Bengal and West Godavari district, on South by Bay of Bengal, on West by Guntur and Nalgonda districts and on North by Khammam district.

7.7 The district is well connected with the capital city of the state and other places both by rail and road. Also it is endowed with a coast line of 88 KMs and harbours[7]. It is divided under 50 Mandals, which fall under 4 Revenue Divisions viz. Bandar, Vijayawada, Gudivada and Nuzivid. The district is inhabited by 10.1 lakh households living in 949 villages and 6 cities/towns[8]. Banking facilities are fairly spread over in the district with the services of various types of banks. Out of the 494 bank branches, nationalized banks constitute 70% and the remaining by other banks including the branches of the RRB. These apart, there are 425 PACS that are financed by 49 branches of the Krishna DCCB.

II

SELECT ASPECTS OF THE SAMPLE DISTRICTS—A COMPARATIVE STUDY

In the foregoing we traced the origins and touched topography of the 3 study districts. We now explain and compare select features of the districts.

Area, Population & Density:

7.8 Details of area and population of the districts are given in Table 7.1. While in area (Row 1) Kadapa district is nearly twice bigger than the other 2 districts but in population and density, Krishna is bigger (Rows 2 &3). The proportions of both the male and female population (Rows 4&5) among the districts are significantly not different from each other including the state average. Sex Ratio, (female to male) is favourable in the districts and the state. The Ratio is closer to unity and in Nizamabad district, it exceeded unity (103.8%,vide Row 6). In the recent decade, relatively Kadapa district recorded slightly higher growth in population at 1.1% p.a.(Row 7).

Social Facets:

7.9 In terms of overall literacy rate, while Nizamabad is relatively backward compared to the state average and other two districts, vide Table 7.2, Row 1. The literacy rate of Krishna district is higher at 74.4%. Although over time, differences between literacy levels of male and female population are abridged, still visible differences persist. Compared to the literacy of the male population, female literacy is much lower in Nizamabad and Kadapa and the least in Krishna. In terms of social classes of SC and ST (Scheduled Caste & Tribes) population, relatively the proportion of the SCs is higher at 17.8% in Krishna. With regard to ST population, Nizamabad is socially more backward than the other 2 districts. Urbanisation, a crude measure of development, data reveal that Krishna district is more developed with 41% of its total population living in urban areas (Row 3).

TABLE 7.1

Area & Population—Comparative Study Districts of AP

Districts→/ Items↓	Nizamabad	Kadapa	Krishna	AP
	1	2	3	4
1. Area (000 KM^2)	7.96	15.36	8.73	275.05
2. Population (2011) (lakhs)	25.5	28.9	45.3	846.7
3. Density (per KM^2, 2011)	320	188	519	308
4. % of Male Population	49.0	50.3	50.1	50.2
5. % of female Population	51.0	49.7	49.9	49.8
6. Sex Ratio (%)	103.8	98.3	99.7	99.2
7. Simple Growth of Population (% p.a. during 2001-11)	0.9	1.1	0.8	1.0

Sources : Census of India—Provisional Population Totals, AP, Series 29, Papers 1& 2, Vol.1 of 2011 & Statistical Abstract, AP, 2010.

TABLE 7.2

Social Dimensions —Comparative Study Districts of AP

Districts→/ Items↓	Nizamabad	Kadapa	Krishna	AP
	1	2	3	4
1. Literacy Rate(2011,%)				
(a) Overall	62.3	67.9	74.4	67.7
(b) Male	72.7	78.4	79.1	75.6
(c) Female	52.3	57.3	69.6	59.7
(d) Rural	57.4	63.7	69.0	61.1
(e) Urban	78.6	76.0	82.1	80.5
2. Proportion (2001,%)				
(a) SC Population	14.8	15.7	17.8	16.2
(b) ST Population	7.1	2.4	2.6	6.6
3. Urbanisation(2011,%)	23.0	34.1	41.0	33.5

Sources : Census of India—Provisional Population Totals, AP Series, 29 Papers 1&2, Vol.1 of 2011, & Statistical Abstract, AP, 2010.

Land Holdings, Sown & Irrigated Areas:

7.10 In all the 3 districts, Marginal and Small Farmers (MF & SF) operating land upto 1 ha (hectare) and 1 to 2 ha dominate over other size classes of farmers,vide Table 7.3. Their share in total holdings is over 80%. But in acreage, their share increased over the time but even then, it is at 50% to 65% in the 3 districts. These are higher than the state average of 45.4% (Row 2). Due to the endowment of adequate canal irrigation, in Krishna district the proportions of both sown and irrigated areas are higher than in the other 2 districts and state average (Rows 3&4). Also rainfall is higher in the district at 1034 millimetres (mms).

TABLE 7.3

Land Holdings, Sown & Irrigated Areas —- Comparative Study Districts of AP

Districts→/ Items↓	Nizamabad	Kadapa	Krishna	AP
	1	2	3	4
1. % Share of SF in Holdings	89.9	80.0	88.4	83.5
2. % Share of MF&SF in Land Ownership	65.4	49.7	58.0	45.4
3. % of Net Sown Area	32.5	24.4	56.6	36.7
4. % of net Irrigated Area (2009-10)	51.4	42.0	60.1	41.8
5. Rainfall (mms, Normal)	1036	700	1034	940

Source : Statistical Abstract, AP 2010.

Working Population & Income Levels:

7.11 Main workers constitute about 45% of the total population, vide Table 7.4,Row 1. In Nizamabad district, it is close to 50%. Only in Nizamabad, proportion of cultivators is higher than the proportion of agricultural labourers, but in the other two districts and also the state as a whole, the reverse is true. Nizamabad appears to be having more household enterprises. Modern industrial workers, included in "Other Workers", are sizeable at 30% to 40% of the total main workers (Row 5). Krishna is relatively richer than the other two districts both in terms Gross District Domestic Product (GDDP) and per capita GDDP in current prices in 2009-10. While the average per capita income of AP is about Rs. 53000, people in Krishna have Rs.63000 which is higher than the state average and also Nizamabad (Rs. 45000) and Kadapa (Rs. 44000)[9].

TABLE 7.4

Working Population—Comparative Study Districts of AP

Districts→/ Items↓	Nizamabad	Kadapa	Krishna	AP
	1	2	3	4
1. Proportion of Main & Marginal Workers (2001Census,%)	49.4	44.8	44.0	45.8
2. % of Cultivators (in Working Population)	31.4	27.1	12.7	25.5
3. % of Agl. Labourers (in Working Population)	23.4	32.1	42.7	33.8
4. % of Household Industrial Workers (in Working Population)	14.6	5.3	2.9	4.7
5. % of Other Workers	30.6	35.5	41.7	36.0

Sources : Statistical Abstract 2010, AP.

Credit Facilities:

7.12 To gauge institutional credit facilities, we consider total number of commercial banks, their branches, PACS and number of branches of the DCCBs. The needed data are given in Table 7.5. Among the sample districts, Krishna district is richer than others and also it is served by the highest number commercial bank branches at 468, compared to the state average of 302 (average per district) and 191 in Nizamabad district (Row 1).Due to location of more bank offices in the district, population served per branch is the least at 10000 which is much lower than the state average and other 2 districts. Also in the Krishna district, number of PACS organised are more at 425 than 77 in Kadapa and 142 in Nizamabad districts. Again, in terms of DCCB branches, Krishna district is endowed with 49 branches (in the other 2 districts the corresponding numbers are 16 and 32).

TABLE 7.5

Commercial & Cooperative Banking Credit Facilities—Comparative Study Districts in AP (2010)

Districts→/ Items↓	Nizamabad	Kadapa	Krishna	AP
	1	2	3	4
1. Total No. of Bank Offices	191	219	468	302 (per district) (total 6949)
2. Population covered per Bank	14000	13000	10000	12000
3. No.of PACS	142	77	425	—-
4. No of DCCB Branches	32	16	49	—-

Sources : Statistical Abstracts, AP and Handbook of Statistics of the Study Districts.

III

CD RATIO, MAIN SECTOR-WISE PRIORITY SECTOR CREDIT & OVERDUES IN THE SAMPLE DISTRICTS OF AP

7.14 As a first step to understand and examine priority sector credit availed in the sample districts and by the sample respondents, we examine trends in Credit-Deposit Ratios (CD RATIO). Along with the information of CD RATIO of AP state, details of the CD RATIOs in the sample districts during 1995-2010 are given in Table 7.6. It may be noted here that while for CD RATIO analysis the data are sourced from the RBI publications of Basic Statistical Returns of SCBS in India, for the succeeding analysis, the data were pooled from Annual Credit Plans of the districts.

TABLE 7.6

Credit-Deposit Ratios: 3 Sample Districts & AP——All SCBs

(Credit/Deposit Amounts: Rs. Crores)

Items→/ Year↓	Andhra Pradesh			District Nizamabad			District Kadapa			District Krishna		
	Credit	Deposit	CDR (%)	Credit	Deposit	CDR (%)	Credit	Deposit	CDR (%)	Credit	Deposit	CDR (%)
	1	2	3	4	5	6	7	8	9	10	11	12
1995-96	17504	22036	79	271	504	54	321	476	67	848	1333	64
1996-97	20242	26580	76	291	580	50	376	604	62	948	1506	63
1997-98	NA	NA	—	333	709	47	415	720	58	1039	1767	59
1998-99	NA	NA	—	401	865	46	NA	NA	—	NA	NA	—
1999-2000	29779	46375	64	457	1026	45	556	1079	52	1445	2535	57
2000-01	34429	54410	63	529	1149	46	NA	NA	—	1607	2983	54
2001-02	NA	NA	—	621	1260	49	NA	NA	—	1899	3390	56
2002-03	45876	73296	63	753	1392	54	852	1613	53	2368	3786	63
2003-04	55990	84797	66	888	1484	60	955	1745	55	3071	4123	75
2004-05	73462	98225	90	1136	1564	73	1366	1816	75	3699	4733	78
2005-06	95337	117198	81	1403	1726	81	1775	2071	86	5245	5285	99
2006-07	103322	141189	73	1686	2063	82	2179	2527	86	6370	6693	95
2007-08	161553	178647	90	2002	2392	84	2587	3193	81	8018	8137	99
2008-09	218350	210385	104	2457	2939	84	3058	3932	78	9636	9722	99
2009-10	262086	249264	105	3111	3302	94	3811	4479	85	11387	10995	106

Source : Basic Statistical Returns of Scheduled Commercial Banks in India, RBI

Note : In this Table figures under AP (cols 1 to 4) pertain to summation of 23 districts in the state (& not mere total of the 3 districts).

7.15 It is observed from Table 7.6 that in the state as well as in the 3 districts, upto the mid 2000s, relatively the values of the CD RATIOs were low. It is also observed that in most of the years, CD RATIOs values of AP state were higher than the sample 3 districts. It implies that compared to other 20 districts, in the 3 districts credit in relation to deposits has been lower. A clear trend of increase is witnessed from the mid 2000s, peaking to even more than 100%ϕ . Thus, in the recent years, the SCBs in AP in general and the 3 districts in particular stepped up their advances.

7.16 We look into growth of credit and deposits during 1995-2010. We worked out growth in nominal terms by considering the two end points for credit and deposits (cols 1&2, 4&5, 7&8. 10&11, of Table 7.6). We are

ϕ Generally the sum of CD RATIO + Investment Deposit Ratio is equal to unity (100%), > or < than unity. If it is > unity, it means the excess is tapped from reserves, share capital, profits etc. In 2010-11, for the SCBs in India, sum of the 2 Ratios are 76.5% + 34.1%=110.5% (& if we add Cash-Deposit Ratio, it is 118.8%[10]).

aware of its limitations as it fails to take account of ups and downs in the intermediate years. It appears that growth of both credit and deposits in the state is higher than in the 3 sample districts, implying in other districts of AP the growth appears to have been relatively higher. In AP, while credit distributed increased by about 15 times, deposits rose by about 11 times. The corresponding figures for the 3 districts are lower compared to the state average. While in Nizamabad credit and deposits grew by 11½ and 6½ times respectively, in Kadapa and Krishna districts the corresponding figures are 12 & 9 times, and 13 & 8 times during the 25 year period. Both in the state as a whole and in the sample districts, the increase in credit was higher than the increase in deposits.

Annual Credit Plans:

7.17 Credit plans are prepared at district level under the aegis of a nominated Lead Bank for each district. They are finalised generally by the close of financial year for the ensuing year. Targeted sectoral data under some 6 heads are given, along with actual total credit advanced as % of targeted credit. To place confidence on the estimated (targeted) allocations, let us know to what extent targeted/planned amounts deviated from actual allocations. With regard to Nizamabad, we succeeded in pooling time series data for a longer period of 2 decades beginning from 1992-93. However, in the case of Kadapa and Krishna, as the Lead Banks not cooperated fully, the time span is much shorter viz. a few years. Hence, in single Table credit data of all the 3 districts could not be recorded. We examine the 3 districts separately, beginning with Nizamabad.

Analysis of Annual Credit Plans of the Districts

I. Nizamabad District

Pattern of Actual Allocations to Farm, NFS & Other Sectors —Nizamabad District :

7.18 For convenience, priority sector credit actually advanced by all the SCBs including the RRB and PACS is classified under 4 heads as shown in Table 7.7. As recorded in parentheses under col 4, the total priority sector credit increased manifold during the 2 decade period of 1992-2012. From less than Rs.100 crores, it swelled to over Rs. 2000 crores. As the increase is about 28 times, after adjusting for inflation, in real terms the growth is substantial.

7.19 In most of the years, 70% to 4/5ths of the total priority sector credit was allocated to agriculture and its allied activities (col 1). Most of these loans were crop loans (short term).Non Farm Sector (NFS) such as Small Scale Industries (SSI) and business services received a tenth of the total credit (col 2). All other priority sector activities were allocated about a tenth of the total priority sector credit.

TABLE 7.7

Relative Shares in Actual Allocations to Agriculture, NFS(SSI) & Other Priority Sectors - Nizamabad District

(%)

Items→ Year↓	Crop & Term Loans to Agriculture & Allied Activities	NFS (SSI & Business Services)	Other Priority Sectors	Total Actual Allocations (4=1+2+3)	Allocations (col 4) as % of Targeted
	1	2	3	4	5
1992-93	88	7	5	100(74)	84
1993-94	89	5	6	100(88)	79
1994-95	88	6	6	100(109)	89
1995-96	86	7	7	100(136)	99
1996-97	85	8	7	100(104)	121
1997-98	76	8	16	100(200)	106
1998-99	82	8	10	100(212)	75
1999-2000	78	14	8	100(242)	77
2000-01	78	9	13	100(203)	48

Items→ Year↓	Crop & Term Loans to Agriculture & Allied Activities	NFS (SSI & Business Services)	Other Priority Sectors	Total Actual Allocations (4=1+2+3)	Allocations (col 4) as % of Targeted
	1	2	3	4	5
2001-02	78	11	11	100(352)	62
2002-03	71	11	18	100(445)	96
2003-04	67	17	16	100(606)	96
2004-05	70	15	15	100(708)	95
2005-06	74	11	15	100(878)	100
2006-07	74	13	13	100(1087)	133
2007-08	73	13	14	100(1215)	86
2008-09	70	16	14	100(1137)	72
2009-10	70	18	12	100(1342)	75
2010-11	77	11	12	100(1546)	84
2011-12	87	6	7	100(2068)	76

Source : Nizamabad District Annual Credit Plans, Lead Bank, SBH, Nizamabad

Note :
1. NFS=Non-Farm Sector, of which one component is SSI(Small Scale Industries) and another business-services.
2. Figures in parentheses are Rs. crores.

Looking at col 5 figures, we find that the actual credit disbursed as proportion to the targeted (planned) credit, barring a couple of years, was about 3/4ths to 4/5ths and in a few years, the credit exceeded 100%. The mean value is 87%. Therefore, the targeted allocations are not far removed from actual allocations.

Pattern of Targeted Allocations with Sub Sectors of Agriculture—Nizamabad District :

7.20 We decompose priority sector credit allocated to agriculture under 4 sub sectors, along with NFS etc. as shown in Table 7.8. The time span covered is 1995-2013. All the figures in the Table are estimates or targeted allocations. The Table also furnishes the share of non-priority sector in "total bank credit". As the Annual Credit Plans do not provide ANBC or CEOBE (Adjusted Net Bank Credit or Credit Equivalent of Off-Balance Sheet Exposure) figures, we assume that total bank credit is ANBC. In all the years, the share of non-priority advances is around 10% (col 9), implying priority sector advances are about 90%, which is twice higher than the stipulated target of 40%. As the differences between actual and planned are not much, one gets suspicion as to the authenticity of the estimates. The banks may be lending very little in urban and metropolitan areas. Further research is needed to explain how banks are able to lend a very proportion of their total credit in the rural areas.

7.21 A close look at col 5 figures informs that the share of agriculture has been around 80% in the initial 7 years and thereafter its share is about two-thirds in total priority sector credit. Within agriculture, crop loans (col 1) are the biggest component, followed by minor irrigation (col 3) and long term loans (col 2). Plantation and horticulture were allocated less than 1% of the total credit (col 4). Next in order of importance are NFS and other priority sector activities. Each one of them was allocated about 10%-15% (cols 6&7).

TABLE 7.8

Pattern of Main Sector-wise Targeted Amounts Under Priority Sector Allocations—Annual Credit Plans of All Banks in Nizamabad District (%)

Items→ Year↓	Crop Loans	Agl. Term Loans*	Minor Irrigation	Plant-ation& Horti-culture	Sub-Total (5=1 to 4)	NFS (SSI& Business Services)	Other Priority Sector	**Total Priority** Sector (8=5+6+7)	Non-Priority Sector	Total Bank Credit (10=8+9
	1	2	3	4	5	6	7	8	9	10
1995-96	75	5	11	neg.	92	8	—	100	[10]	[100]
1996-97	67	6	9	neg.	82	15	3	100	[13]	[100]
1997-98	67	5	10	neg.	82	14	4	100	[12]	[100]
1998-99	66	6	9	neg.	81	6	13	100	[11]	[100]
1999-2000	65	6	9	neg.	80	6	14	100	[10]	[100]
2000-01	65	5	3	neg.	73	9	18	100	[11]	[100]
2001-02	67	7	4	2	80	9	11	100	[9]	[100]
2002-03	63	4	2	neg.	69	12	19	100	[10]	[100]
2003-04	63	3	2	0.7	68	11	21	100	[9]	[100]
2004-05	61	2	4	neg.	67	14	19	100	[8]	[100]
2005-06	64	3	4	0.2	71	12	17	100	[8]	[100]
2006-07	63	NA	10	NA	73	12	15	100	NA	NA
2007-08	61	4	3	1	69	10	21	100	[8]	[100]
2008-09	59	4	3	1	69	10	21	100	[8]	[100]
2009-10	59	5	3	0.2	67	10	23	100	[8]	[100]
2010-11	51	5	3	0.3	58	10	32	100	[8]	[100]
2011-12	59	5	2	0.2	66	6	28	100	[8]	[100]
2012-13	55	6	4	0.5	65	5	30	100	[7]	[100]

Source : Nizamabad District Annual Credit Plans, Lead Bank, SBH, Nizamabad.

Notes :
1. *Includes land development and farm mechanization.
2. Figures in square parentheses [ ] are %s to priority & non-priority total bank credit. All other figures are % to targeted priority sector total credit.

Pattern of Allocation of Priority sector credit by Top 5 Banks in Nizamabad District :

7.22 As referred to earlier (para 7.3), the district is served by about 30 banks—public and private sector banks as well as Deccan Grameen Bank and DCCB. Among the 30 banks, in terms of credit deployment the top 5 banks are : State Bank of Hyderabad (SBH), Andhra Bank, Syndicate Bank, Deccan Grameen Bank (RRB) and the DCCB. We present priority sector credit data by three broad heads as allocated by the top 5 banks. The three sectors are briefly named as Agriculture, NFS(Non Farm Sector) and OPS (Other Priority Sectors). For convenience, for select years, the data are provided in the Table for the first 3 years beginning from 1992-93, 3 years of mid 2000 and recent 3 years as shown in Table 7.9.

7.23 A few observations deserve attention. In all the years of the study, the 5 banks accounted for a lion's share in the total priority sector credit, vide cols 21 to 24. Whether in total or in individual sectors, the shares of the 5 banks have been around 70% - 90%. Until recently, the Nizamabad DCCB claimed a share of about 30%-40%. In the recent years, however, relative ranks altered. Today in the districts, the SBH followed by Andhra Bank are claiming the highest shares in the total priority sector (cols 1 to 8). Next in order of importance are Syndicate Bank and the RRB.

Over Dues:

7.24 To assess magnitude of over dues of priority sector advances, break up data are not published in the Annual Credit Plans of the district. However, at macro level of India for the recent 1½ decades, breakup data on NPAs are available, vide Ch. V (Table 5.3). Earlier (para 5.8) we noted that NPAs in the recent years are 2%-3%. NPAs of priority sector credit (3 ½%—4% of advances) are twice to thrice higher than non-priority advances (about 1½% of advances). Keeping this macro picture in view, we examine over dues of priority and non-priority advances as whole. It is to be noted that NPAs and over dues are not the same.

TABLE 7.9

Relative Shares of Top 5 Banks in Actual Allocations to Agriculture, NFS(SSI) & Other Priority Sectors—— Nizamabad District

(%)

Items→ Year↓	State Bank of Hyderabad				Andhra Bank				Syndlcate Bank				Deccan Grameen Bank			
	Ag. & Allied	NFS	OPS	Total	Ag. & Allied	NFS	OPS	Total	Ag. & Allied	NFS	OPS	Total	Ag & Allied	NFS	OPS	Total
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
1992-93	20	40	20	22	8	2	8	7	6	—	4	5	11	6	23	11
1993-94	21	8	40	21	8	10	12	8	8	neg.	4	7	14	5	20	14
1994-95	21	29	14	21	7	7	14	7	10	neg.	10	9	13	3	29	13
2000-01	20	5	39	23	11	32	15	14	7	1	15	7	6	neg.	8	5
2001-02	19	45	48	24	12	21	15	13	7	5	8	7	8	0.5	7	5
2002-03	21	36	27	24	12	34	11	14	10	2	11	9	11	0.6	7	9
2008-09	26	40	41	30	26	32	21	26	13	3	10	11	14	0.5	5	11
2009-10	30	34	17	29	15	32	24	19	8	0.8	4	6	9	7	4	8
2010-11	27	36	32	29	19	10	9	17	10	4	4	8	10	0.6	9	9
2011-12	26	35	34	27	17	32	15	18	13	4	7	12	12	0.9	11	11

Items→ Year↓	Nizamabad DCCB				Total Top 5 Banks				Total of All the Banks			
	Ag & Allied	NFS	OPS	Total	Ag & Allied	NFS	OPS	Total	Ag & Allied	NFS	OPS	Total
	17	18	19	20	21	22	23	24	25	26	27	28
1992-93	46	neg.	nil	41	85	48	55	86	100	100	100	100
									(65)	(5)	(4)	(74)
1993-94	40	nil	nil	36	91	33	76	85	100	100	100	100
									(80)	(4)	(5)	(69)
1994-95	40	neg.	nil	35	91	39	67	85	100	100	100	100
									(95)	(7)	(7)	(109)
2000-01	26	11	4	37	90	49	81	86	100	100	100	100
									(158)	(19)	(26)	(203)
2001-02	48	nil	nil	38	94	73	81	89	100	100	100	100
									(275)	(38)	(39)	(352)
2002-03	40	nil	7	29	94	73	63	85	100	100	100	100
									(314)	(50)	(81)	(445)
2008-09	10	0.2	0.2	7	89	76	77	85	100	100	100	100
									(794)	(180)	(164)	(1138)
2009-10	23	nil	0.2	16	85	74	49	78	100	100	100	100
									(941)	(239)	(162)	(1342)
2010-11	22	nil	nil	17	88	51	53	80	100	100	100	100
									(1196)	(163)	(187)	(1546)
2011-12	18	nil	3	16	86	72	66	84	100	100	100	100
(Upto Feb.)									(1817)	(111)	(137)	(2068)

Source : Nizamabad District Annual Credit Plans, Lead Bank, SBH, Nizamabad.

Notes :

1.* Includes land development and farm mechanization.

2. Figures in parentheses are Rs. crores. 3. Sums of

(a) cols. 1,5,9,13 &17 of the top 5 banks included in the Table = col.21

(b) cols. 2,6,10,14&18 of the top 5 banks included in the Table = col.22

(c) cols. 3,7,11,15&19 of the top 5 banks included in the Table = col.23

(d) cols. 4,8,12,16&20 of the top 5 banks included in the Table = col.24

4. In 1992-93, the shares of the top 5 banks are 85% (in Rs. 65 crores treated as 100 agricultural credit), 48% (of Rs.5 crores treated as 100, NFS), 55% of Rs.4 crores (regarded as 100, OPS) & 86% of Rs.74 crores treated as100, total of all priority sectors).

Proportion of Over Dues to Demand -Nizamabad District:

7.25 Over dues are defined as the excess of 'Demand'ψ over recoveries/collections and over dues are expressed as proportion to demand. To assess magnitude of over dues, data are culled from the Annual Credit Plans of the district. As can be seen from Table 7.10, data are given for 18 years beginning from 1991-92 to 2008-09, as data are not available for the recent 3 years. We at first examined % of over dues of all the banks in the district by looking at col 3 figures. It is observed that during the period under review, over dues did not decrease much and they are around 30%-40% of demand. Another notable observation is that among institutional lenders, in terms of demand, cooperative banks are the largest lenders. Also their % over dues are relatively higher than other individual banks in most of the years (Row 4).

II. Kadapa District

Pattern of Allocations to Farm, NFS & Other Sectors—Kadapa District:

7.26 As in Nizamabad district, in Kadapa district too, in the total credit advanced by all the institutional credit agencies, a substantial part was allocated to priority sector. While in 2009-10, 82% of the total credit was allocated to priority sector which is twice that of the target fixed by the RBI. Even in 2012-13, in the targeted allocation, its share is still higher at 91%, vide Appendix Table 7A. This observation is against the macro and sub macro achievement of the stipulated target around 40%. The banks may be lending very little in urban and metropolitan areas. In any case to know the truth, a deeper probe is needed.

TABLE 7.10

Overdues of Major Banks & All Banks, Nizamabad District

(Amount Rs.crores)

Year→ (end June) Details→/ Banks	1991-92			1992-93			1993-94			1994-95		
	Demand	Re-covery	OD %	Demand	Re-covery	OD %	Demand	Re-covery	OD %	Demand	Re-covery	OD %
	1	2	3	1	2	3	1	2	3	1	2	3
1. SBH	21	11	46	29	17	42	32	20	39	41	25	40
2. Andhra Bank	8	2	75	12	5	58	11	5	53	13	7	41
3. Syndicate Bank	17	7	58	18	7	58	17	9	47	19	9	52
5. RRB (Deccan/ SreeRama)	10	8	23	12	9	26	16	12	25	NA	NA	NA
4. NZB DCCB	41	19	54	48	22	55	56	30	46	65	30	54
6. Total of 1 to 5	97	47	52	119	60	50	132	76	42	138	71	49
7. All the Banks in the District	119	57	48	49	71	52	166	89	46	173	87	50

ψHere 'Demand' means total amount of scheduled principal and interest to be collected on a given date.

Year→ (end June) Details→/ Banks↓	1995-96			1996-97			1997-98			1998-99		
	Demand	Re-covery	OD %	Demand	Re-covery	OD %	Demand	Re-covery	OD %	Demand	Re-covery	OD %
	1	2	3	1	2	3	1	2	3	1	2	3
1. SBH	47	30	36	50	31	37	52	35	34	56	40	30
2. Andhra Bank	10	6	40	14	10	32	11	7	39	13	8	4
3. Syndicate Bank	13	7	50	24	15	38	11	7	39	17	11	40
4. NZB DECCB	73	40	45	84	51	39	24	13	43	105	67	37
5. RRB	NA	NA	NA	24	14	40	NA	NA	NA	28	17	3
6. Total of 1 to 5	143	83	42	196	121	38	98	62	37	219	143	35
7. All the Banks in the District	180	98	46	234	135	42	214	128	40	266	173	35

Note:Col 3= (col 1- col 2)= OD.Hence, OD as % of Demand=[(col 1 - col 2) col 1] 100.

(Amount Rs.crores)

Year→ (end June) Details→/ Banks↓	1999-2000			2000-01			2001-02			2002-03		
	Demand	Re-covery	OD %	Demand	Re-covery	OD %	Demand	Re-covery	OD %	Demand	Re-covery	OD %
	1	2	3	1	2	3	1	2	3	1	2	3
1. SBH	63	45	28	61	45	26	84	58	32	79	51	35
2. Andhra Bank	34	29	15	35	30	16	46	31	34	49	33	32
3. Syndicate Bank	17	11	34	17	12	34	29	20	30	30	24	22
4. DCCB	140	92	34	146	100	32	181	136	25	191	143	25
5. RRB	30	19	38	33	22	36	35	25	30	37	26	29
6. Total of 1 to 5	284	196	31	292	209	28	375	270	28	386	277	28
7. All the Banks in the District	336	219	35	337	233	31	419	296	30	447	312	30
	2003-2004 (end Sep)			2004-05 (end March)			2005-06(end March)			2006 -07 (end March)		
1. SBH	95	65	31	95	65	31	74	48	35	122	81	34
2. Andhra Bank	70	39	44	70	39	44	46	31	34	43	32	26
3. Syndicate Bank	17	12	34	17	12	34	29	20	30	30	22	26
4. DCCB	262	136	48	262	136	48	213	112	48	267	201	25
5. RRB	47	37	22	47	37	22	52	44	15	13	8	35
6. Total of 1 to 5	491	289	41	491	289	41	414	255	38	475	344	28
7. All the Banks in the District	551	199	42	551	320	231	477	282	41	1316	759	42

(Amount Rs.crores)

	2007-08 (end March)			2008-09 (end March) .		
	Demand	Re-covery	OD %	Demand	Re-covery	OD %
	1	2	3	1	2	3
1. SBH	155	115	26	74	48	35
2. Andhra Bank	70	39	44	46	31	34
3. Syndicate Bank	17	12	34	29	20	30
4. Nizamabad DCCB	269	211	21	213	112	48
5. RRB	77	66	14	52	44	15
6. Total of 1 to 5	588	443	25	414	255	38
7. All the Banks in the District	678	471	31	471	282	41

Source : Annual Credit Plans, Nizamabad District, Lead Bank, SBH (various years).

Notes :Over Dues (OD)=Demand—Recovery, Col 3= (col 1 - col 2)= OD. Hence, OD as % of Demand=[(col 1 - col 2)¸col 1] x100. 2.SBH=State Bank of Hyderabad, NZB DCCB=Nizamabad District Cooperative Bank, RRB= The Regional Rural Bank in the district is called Deccan (Now)/Sree Rama (earlier) Grameena Bank.

7.27 Based on the Annual Credit Plans data published by the Lead Bank, Kadapa district, we now examine pattern of sectoral allocation of priority sector credit. The data are presented decomposing total priority sector credit under 3 broad heads, with 3 sub-sectors of agriculture, vide Table 7.11. We find from col 7 figures that total priority sector credit actually disbursed as % of planned (targeted) allocation varied between 87% and 107%, with mean value of 97%. Hence, the targeted figures given in the last Row (for 2012-13) are likely to be realised with marginal changes.

7.28 During the decade of the study (2003-13), the total amount of priority sector credit was increased nearly by 6 times, vide figures in parentheses in col 7. Agriculture and its allied activities secured 70%-75% of total priority sector credit. Within agriculture, production credit (crop loans) are the major item claiming about 60% of the total priority sector credit (col 1). The share of long term loans is marginal about 3%—7% (col 2). Allied activities like sheep-goat-poultry farming was allocated in many years more than 10% (col 3). NFS including SSI and small business were allocated about a tenth of the total credit (col 5). “Other Priority Sector Credit” includes advances to Self Help Groups (SHGs), export credit, housing, education etc. These were allocated 13% - 20% of the total credit (col 6).

TABLE 7.11

Priority sector credit Allocations to Agriculture, NFS & Other Priority Sectors— Kadapa District

(Rs. Crores)

Items→ Year↓ (end June) Target (7=4+5+6)	Crop Loans	Term Loans	Allied Activities of Agriculture	Total Ag (4=1+2+3)	NFS (SSI)	Other Priority Sector Credit Allocations	Total Actual as % of	col. 7 (Actual)
	1	2	3	4	5	6	7	8
2003-04	61	4	4	69	7	24	100(559)	—
2004-05	65	6	NA	71	10	19	100(659)	--
2005-06	58	4	6	68	10	22	100(1041)	107
2006-07	61	5	11	77	10	13	100(1086)	97

Items→ Year↓ (end June) Target (7=4+5+6)	Crop Loans	Term Loans	Allied Activities of Agriculture	Total Ag (4=1+2+3)	NFS (SSI)	Other Priority Sector Credit Allocations	Total Actual as % of	col. 7 (Actual)
	1	2	3	4	5	6	7	8
2007-08	57	3	15	75	10	15	100(1383)	107
(from 2008-9 end March)								
2008-09	57	3	13	73	9	18	100(1351)	89
2009-10	54	5	13	72	10	18	100(1661)	96
2010-11	55	4	10	69	10	21	100(2009)	99
2011-12*	64	4	7	75	7	18	100(2231)	87
(2012-13** **(Target)**	51	7	15	73	7	20	100(3234)	—

Source : Annual Credit Plans 2012-13 & 2009-10, Lead District Office, Syndicate Bank, Kadapa, 2010 & 2013.

Notes : *1. These are provisional as on **31-12-2012**.

**2. These are targeted (not actual) priority sector allocations.

Magnitude of Overdues of Priority Sector Advances in Kadapa District—Major Banks-wise :

7.29 The Annual Credit Plan publications do not provide data on Non-Performing Assets (NPAs). However, in the case of Kadapa district, break up data both bank-wise and sector-wise for priority sector credit over dues data are published for the recent years. They contain details of "demand", recovery and over dues (balance). As the data for non-priority sector credit are not available, comparative study of over dues of credit allocated to priority and non-priority sectors is not possible. Demand in this analysis means scheduled collection of due instalments and interest. In Table 7.12, for the top 4 banks and for all the banks as a whole (Row 6), details of over dues are given for the period 2003-04 to 2010-11. One clear observation is that the absolute size of over dues sharply decreased from 2005-06. While in the 1st two years of the study, at the aggregate of all the banks, over dues were about Rs.3700 crores and Rs.4200 crores, in the subsequent years they were reduced to around Rs.500 crores (col 1). However, the decreases in the proportions of over dues to demand are not significantly different. They are around 30% of the demand.

7.30 The foregoing observations hide some realities that can be unravelled by scrutinising the performance of individual banks. Among the top 4 institutional lenders in the district, the credit recovery of the DCCB (Row 4) is not good, rather worrying. Over dues as % of demand were 50%-60%. The recoveries of the APGB (RRB) are a shade better than the DCCB but the proportions of over dues are on high side (about 25% to 30%, vide Row 2).

TABLE 7.12

Priority Sector Advances —Overdues in Kadapa District

(Major Banks-wise)

Year(end June) Items→/ Banks↓	2003-04		2004-05		2005-06		2006-07	
	Overdues (Rs. crs)	Overdues as % of Demand	Overdues (Rs. crs)	Overdues as % of Demand	Overdues (Rs. crs)	Overdues as % of Demand	Overdues (Rs. crs)	Overdues as % of Demand
	1	2	1	2	1	2	1	2
1. SBI	40	28	45	28	35	18	36	12
2. RRB (RGB/APGB)	3255	29	3721	29	46	16	69	19

Year (end June) Items→/ Banks↓	2003-04		2004-05		2005-06		2006-07	
	Overdues (Rs. crs)	Overdues as % of Demand	Overdues (Rs. crs)	Overdues as % of Demand	Overdues (Rs. crs)	Overdues as % of Demand	Overdues (Rs. crs)	Overdues as %of Demand
	1	2	1	2	1	2	1	2
3. Syndicate Bank	11	43	13	43	10	19	17	32
4. DCCB Kadapa	90	64	99	63	55	49	108	60
5. Andhra Bank	6	18	6	18	8	21	9	21
6. All Agencies (incl. the above five banks Lending to Priority Sectors)	3693	30	4197	30	173	24	261	25

Year(end June) Items→/ Banks↓	2007-08		2008-09		2009-10		2010-11	
	Overdues (Rs. crs)	Overdues as% of Demand	Overdues (Rs. crs)	Overdues as % of Demand	Overdues (Rs. crs)	Overdues as % of Demand	Overdues (Rs. crs)	Overdues as%of Demand
	1	2	1	2	1	2	1	2
1. SBI	87	16	95	20	218	40	186	28
2. RRB (RGB/APGB)	124	28	187	35	203	36	172	25
3. Syndicate Bank	9	6	10	6	21	12	52	25
4. DCCB Kadapa	154	77	137	49	45	29	100	47
5. Andhra Bank	5	23	12	19	15	23	22	29
6. All Banks (incl. above five banks lending to Priority Sector)	405	25	480	25	530	33	571	29

Source : Annual Credit Plan 2009-10, Lead Bank, Syndicate Bank, Kadapa, 2010.

Notes : 1. The RRB in the district was called Rayalaseema Grameena Bank and now it is called AP Grameena Bank.

2. Over dues are excess of Demand over collection/recovery.

Pattern of Sectoral Allocation of Priority sector credit-Major Banks-wise in Kadapa Disrict :

7.31 For recent six years bank-wise and broad sector-wise priority sector credit information is available. The details are given in Table 7.13. At the aggregate of all the banks functioning in Kadapa district, about 70% to 3/4th of the total priority sector credit was allocated to agriculture. About a tenth was allocated to small industries and small enterprises and about 2/5th was allocated to non-farm sector Business. The five banks mentioned in the Table (SBI, RRB, DCCB, Syndicate Bank and Andhra Bank) together account for about three-fourths of the total priority sector credit distributed in the district. Among them, the leading two banks are the SBI and AP Grameena Bank (RRB).

Sector-wise Overdues of Priority Sector Advances in Kadapa District :

7.32 In the preceding, 5 top banks-wise over dues were examined. We now concentrate on sector-wise over dues of priority advances. Avoiding details of demand, collection and balance/over dues, we give in Table 7.14 only % of over dues. Over dues of all the priority sectors as a whole were around 30% of demand i.e. to the extent of 70% of the advances due were collected and 30% to be collected, which are called over dues (last Row). Among the sectors, relatively % of over dues with respect to agricultural term loans(Row 2) are higher. However, as noted from Table 7.11, their share in the total priority sector credit is about 5%. Over dues of crop loans, to which about one-half to 60% of total priority sector credit is allocated, are not significantly different from over dues of other sectors.

TABLE 7.13

Major Banks-wise Sectoral Allocation of Priority sector credit- Kadapa District (%)

Bank→ Sectors→ Year↓	State Bank of India				AP Grameen Bank				Syndicate Bank			
	Ag & Allied	NFS	OPS	Total	Ag & Allied	NFS	OPS	Total	Ag & Allied	NFS	OPS	Total
	1	2	3	4	1	2	3	4	1	2	3	4
2005-06	70	10	20	100(271)	89	3	10	100(340)	56	13	31	100(127)
2006-07	69	14	17	100(291)	93	2	5	100(424)	78	10	12	100(105)
2007-08	71	12	17	100(424)	85	3	12	100(463)	74	10	16	100(133)
2008-09	78	6	16	100(489)	73	1	26	100(376)	78	10	12	100(138)
2009-10	67	4	29	100(551)	83	3	14	100(439)	80	14	6	100(145)
2010-11	67	10	23	100(608)	63	11	26	100(634)	77	9	13	100(194)

Bank→ Sector→ Year↓	Kadapa DCCB				Andhra Bank				All Banks in the District			
	Ag & Allied	NFS	OPS	Total	Ag & Allied	NFS	OPS	Total	Ag & Allied	NFS	OPS	Total
	1	2	3	4	1	2	3	4	1	2	3	4
2005-06	65	30	5	100(83)	78	4	18	100(28)	68	10	22	100(1041)
2006-07	97	3	neg.	100(60)	85	2	13	100(56)	77	10	13	100(1086)
2007-08	100	nil	nil	100(122)	82	5	13	100(68)	76	9	15	100(1383)
2008-09	100	nil	nil	100(69)	82	9	9	100(55)	73	9	18	100(1351)
2009-10	100	nil	nil	100(116)	82	9	9	100(93)	72	10	18	100(1661)
2010-11	100	nil	nil	100(158)	76	4	20	100(111)	69	10	21	100(2009)

Source : Annual Credit Plans 2009-10 & 2012-13, Kadapa District, Lead Bank, Syndicate Bank.

Note : Figures in parentheses are Rs.crores.

TABLE 7.14

Sector-wise Over-Dues as % of Demand— Priority Sector Advances in Kadapa District

(%)

Year (end June) Sectors↓	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
	1	2	3	4	5	6	7	8
1. Crop Loans	28	28	22	20	27	33	33	26
2. Agl Term Loans	56	56	39	62	41	24	35	41
3. Sub Total Agriculture (3=1+2)	30	26	25	27	31	32	33	29
4. SSI/NFS	47	46	17	28	24	29	35	28
5. Other Priority	32	32	22	14	18	21	29	27

Year (end June) Sectors↓	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
6. Total Priority Sector (6=3+4+5)	30	30	24	25	29	36	33	29

Source : Annual Credit Plans 2009-10 & 2012-13, Kadapa District Lead Bank, Syndicate Bank.

III. Krishna District

Planned (Targeted) and Actual Sectoral & Total Allocations to Priority Sector—Krishna District 2011-12:

7.33 Targeted and actual allocations are close to each other. This can be vouched from Table 7.15. A look at col 3 reveals that both total and sectoral allocations were realised fully. As in the other two sample districts, in Kadapa too priority sector was allocated 77% of the total credit of the banks (nearly twice higher than the stipulated target of 40%), leaving 23% for non-priority sector (col 2, Rows 6&7). In other years also the share is over 70%-80% (see Table 7.13,col 4). May be the banks are a very high proportion of their credit to non-priority sector in metro and urban areas. To explain our finding and to unravel truth, further work is warranted.

Targets & Achievements of Total & Priority sector credit—Krishna District-1993-2013 :

7.34 Having understood the close relation between sectoral targets and corresponding achievements for the recent year of 2011-12, we examine a longer period from 1993-94 and concentrate on achievement of total credit as % target and share of priority sector credit. Details of the data are given in Table 7.16. As evident from the Table that only for 6 years priority and non-priority sector credit (shown in parentheses) break up data are available. Barring in 2 years in which the achievement was 73%, in all other years the achievement rate is higher than 80% and in 6 years the targets were overshot (col 3). Regarding the share of priority sector credit in total credit, it was more than 70% and 80% in 3 years each col 4).

TABLE 7.15

Broad Sector-wise Targets & Achievements—Krishna District—2011-12 (Advances to Priority & Non-Priority Sectors)

Details (Rupees Crores)	Target	Achievement	% of Achievement (col 3=col 2 as % of col 1)
	1	2	3
1. Crop Loans	1600	1619	101
2. Ag. MTL	410	411	100
3. Allied Activities of Ag.	430	432	100
Sub Total (Ag)	2440	2462	100
4. NFS (SSI)	617	619	100
5. OPS	1110	1112	100
6. Total Priority Sector	4167	4193(77)	101
7. Non-Priority Sector	1210	1216(23)	101
Grand Total (6+7)	5777	5409(100)	101

Source : Annual Credit Plan Krishna District 2012-13, Indian Bank Lead Bank

Note : Figures in parentheses are % shares of priority and non-priority sectors.

TABLE 7.16

Targets & Achievements of Total & Priority sector credit —Krishna District

Year	Target (Rupees Crores)	Achievement	% of Achievement (col3= 2 ÷ 1)	% Share of PSA
	1	2	3	4
1993-94	259		105	—
1994-95	299	297	99	—
1995-96	349	356	73	—
1996-97	405	427	105	—
1997-98	434	396	91	—
1998-99	654	466	71	—
2000-01	783	801	102	—
2001-02	1192	989	83	76
	(Non-PSA373)			
2002-03	1378	1078	78	—
2003-04	1496	1092	73	—
2004-05	1985	1556	78	83
	(Non-PSA398)			
2005-06	2219	1911	86	84
	(Non-PSA 418)			
2006-07	2330	2345	101	—
2007-08	2504	2452	98	—
2008-09	2832	2717	96	78
	(Non-PSA 817)			
2009-10	3114	2633	85	—
2010-11	3600	3850	107	—
2011-12	4167	4193	101	71
	(Non-SPA 1210)			
2012-13	5262	——	—	(73)
(Target)	(Non-PSA 1436)			

Source : Annual Credit Plans, 2005-06 & 2012-13, Krishna District (Indian Bank Lead Bank) (2006 pp114,117 and from 2012, (pp.90, 91, 157-167)

Notes : 1. The data for 2003-4 to 2012-13 are from Annual Credit Plan, Krishna District, 2012-2013. 2.PSA=Priority Sector Credit. Total Priority Sector Advances=PSA + Non-PSA.

Allocations to Farm, NFS & Other Sectors—Krishna District :

7.35 We now move to examine sector-wise allocation of priority sector credit in 6 years (2001-04 & 2006-09) as shown in Table 7.17. In nominal terms, allocations to priority sector credit were enhanced from about Rs.1000 crores to over Rs.2700 crores during the study period (figures in parentheses in the last Row). In all the years the major claimant of total priority sector credit is agriculture and within it crop loans (Rows1&3). Except in the recent year, long term loans (Row 2) constituted a tenth of the total priority sector credit and so also the share of NFS (Row 4). Other Priority Sector advances accounted for a share of a fifth to nearly 30% (Row 5). Like in other two districts, in Krishna district too available data suggest that priority sector credit constituted about 75%, much higher than the stipulated target (40%).

Over Dues—Krishna District :

7.36 Finally, let us examine the overdue status of total advances. We assess them bank group-wise in terms of over dues as proportion to demands. Limited data are readily available for 3 years only, as given in Table 7.18. Let us have a cursory look at the % figures in cols 3, 6 and 9. At the aggregate of all the banks in the district, while the over dues in 2007-08 were higher at 46% of the demand, in the other two years, they were much lower at 17% (2006-07) and 18% (2008-09). The record of the RRB (Sapthagiri Grameen Bank) was better than cooperative and commercial banks. Relatively, the DCCB followed by commercial banks exhibited higher level of over dues than others. In passing, it may be noted here that in 2003-04, the NPAs of cooperative banks were 12.7% and for the RRB 7.4% as observed from the Annual Credit Plan of 2003-04[11].

TABLE 7.17

Broad Sector-wise Priority Sector Credit—Krishna District

(%)

Details	2001-02	2002-03	2003-04	2006-07	2007-08	2008-09
	1	2	3	4	5	6
1. Crop Loans	55	58	49	51	47	41
	(541)	(626)	(542)	(1193)	(1143)	(1116)
2. Agl. Term Loan	13	12	13	9	14	23
	(130)	(129)	(139)	(206)	(341)	(613)
3. Total Agl. Credit	68	70	62	60	61	64
	(671)	(755)	(681)	(1399)	(1484)	(1729)
4. NFS (SSI)	10	11	11	12	8	14
	(98)	(115)	(120)	(261)	(193)	(379)
5. OPS	21	19	27	28	31	22
	(209)	(209)	(293)	(665)	(775)	(608)
6. Total Priority	100	100	100	100	100	100
Sector	(989)	(1080)	(1092)	(2345)	(2452)	(2717)
7. Share of	73%	77%	78%	—	—	—
Priority sector credit in Total Credit						

Sources : Annual Credit Plans Krishna District 2005-06 & 2012-13, Indian Bank Lead Bank.

Notes : 1. NFS=Non-Farm Sector including SSI

2. OPS=Other Priority Sectors.

3. Figures in parentheses are Rs. crores.

[β] In the same year, % of over dues to outstanding credit of cooperative banks and the RRB were 50.5% and 15.5% respectively.

TABLE 7.18

Bank Group-wise Over Dues —Krishna District

(Rs.crores)

Details	2006-07			2007-08			2008 -09		
	Demand	Recovery Over dues	% of	Demand	Recovery Over dues	% of	Demand	Recovery Over dues	% of
	1	2	3	1	2	3	1	2	3
1. Commercial Banks	556	463	17	174	131	25	446	390	13
2. Regional Rural Banks	114	109	4	117	98	16	150	130	13
3. Cooperative Banks	510	411	19	525	209	60	559	424	24
4. Others	25	23	8	31	28	10	8	5	38
All Agencies	1205	995	17	846	454	46	1164	950	18

Sources : Annual Credit Plans, Krishna District, 2012-13, Lead Bank, Indian Bank.

7.37 From the comparison of the average values of % of over dues in Nizamabad (**40%**, average of 18 years) and Krishna (**27%**, average of 3 years) pertaining to total of priority and non-priority sectors, with that of Kadapa (**31**%, average 8 years) pertaining to priority sector only, we conclude that the % of over dues in priority sector lending are not much higher than in the lending to all sectors.

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APPENDIX

TABLE 7A

Broad Sector-wise Targeted Allocations of Total Credit—Kadapa District

Details	2012-13		2009-10	
	Target	% to Total (Rs. Crores)	Target	% to Total (Rs. Crores)
	1	2	3	4
1. Crop Loans of which Kharif Rabi	1657	**51** [41] [10]	890	**51** [41] [10]
2. Agriculture Term Loans	223	**7**	71	**4**
3. Allied Activities of Ag. of which SHG-Farm Sector	476	**15** [8]	46	**3**
Sub Total (Ag)	3273	**73**	1007	**58**
4. Non Farms Sector (SSI)	242	**7**	170	**10**
5. Other Priority Sector of which SHG Farm Sector	636	**20** [9]	550*	**32**
6. Total Priority Sector	5262	**100** {91}	1727	100 {82}
7. Non-Priority Sector	503	— {9}	375	— {18}
Total Credit Plan (6+7)	6699	— {100}	2102	— {100}

Source : Annual Credit Plan 2012-13, Lead District Office, Syndicate Bank, Kadapa, 2013.

Note : This includes amounts lent to the SHGs.

CHAPTER-VIII

Sample Beneficiaries in the Study Districts— Priority Sector Credit Accessed, Views & Impact of Credit

Aim & Chapter Frame:

In the preceding Chapter, based on Annual Credit Plans, we examined various facets of priority sector credit in the sample districts of AP. This Chapter, wholly based on field survey data, aims at explaining socio-economic features, their views, credit availed and assesses its impact on the 150 sample beneficiaries in the sample districts. Organising it under three Sections, socio-economic features of the beneficiaries and priority sector credit accessed by them are examined in Section I. Extent of loans secured by different classes and for different purposes, interest rate paid, dues etc. are discussed in Section II. The final Section enquiries in impact of the priority on the beneficiaries.

I

SAMPLE RESPONDENTS—SOCIO-ECONOMIC FEATURES & AMOUNTS BORROWED

8.2 As explained in Chapter I (para 1.17), in AP 3 sample districts, one each from the 3 socio-economic regions of Telangana, Rayalaseema and Coastal Andhra were randomly picked up for field study. From each district, randomly 50 sample beneficiaries of priority sector credit were chosen. Copious information was gathered from the respondents through the instrument of questionnaire, supplemented by face to face interviews with the stakeholders. The processed data were transformed into two-way tabular form. We begin with analysis of their education status.

Community-wise Education Levels:

8.3 In the first instance, we look into the social structure of the respondents. As education and community affect access to institutional credit and its efficient use, it is useful to know education status and community composition of the three regions separately, as well as for AP as a whole. As shown in Table 8.1, the beneficiaries are grouped under 4 classes. We go down from gleaning average picture of the state (summation of the 3 sample districts) to the 3 individual districts. While illiterates and educated upto intermediate level accounted for about 13% each (19 & 18 respondents out of 150), 31% to 38% of them (46 & 57 persons, vide col 5, figures in parentheses) studied upto Primary School and Upper Primary School levels respectively. Majority of the illiterates are BCs (Backward Classes/Castes) and SCs, and majority of the degree holders belonged to OCs (Other Classes/ Castes). In Kadapa district of Rayalaseema, none of sample respondents is illiterate and degree holder (Row III.1&4). The picture in Nizamabad district (Row II) in Telangana and Krishna district (Row IV) in Coastal Andhra is similar to that of the state. Graphs 8.1 and 8.2 lucidly illustrate their education status and community.

GRAPH 8.1

Literacy Rates in Sample Areas

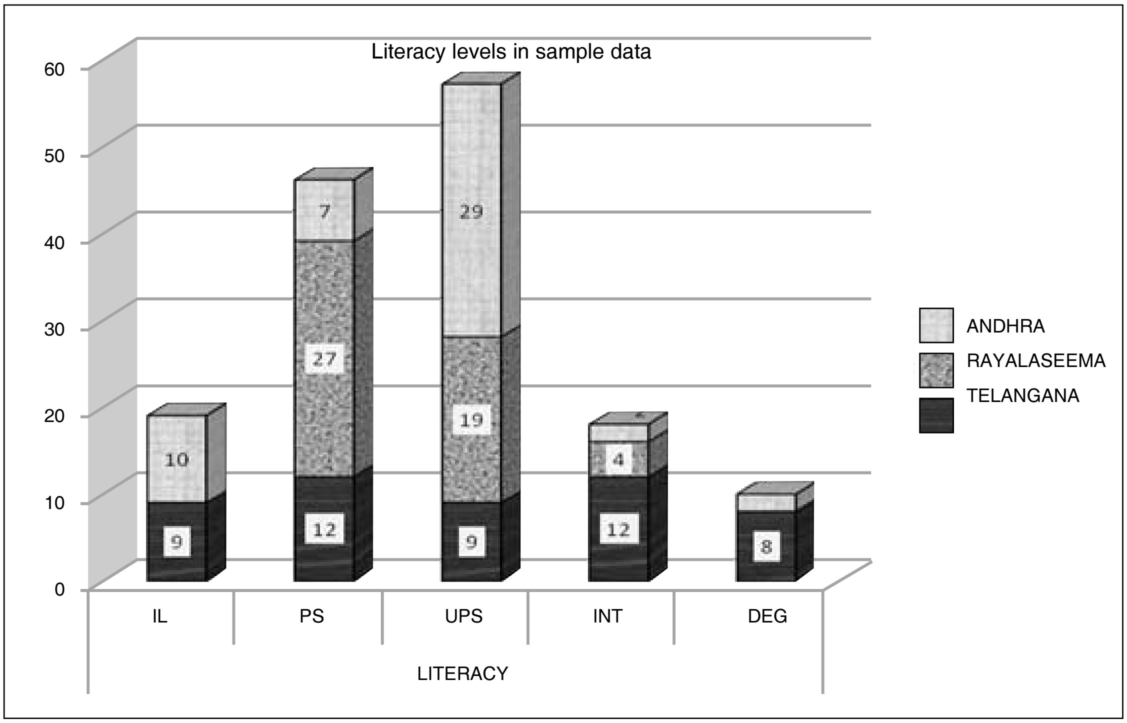


TABLE 8.1

Structure of Sample Beneficiaries—Education & Caste-wise Composition (%)

Community→ Education↓	OC	BC	SC	ST	Total
	1	2	3	4	5
I. At the Aggregate of AP (Sum of 3 Sample Districts in the 3 Regions of AP)					
(I=II+III+IV)					
1. Illiterates	21	47	26	6	100(19)
2. Primary School	46	30	20	4	100(46)
3. Upper Primary-High School	44	33	16	7	100(57)
4. Intermediate	33	56	11	Nil	100(18)
5. Degree & above	10	30	50	10	100(10)
Total	38(57)	37(55)	20(30)	5(8)	100(150)
II. Telangana (Nizamabad Dist.)					
1. Illiterates	22	56	11	11	100(9)
2. Primary School	17	58	17	8	100(12)
3. Upper Primary-High School	12	44	Nil	44	100(9)
4. Intermediate	33	58	9	Nil	100(12)
5. Degree & above	13	25	49	13	100(8)
Total	20(10)	50(25)	16(8)	14(7)	100(50)

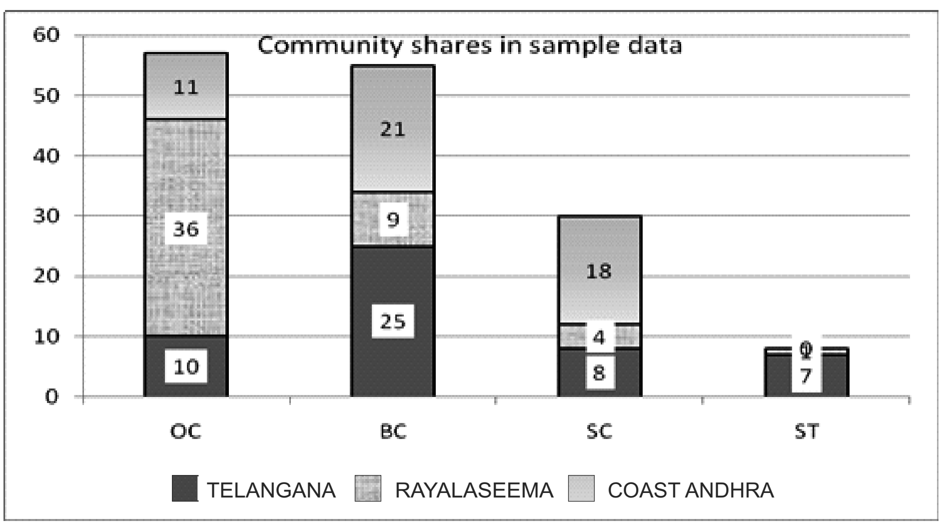
Community→ Education↓	OC	BC	SC	ST	Total
	1	2	3	4	5
III. Rayalaseema (Kadapa Dist.)					
1. Illiterates	Nil	Nil	Nil	Nil	Nil
2. Primary School	67	22	7	4	100(27)
3. Upper Primary-High School	84	5	11	Nil	100(19)
4. Intermediate	50	50	Nil	Nil	100(4)
5. Degree & above	Nil	Nil	Nil	Nil	Nil
Total	72(36)	18(9)	8(4)	2(1)	100(50)
IV. Coastal Andhra (Krishna Dist.)					
1. Illiterates	20	40	40	Nil	100(10)
2. Primary School	14	14	72	Nil	100(7)
3. Upper Primary-High School	28	48	24	Nil	100(29)
4. Intermediate	Nil	50	50	Nil	100(2)
5. Degree & above	Nil	50	50	Nil	100(2)
Total	22(11)	42(21)	36(18)	Nil	100(50)

Source :Primary Data.Note:1.OC=Other (forward) Castes, BC=Backward Castes, SC=Scheduled Caste, ST=Scheduled Tribe.

2. Figures in parentheses are No. of respondents.

GRAPH 8.2

Community Shares in Sample Areas



Structure of Occupations:

8.4 Based on the broad economic activities pursued, the respondents are categorised under 5 classes as shown in Table 8.2. Majority of them (less than two-thirds) are cultivators not only at the state level but also in all the 3 sample districts (Row 1). Agricultural labourers constituted 10% to 16% of them. A tenth of them are small industrial workers. Just 4% of them are engaged in business and the remaining are engaged in other activities (Row 5).

Graph 8.3 portrays occupational status of the borrowers in the 3 sample areas.

GRAPH 8.3

Occupations in Sample Areas

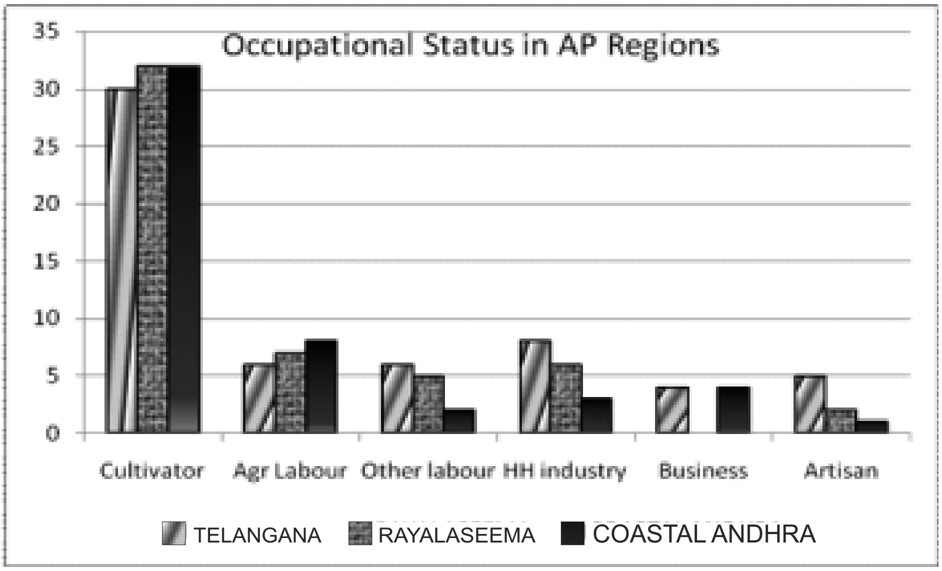


TABLE 8.2

Sample Beneficiaries—Occupation-wise No. of Borrowers

(%)

Region→/ Borrowers↓ (occupation-wise)	Telangana (Nizamabad)	Rayalaseema (Kadapa)	Coastal Andhra (Krishna)	A.P.
	1	2	3	4
1. Cultivators	60	64	64	63 (94)
2. Agricultural Labourers	10	14	16	13 (20)
3. Household Industrial Workers	10	10	6	9 (13)
4. Business	4	Nil	8	4 (6)
5. Others	16	12	6	11(17)
Total	100 (50)	100 (50)	100 (50)	100 (150)

Source : Primary Data.

Note : Figures in parentheses are number of borrowers.

8.5 In Telangana, 60% of the respondents were cultivators, followed by Household industry at 16%, agricultural labour and other labour 12% each, artisans (goldsmiths, carpenters etc.) 10%, and 8% were businessmen. In Rayalaseema too, cultivators stand at top with 64% share, 14% agricultural labour, 12% other labour, 16% household industry and 4% belonged to artisans category. Turning to Coastal Andhra, we find a similar pattern of occupational status viz. 64% cultivators, 16% agricultural labour, 8% businessmen, 6% household industry, 4% other labour and 2% artisans.

Land Based Classification:

8.6 As majority of the beneficiaries belong to farm community, it is useful to classify them based on broad size-class of farmers. As shown in Table 8.3, they are grouped under 4 rubrics. Respondents numbering 29 or constituting 19% of the sample do not own any land (Row 1, col 4). They make their livelihood by pursuing various activities including business and household enterprises. Three-fourths of the borrowers are MF and SF (Rows 2&3). Large farmers holding 5+acres of land account for a tenth of the total beneficiaries.

TABLE 8.3

Structure of Sample Beneficiaries—-Land Based Classification

(%)

Region→ A.P. Land Owned↓	Telangana (Nizamabad)	Rayalaseema (Kadapa)	Coastal Andhra (Krishna)	
	1	2	3	4
1. Nil*	24	12	22	19 (29)
2. upto 2.5 acres (MF)	20	64	64	49 (74)
3. 2.5 to 5 acres (SF)	38	22	14	25 (37)
4. 5+acres (LF)	18	2	Nil	7 (10)
6. Total	100 (50)	100 (50)	100 (50)	100 (150)

Source : Primary Data. Notes :*These beneficiaries do not own land and earn from various activities including business.2.Beneficiaries in Row Nos. 2, 3 & 4 may be called respectively Marginal, Small and Large Farmers.

Age Cohorts:

8.7 To understand the age profiles of the beneficiaries, we classified them under 5 age cohorts, as shown in Table 8.4. Over 80% of them are in the range of above 30 years and upto 60 years. The young (30-40 years age cohort) constituted a fifth of the 150 beneficiaries. Aged persons (>60 years) accounted for 6% (Row 5).

TABLE 8.4

Structure of Sample Beneficiaries—-Frequency Distribution of Age (in the Sample Areas)

Age Cohorts↓ (years)	No. of Beneficiaries	% of the Beneficiaries
	1	2
1. Upto 30	17	11.2
2. >30-40	31	20.7
3. >40-50	51	33.9
4. >50-60	42	28.0
5. >60	9	6.0
6. All Age cohorts	150	100

Source : Primary Data.

Family Size:

8.8 Turning to average size of family, while 47% of the families comprised 4 members, 42% of them had a bigger family of 5 and more members, vide Table 8.5 (col 4, Rows 3 &4). Graph 8.4 illustrates size of families in the 3 regions. Families consisting of husband and wife, and + 1 dependent accounted for abut 5% each (col 4, Rows 1&2). Families with two dependents, treated as nuclear families, appear to dominate the sample beneficiaries. In Telangana, 54% of the respondents had a family of 4, 44% of more than 5, and 12% of 3 members. There were no families of 2 members in this sample. With regard to Rayalaseema, 44% families have each 4 members and more than 5 members, and 12 % with 3 members. Here also, no families reported with 2 members. As to Coastal Andhra, 44% reported 4 member families, 38% more than 5, 4% have 3 members, and 14% only 2 members.

GRAPH 8.4

Family Size in the Regions

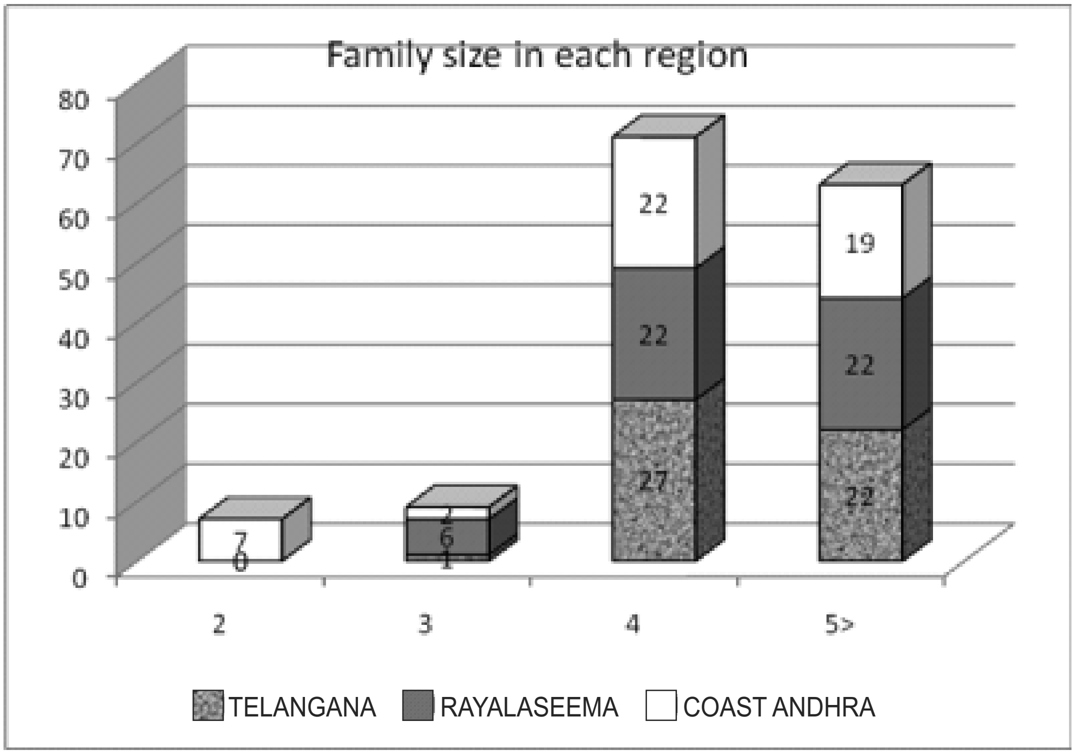


TABLE 8.5

Structure of Sample Beneficiaries—-Frequency Distribution of Family Size (in the Sample Areas)

Region→/ Frequency Distribution↓ (No. of Members)	Telangana (Nizamabad) (%)	Rayalaseema (Kadapa) (%)	Coastal Andhra (Krishna) (%)	A.P. (%)
	1	2	3	4
1. -2	Nil	Nil	14	5 (7)
2. -3	2	12	4	6 (9)
3. -4	54	44	44	47(7)
4. -5 & + (63)	44	44	38	42
5. Total	100(50)	100(50)	100(50)	100(150)

Source : Primary Data.

Note : Figures in parentheses are number of beneficiaries.

Level of Income (Before Taking Loan):

8.9 Information on income was collected during the field study from the respondents before they took the loan. This gives an insight into the pattern of income distribution in the areas. The maximum number of respondents (46%) were in the income group of Rs.25,000 to Rs.50,000, followed by 19% each in the lowest income groups of Rs.10,000 to Rs.25,000, as well as from Rs.1/2 lakh to Rs.1 lakh per annum, vide Table 8.6 . Only15% of them were in the income range of Rs.1lakh—5 lakhs and just 1% of them reported high annual income of more than Rs. 5 lakhs.

TABLE 8.6

Region-wise Levels of Income (Before Loan)

Annual income before loan (Rs.)					
	10000-25,000	25,000-50,000	50,000-1,00,000	1,00,000-5,00,000	5,00,000 >
	(1)	(2)	(3)	(4)	(5)
Telangana	6	9	14	19	2
Rayalaseema	0	40	8	2	0
Coastal Andhra	22	21	6	1	0
Total (AP)	28	70	28	22	2
Shares AP:	19%	46%	19%	15%	1%

Source : Primary Data.

Note : Sums of each Row of the regions add to 50 each and for AP adds to 150 respondents. As to Shares (last Row), the sum is equal to 100(%)

8.10 In Telangana, 38% of the borrowers were in the income group between Rs.1 to 5 lakhs, followed by 28% with Rs.½ lakh— Rs.1 lakh, 18% with Rs.25000—Rs.50000, 12% in the low income group of Rs.10000-Rs.20000, while 4% of the respondents were in the high income category of more than Rs. 5 lakhs per annum. As to Rayalaseema, two-fifths of the 50 respondents reported Rs.25000—Rs.50000 income, 16% between Rs.1/2 lakh & Rs.1 lakh, and 4% between Rs.1 lakh & Rs.5 lakhs. Region-wise details of incomes are summed up in Table 8.6.

II

SIZE OF PRIORITY SECTOR CREDIT ACCESSED, INTEREST & RELATED ASPECTS PRIORITY SECTOR CREDIT AVAILED—-OCCUPATION-WISE:

8.11 We now examine total and average amounts borrowed under priority sector advances allocated by various banks operating in the 3 sample districts. For this purpose, a broader classification of the beneficiaries is followed as shown in Table 8.7. While all the sample loanees accessed total institutional credit of about Rs.98 lakh in the 3 districts (treated as AP), cultivators were allocated over Rs. 68 lakh or 70% (=6827/9754), vide col 4, Rows 1.a and 4.a. Combining the 3 districts, the average (per capita) loan availed by the farmers is Rs.73,000 and in the case of all borrowers as a whole, on an average the credit amounted to Rs.65000. Average loan given for business purpose is the highest at about Rs.1.1 lakh. The average borrowed amount is the least with respect to agricultural labourers at Rs.30,000. Inter-district variations in the average size of credit are not significant, except in the case of cultivators and businessmen, especially in NIzamabad district.

TABLE 8.7

Sample Beneficiaries—-Amount Borrowed: Total & Average (Occupation-wise)

Region→/ Borrowers↓ (4=1+2+3) (Occupation-wise)	Telangana (Nizamabad)	Rayalaseema (Kadapa)	Coastal Andhra (Krishna)	A.P.
	1	2	3	4
1. Cultivators				
(a) Total Amt. (Rs. 000)	4720	1103	1004	6827
(b) No. of Borrowers	30	32	32	94
(c) Average (Rs. 000)	157	35	31	73

Region→/ Borrowers↓ (4=1+2+3) (Occupation-wise)	Telangana (Nizamabad)	Rayalaseema (Kadapa)	Coastal Andhra (Krishna)	A.P.
	1	2	3	4
2. Agriculotural Labourers				
(a) Total Amt. (Rs. 000)	185	209	196	590
(b) No. of Borrowers	5	7	8	20
(c) Average (Rs. 000)	37	30	25	30
3. Household Industrial Workers				
(a) Total Amt. (Rs. 000)	265	235	151	651
(b) No. of Borrowers	5	5	3	13
(c) Average (Rs. 000)	53	47	50	50
4. Business				
(a) Total Amt. (Rs. 000)	350	Nil	296	646
(b) No. of Borrowers	2	—	4	6
(c) Average (Rs. 000)	175	-	74	108
5. Others				
(a) Total Amt. (Rs. 000)	715	216	110	1041
(b) No. of Borrowers	8	6	3	17
(c) Average (Rs. 000)	89	36	37	61
6. All Types of Borrowers				
(a) Total Amt. (Rs. 000)	6235	1763	1756	9754
(b) No. of Borrowers	50	50	50	150
(c) Average (Rs. 000)	125	35	35	65

Source : Primary Data.Note : c) Average=a¸b. Both average loans and total loans are rounded off to the nearest thousand figure.

Rate of Interest:

8.12 We now look at the rate of interest charged. For the sample as a whole, maximum number of respondents (nearly 35%) paid the interest of 9.75% for crop/agricultural loans, followed by 24% of the respondents who paid 11% interest for non-agricultural sectors, 17% paid between 12-15% (last Row), mostly for small scale industry. There are variations across the regions but are not significantly different. This can be verified from Table 8.8.

TABLE 8.8

Cost of the Priority sector credit in the Sample Areas

Rate of Interest Charged						
Interest rate	7-8%	9.00%	9.75%	10-10.25%	11%	12-15%
Telangana	10	0	7	7	13	13
Rayalaseema	0	5	25	6	14	0
Coastal Andhra	0	0	20	8	9	13
Total (AP)	10	5	52	21	36	26
Shares(AP)	7%	3%	35%	14%	24%	17.%

Source : Primary Data. Note: Sums of each Row of the regions add to 50 each and for AP add to 150 respondents. As to Shares(last Row),the sum is equal to 100(%)

Regression Analysis—Determinants of Loan Amount:

8.13 We noted in the foregoing (para 8.11) that the average size of the loan was Rs.65000. We ask a question here whether the loan amount is sensitive to education, caste, land, interest and income (before borrowing). To answer this, we run a regression. The results indicate that the loan amount has no relation with interest rate and hence we dropped it later. We found dominance of economic factors in availing bank loans. Regression results are summarised below.

	Coefficient	t-value	p- value
(constant)	-16.662#	-1.821	0.071
Land	14.282**	4.164	0.000
Income	0.504**	7.049	0.000

#not significant, ** highly significant

8.14 The adjusted R^2 is 0.577 which is very for cross section regressions. Farm size affects loan amount but education and caste affiliation do not affect the loan amount. In general loan amount is higher by an amount of Rs.14000 for every extra acre of land cultivated by the farmers, cet. par. Further, for extra Rs.1000 annual income, the loan amount is higher by Rs.500 for most communities, land size remaining the same.

Regional Analysis:

8.15 In the foregoing overall analysis, it was revealed that the land owned and the income before borrowing were important influences on the size of the loan. It is now explored whether these influences carry over at disaggregate level of regions. For this purpose, three regressions were run for each of the three regions. The final results of the regressions are as follows.

8.16 Telangana—Regression Results : The regression revealed that cet. par., those who had one extra acre of land tended to borrow Rs.21,240 more than the others. The influence of land owned on amount of borrowing was highest in Telangana. It is also seen that those, who had an extra income of Rs.1000 more than the others, tended to avail a loan higher by Rs.400.

8.17 Rayalaseema-Regression Results : The regression revealed that those who had an income higher by Rs.1,000 tended to borrow Rs.440 more than others, cet. par. The influence of land on the size of borrowing was significant only at 10%. It suggested that those who had an acre more of land, availed of a loan higher by Rs. 2700 more than others. Clearly, the influence of land on amount borrowed was far less than Telangana.

8.18 Coastal Andhra -Regression Results : The results of the regression revealed that the amount of land owned did not affect the size of borrowing in coastal Andhra. This was in sharp contrast to Telangana, where the influence was very high and highly significant, and in Rayalseema where the influence was very small and significant only at 10%. Further, the influence of income on size of loan seemed to be absent in BCs and STs, and act only in case of SCs and OCs. SCs with an extra income of Rs. 1000 p.a., tended to borrow Rs.278 more, while OCs with an income higher by Rs.1000 p.a. tended to borrow Rs.550 more.

Average Size of Priority sector credit — Purpose-wise:

8.19 Alternatively, the credit allocated by the banks may be classified according to broad purposes, as shown in Table 8.9. At the aggregate of the state (3 districts considered as a unit), the highest credit per borrower was allocated for mechanisation. This is understandable, for, the machinery costs are high. The average loan for this purpose is Rs.2.14 lakh. Next in order of higher size of loans is bore-wells, for which the average credit allocated was Rs.1.49 lakh (per bore-well). Inter-district differences are more with respect to farm mechanisation and bore-wells. Relatively, higher amounts were lent in Nizamabad district than in the other two districts.

8.20 We sum up below average loan availed for different purposes, number of beneficiaries and % of total credit allocated. Table 8.10 is essentially Table 8.9 but in terms of %s.

TABLE 8.9

Sample Beneficiaries—Amount Borrowed : Total& Average(Purpose-wise)

Region→/ Borrowers↓	Telangana (Nizamabad)	Rayalaseema (Kadapa)	Coastal Andhra (Krishna)	A.P. (4=1+2+3)
	1	2	3	4
1. Crop Loans				
(a) Total Amt. (Rs. 000)	755	1091	1041	2887
(b) No. of Loanees	13	34	35	82
(c) Average (Rs. 000)	58	32	30	35
2. Farm Mechanisation				
(a) Total Amt. (Rs. 000)	2135	213	Nil	2348
(b) No. of Borrowers	5	6	—	11
(c) Average (Rs. 000)	427	36	—	214
3. Borewell				
(a) Total Amt. (Rs. 000)	1415	35	35	1485
(b) No. of Loanees	8	1	1	10
(c) Average (Rs. 000)	177	35	35	149
4. Sub-Total (Cultivation) (4=1+2+3)				
(a) Total Amt. (Rs. 000)	4305	1339	1076	6720
(b) No. of Loanees	26	41	36	103
(c) Average (Rs. 000)	166	33	30	65
5. Shop &Trade				
(a) Total Amt. (Rs. 000)	935	193	300	1428
(b) No. of Loanees	11	3	3	17
(c) Average (Rs. 000)	85	64	100	84
6. Self Employment*				
(a) Total Amt. (Rs. 000)	840	95	351	1286
(b) No. of Loanees	9	2	10	21
(c) Average (Rs. 000)	93	48	35	61
7. Housing				
(a) Total Amt. (Rs. 000)	60	136	30	22
(b) No. of Loanees	4	4	1	9
(c) Average (Rs. 000)	15	34	30	25
8. All Types of Borrowers				
(a) Total Amt. (Rs. 000)	6140	1763	1757	966
(b) No. of Loanees	50	50	50	150
(c) Average (Rs. 000)	123	35	35	64

Source : Primary Data. Notes:1.c)Average=a¸b. Both average loans and total loans are rounded off to the nearest thousand figure. 2.*Includes purchase of Buffalo/Sheep, Pottery, Artisans Tools etc.

TABLE 8.10

Beneficiaries & Loan Amounts

Purpose	Beneficiaries	Share in Total Loan	Average Loan
	(%)	(%)	(Rs.000)
Crop Loans	57	31	35
Farm Mechanisation	8	25	214
Bore-well	7	16	149
Animal Husbandry	10	14	84
Shops/Trade	8	9	80
Housing	5	2	25

Source : Table 8.9.

It is evident from the Table that most of the loans are production loans for crops (more than one-half) which claimed a fourth of the total priority sector credit given for all prioritised purposes. Next in order is animal husbandry with 10% of total borrowers and 14% share in the total loans.

Pattern of Repayment:

8.21 Almost 54% of the borrowers had repaid their loans, 17% did not and the remaining 29% repaid partly. The reasons given for not repaying in time were due to low yield (17%) and non-remunerative price (14%). Table 8.11 summarises region-wise repayments.

TABLE 8.11

Repayment of Loans

Repayment with interest in due date			
	Yes	No	Partly
Telangana	17	14	19
Rayalaseema	32	9	9
Coastal Andhra	32	3	15
Total (AP)	81	26	43
Shares(AP)	54%	17%	29%

Source : Primary Data.

Note : Sums of each Row of the regions add to 50 each and for AP add to 150 respondents. As to Shares (last Row), the sum is equal to 100(%)

Adequacy of loan amount and diversion to other expenditure:

8.22 We also asked the respondents whether the bank credit was enough or they were forced to seek additional funds from other sources. It is revealed that some of them not used entire loan for the specific purpose of borrowing and diverted for other uses. Only 41% of the respondents claimed that the loan amount was adequate and 54% borrowed from other sources. In Coastal Andhra 68% and in Telangana 56% stated that the loan amount was not adequate and that they borrowed from other sources. AS to Rayalaseema, 58% of the respondents informed that they did not borrow from others, vide Table 8.12. As to the use of the loans for other purposes, overall 65% claimed that they had not diverted loan funds to other uses but 29% stated that they did divert and the remaining did not respond. The highest number of diversions reported from Telangana (36%), followed by Rayalaseema (34%) and Coastal Andhra (22%).

TABLE 8.12

Adequacy of Loans Sanctioned & Utilisation for Other Purposes

	Inadequacy—borrowed from others				Loan used for other purposes		
	Y	N	NR	NR	Yes	No	NR
Telangana	28	18	4	0	18	23	9
Rayalaseema	19	29	1	1	14	36	0
Coastal Andhra	34	14	2	0	11	38	1
Total (AP)	81	61	7	1	43	97	10
Shares (AP)	53%	41%	5%	1%	29%	64%	7%

Source : Primary Data.

Notes : 1.Sums of each Row of the regions add to 50 each and for AP add to 150 respondents. As to Shares (last Row), the sum is equal to 100(%). 2.NR=NO Response.

LEC & KCC:

8.23 From the data collected we find that as most of the respondents are farmers cultivating their own land, Loan Eligibility Certificate (LEC) information was given by 13% of them. Some of the leased in cultivators were not aware of the facility and did not respond. Unlike LEC, almost 51% of the 150 respondents obtained Kisan Credit Cards (KCC), 43% did not respond and for 6% of the members, it was not relevant.

Visits of Bank Staff:

8.24 It is usual for bankers to visit and enquire into the use of the loans given. In our sample, we find that bankers visited only 55% of the respondents, another 37% said no banker or his staff came to inspect the use of loans and around 8% did not respond. The maximum of such visits were recorded in Rayalaseema (94%), while it was just 50% in Telangana and 22% in Coastal Andhra. In the latter, 76% of the respondents stated that no one had come to visit them. Details are given in Table 8.13.

TABLE 8.13

Visits of Bank Staff-Supervision of Loan Utilisation

Banker's visit			
	Yes	No	No Response
Telangana	25	16	9
Rayalaseema	47	1	2
Coastal Andhra	11	38	1
Total (AP)	83	55	12
Shares (AP)	55%	37%	8%

Source : Primary Data.

Note : Sums of each Row of the regions add to 50 each and for AP add to150 respondents. As to Shares (last Row), the sum is equal to 100(%)

Problems in Accessing Credit:

8.25 We asked the respondents various questions on the problems in accessing credit such as the attitude of bank officials, approachability etc. The findings are given below. Nearly 79% of the respondents stated that the bank staff were courteous and 18% stated that they were not, vide Table 8.14. Almost 50% in Telangana region said that the bankers were not courteous but 96% and 94% from Coastal Andhra and Rayalaseema respectively said they were courteous.

TABLE 8.14

Behaviour of Bank Staff, Problems in Accessing Credit

Courteous Bank staff				Difficulty in getting loan		Simple documentation process			Computerised lending process			
	Yes	No	NR	Yes	No	Yes	No	NR	Yes	No	NC*	NR
Telangana	24	25	1	39	10	29	8	13	14	23	4	9
Rayalaseema	47	0	3	45	5	49	0	1	4	45	0	1
Coastal Andhra	48	2	0	4	46	40	5	5	42	7	1	0
Total (AP)	119	27	4	88	61	118	13	19	60	75	5	10
Shares (AP) %	79	18	3	59	41	79	9	12	40	50	3	7

Source : Primary Data. Notes: 1.Sums of each Row of the regions add to 50 each and for AP add to 150 respondents. As to Shares (last Row), the sum is equal to 100(%). NR=NO Response.

8.26 Regarding difficulty in getting loans, 59% stated that it was difficult and only 41% said that it was not problematic. In Rayalaseema 90% of the respondents said that it was difficult to get loans, while 78% in Telangana also felt that it was difficult. Only 4% of Andhra said that it was difficult, the other 92% said that it was not difficult. As to documentation, 79% said that it was simple. However, overall 50% felt that computerisation had not simplified the process of getting loans.

Help of Middlemen in Loan Negotiations:

8.27 Since many respondents felt difficulty in obtaining loans, they approached some intermediaries to help them in fulfilling the formalities and negotiating with banks. Nearly 45% said that they had approached middlemen to negotiate on their behalf, while 53% said they had not approached anyone, vide Table 8.15. The largest number seems to be in Telangana (43/50 i.e. 43 out of 50 loanees), and the least from Coastal Andhra (9/50).

TABLE 8.15

Negotiation of Loan - Middlemen

	Help of middlemen		Payments to Middlemen (Rs.)							
	Yes	No	NR	Nil, No res-ponse	10 0-50 0	50 0-80 0	800 - 250 0	250 0-500 0	500 0-100 00	100 00 120 00
Telangana	43	4	3	6	0	8	6	20	6	4
Rayalaseema	16	34	0	33	9	3	4	1	0	0
C. Andhra	9	41	0	41	8	0	1	0	0	0
Total	68	79	3	80	17	11	11	21	6	4
Shares	45%	53%	2%	53%	11%	7%	7%	14%	4%	4%

Source : Primary Data.

Notes : 1. Sums of each Row of the regions add to 50 each and for AP add to 150 respondents. As to Shares (last Row), the sum is equal to 100(%)

2. NR=NO Response.

8.28 Although majority of them (53%) stated that they had not paid the middlemen, the rest claimed to have paid between Rs. 100(by 11% of them) to Rs. 12000 (by 4% of them) to get their loans sanctioned. These amounts included stationery charges, transport cost and other expenditure. Of these 14% stated that they had paid between Rs. 2500 - Rs. 5000, and 11% between Rs.100-200. The amount paid would naturally be on par with the loan taken. While in Telangana the largest number (44/50) paid to middlemen While in Telangana the largest number (44/50) paid to middlemen, in Rayalaseema 17 out of 50 borrowers paid and the least number of farmers rewarding middlemen was in Coastal Andhra (9 out of 50).

Preferred Sources of Credit:

8.29 At the village level, people have access to various sources of finance such as commercial banks, cooperative banks and RRBs. From our survey we found that 38% of the respondents preferred RRBs, 35% preferred Cooperative banks and only 27% preferred to take loans from Commercial banks, vide Table 8.16. The reasons for preferring RRBs were stated as low interest rate (79%), easily accessible (39%), and lenient towards the customers (11%). Surprisingly no one claimed easy processing as a reason for choosing RRBs.

Awareness of Interest Subventions:

8.30 The government of AP introduced Pavala Vaddi Scheme (Pavala in Telugu means 1/4th Rupee & Vaddi means interest i.e.1/4th of Rupee is interest per Rs.100 loan per month) i.e. 3% interest rate p.a, This is applicable only to DWACRA groups—SHGs and for farmers borrowing from PACS. The state government reimburses the difference of 4% (=7%-3%) directly to the bankers.

TABLE 8.16

Preference for Specific Banks

	Preference for type of bank			Reason for preferring RRB [some gave more than one answer]				
	Commercial banks	Cooperative banks	RRB	Low Interest rate	Easy process	Lenient	Accessible	NR
Telangana	17	14	19	42	0	9	12	2
Rayalaseema	3	10	37	37	0	5	20	2
Coastal Andhra	20	29	1	39	0	3	26	4
Total	40	53	57	118	0	17	58	8
Shares	27%	35%	38%	79%	0	11%	39%	5%

Source : Primary Data.

Note : Sums of each Row of the regions add to 50 each and for AP add to150 respondents. As to Shares (last Row), the sum is equal to 100(%). NR=No Response.

The Scheme is applicable to all loans extended by banks on or after July 1, 2004, under SHG Bank Linkage Programme. Nearly 55% of the respondents were aware of the Pavala Vaddi scheme, while 43% were not, vide Table 8.17. The least awareness was in Telangana with 37/50 stating that they were not aware of it and only 10% were aware of it. Many in Coastal Andhra and Rayalaseema reported awareness of the scheme.

TABLE 8.17

Awareness of Interest Subvention & Debt Relief

Pavala Vaddi awareness				AP govt interest Subsidy Awareness			Govt of India Subsidy Awareness			Benefited by ADWADRS		
	Yes	No	NR	Yes	No	NR	Yes	No	NR	Yes	No	NR
Telangana	10	37	3	14	33	3	11	37	2	9	39	2
Rayala-seema	42	8	0	25	25	0	7	43	0	6	44	0
Coastal Andhra	31	19	0	10	40	0	6	44	0	4	46	0
Total	83	64	3	49	98	3	24	124	2	19	129	2
Shares (%)	55	43	2	33	65	2	16	83	1	13	86	1

Source : Primary Data.

Notes : 1. Sums of each Row of the regions add to 50 each and for AP add to150 respondents. As to Shares (last Row), the sum is equal to 100(%)

2. NR=NO Response.

8.31 Majority (65%) of them were unaware of interest subsidy scheme of the state government, while only 32% were aware, the largest number of awareness was in Rayalaseema (50%) and largest unaware members were in Coastal Andhra region (80%). Again in the case of interest subsidy given by government of India (2% subvention for short term credit lent by Public Sector Banks) and further 3% interest subvention for those who repaid regularly, a massive, 83% of the respondents were unaware of the scheme, and just 17% knew about it—88% in Coastal Andhra were unaware, closely followed by Rayalaseema 86%, and Telangana 66%. Similarly in the case of ADWADRS (Agri. Debt Waiver & Debt Relief Schemes), 86% did not benefit from it and only 13% availed it, with the highest being just 18% in Telangana. It thus appears that the various schemes implemented by the government have not penetrated to the grass root level in villages and that full benefits are not reaching the targeted population.

III

IMPACT OF THE ALLOCATED PRIORITY SECTOR CREDIT LIMITATIONS OF IMPACT ASSESSMENT:

8.32 Loans have been taken mostly for investment purposes such as for crop loans, buying machinery and tools, irrigation and for business purposes. A small percentage of borrowers stated either house construction or education as the purpose of their loans. Some of them admitted of having used a part of the credit for other purposes. We therefore look into the impact of the loans on the income and work intensity of the beneficiaries. We assume that with more investment, both income and work intensity would have increased. We are aware of the limitations of impact assessment studies based on the method of "before and after". Any observed result or impact is the result of criss-cross relations of many factors operating at the same time. It is not easy to ascribe an observed change in a factor due to a single factor. However, assuming cet.par., we attempt to compare change in income and work intensity of the beneficiaries before and after taking the loans.

Increase in Incomes & Work Intensity of Sample Borrowers:

8.33 At the aggregate of all the 150 sample borrowers, majority of them reported increase in their level income after securing loan under priority sector advances.

No. of Respondents	% of Respondents	Change in Income (Rs.)
109	73	+29400
26	17	- 23000
15	10	No Change
Total	150	100

The average increase income for the sample beneficiaries as a whole worked out to about Rs.17400. Thus, even after setting off the losses, the sample borrowers did benefit from the distributed priority sector credit. Regarding work intensity, a similar picture emerges that can be verified from Table 8.18.

8.34 Decomposed scrutiny of the information reveal that BCs, compared to other community borrowers, reported higher increase in income. Loanees operating more than 5 acres reported higher increase in income than others. There is a positive relation between loan size and increase in income. Therefore, for a more rigorous result, other independent factors are to be considered such as size of land holding, income before loan, community etc. We took into account some of them in the regression analysis. Before we report regression results, we first examine region-wise changes.

Region-wise Analysis of Changes in Income & work Intensity:

8.35 Table 8.18 summarises changes in the incomes and work intensity of the respondents region-wise.

TABLE 8.18

Impact of Priority sector credit

Change in income after loan				Increase in work intensity		
	Increase in income	Decrease in Income	No change	Yes	No	NR
	(1)	(2)	(3)	(4)	(5)	(6)
Telangana	36	13	1	43	7	0
Rayalaseema	35	9	6	46	4	0

∂ This method is also called "Without and With Project".

Change in income after loan			Increase in work intensity			
	Increase in income	Decrease in Income	No change	Yes	No	NR
	(1)	(2)	(3)	(4)	(5)	(6)
Coastal Andhra	39	4	7	42	7	1
Total (AP)	110	26	14	131	18	1
Shares (AP)	73%	17%	10%	87%	12%	1%

Source : Primary Data.

Notes: 1. Sums of each Row of the regions add to 50 each and for AP add to 150 respondents. As to Shares (last Row), the sum is equal to 100(%).2. NR=NO Response.

From the Table it can be seen that both income in the case of 73% (last Row, col.1) and work intensity in the case of 87% (col 4) of the creditors increased after the loan was taken. Only 17% said that their income had decreased, while 9% reported that income almost remained constant. Similarly in the case of work intensity, only for 12% of the beneficiaries, there was no change and for 87% of them work intensity increased due to utilisation of the credit facility.

8.36 At regional level, the highest change in income was seen in Coastal Andhra with 78%, followed by Telengana with 72% and Rayalaseema with 70% of the beneficiaries reporting enhanced income. But 26% of the Telengana sample respondents said that their income decreased. So also 18% respondents from Coastal Andhra and 8% from Rayalaseema informed marginal decrease in their income. As to improvements in work opportunities, 92% claimed increase in Rayalaseema, followed by 86% in Telangana and 84% in Coastal Andhra. However, 28% of the respondents in Telangana and Coastal Andhra, and 8% in Rayalaseema stated that there was no change in their work intensity.

Impact of Priority Sector Credit on Raising Incomes— Aggregate Analysis:

8.37 In order to explain the post loan incomes of loan recipients, the income after borrowing was regressed on the size of loan, size of income before loan, land size, regional dummies (Telangana =0), and caste dummies. The dependent variable is annual incomes after loan utilisation.

8.38 We have run regressions to test the hypothesis of: a) Size of loan affects the income after borrowing, b) Income before loan affects income after loan, c) Land size affects the efficiency with which loans are handled. d) Caste of the loanees affect the efficiency with which loan is handled as reflected in income after loan, e) Regional factors affect income after loan, in the regression, regional dummies used are : Tel=0, RS=1, CA=2

8.39 Regressions results point out that the adjusted Rs quare was very high at 0.933 showing that over 93% of the income variation after loan was explained by the regression. Caste dummies tested not significant revealing that community of the loanee did not affect the efficiency with which the loans were handled. All other variables tested significant. In the regression, the independent variables are regional dummies, caste, income before loan and size of the loan and the dependent variable is annual income after availing credit.

While the results at the aggregate of AP are given below, regional details are deferred to the Appendix.

	Unstandardized Coefficients	T	Sig.
(Constant)	-40,800**	-4.367	0.000
Rayal dummy	23,514*	2.338	0.021
Coastal dummy	30,320**	2.952	0.004
Amount Borrowed	0.385**	7.391	0.000
Land Size	-3833#	-1.666	0.098
Annual income before loan	1.321**	25.081	0.000

CHAPTER-IX

Summary, Observations, Conclusions & Policy Suggestions

Aim & Chapter Frame:

9.1 This being the final Chapter of the research Report, its aim is to sum up the discussion, pool together endpoint points of discussion and offer suggestions. It is set out in three Sections. After briefly noting relevance, objectives, issues and methodology followed in the study, a summary of Chapters II through VIII is given in Section I. Main observations, drawn inferences and conclusions are explained in Section II. Limitations, suggestions and a couple of areas for further work are given in the final Section.

I

RELEVANCE OF PRIORITY SECTOR CREDIT ALLOCATION:

9.2 Growth with equity and stability has been the corner stone of Indian planned development from the 1950s.To accomplish the task, sound and effective macro-economic policy is needed, in which monetary-banking policy is an important component. In the latter, under Government Policy, Directed or Priority Sector Credit is emphasised to take care of the hitherto excluded or less serviced rural-agricultural and other small producers. Directed credit is an institutional mechanism for financial inclusion and to address equity issues. Through it institutional credit is delivered to less-and unprivileged sectors and persons who have high potential for generating output and raising employment. Market is blind as to the goal of growth of employment and equity. Weaker sections, farmers, agricultural labourers and artisans running cottage-small industries and seeking self employment are highly unorganised and market mechanism can not help them. This research is in this direction of investigating and analysing certain dimensions of prioritised bank credit.

Objective :

9.3 The principal aim of the research project is to examine certain dimensions and discuss issues relating to allocation and growth patterns, inclusiveness and equity in the distribution of prioritised credit across regions and classes. This main objective is sought to be realised through the following opeRational sub objectives :

1. To review and comment on the changes in the policy of priority sector over the years.
2. To examine trends in growth and proportion of priority sector advances at the macro level of India and regional level of Andhra Pradesh (A.P.).
3. To analyse pattern of allocation of priority sector advances by different groups of banks and across select regions to various targeted groups and sectors with a view to know to what extent credit was allocated equitably and, spirit & letter of the prescribed main and sub targets have been obliged.
4. To study the behaviour of Credit-Deposit Ratio (CD RATIO) across banks and over time, and find out nature of relation between growth of deposits and credit in general, and prioritised credit in particular.
5. To probe into the extent of Non-Performing Assets (NPAs) in the priority sector vis-a-vis credit advanced to other sectors.
6. To enquire at the grass root level of beneficiaries, of prioritised credit in the sample areas in AP, regarding their socio-economic status, availability of credit, cost and impact of the credit availed.

Issues:

9.4 For focused examination, we raise certain issues that are closely related to the stated objectives.

1. What is the impact of liberalised scope of priority sector lending, keeping constant the overall target at 40%, on the originally targeted agricultural sector?
2. Are the banks able to fulfil the priority sector main and sub-targets?
3. Whether the credit allocated by banks across selected major states has been equitable?

4. What is the behaviour of CD Ratio and whether credit advanced to the priority sector moved in line with the growth of deposits?

METHODOLOGY

(Data Sourcing, Scope, Time Span & Techniques of Analysis)

9.5 Methodology is concerned with explaining approach, procedures and methods actually followed and a critical discussion of theories and basic principles of reasoning related to the subject. In analysing and presenting the report, the broad methodology followed is from aggregation to disaggregation. We go down from India to States to regions to villages, banks as a whole to individual banks, and from aggregate to sectoral priority sector credit allocation. First we present an overall/ macro picture and then we explain details and sub-details.

Data Base:

9.6 The research is based both on primary sources of information and secondary data. Various RBI publications are made use of. One limitation of the publications of the RBI is that most of them contain priority sector credit given by Commercial Scheduled Banks and exclude Cooperative Banks. We filled the lacuna by resorting to Annual Credit Plans published by Lead Banks. For impact assessment, cross section analysis of the beneficiaries of bank credit at the grass roots of sample villages is undertaken by administering semi-structured questionnaire. This is supplemented by informal face to face interviews with the beneficiaries and bankers.

Scope & Sample Design :

9.7 The priority sector credit advanced by the cooperatives is included only at the level of sample areas and the same is excluded at the all India and inter-state analyses. Impact study and examination of data contained in the Annual Credit Plans are limited to 3 sample districts, chosen from the 3 socio-economic regions of AP. The state has well demarcated three socio-economic regions known as Telangana, Rayalaseema and Coastal Andhra. Multi-stage random sampling technique was employed. In the first stage, from each one of these three regions, one district was picked up randomly to represent different levels of social and economic development. The selected districts are: from Telangana the district is Nizamabad, from Rayalaseema Kadapa and from Coastal Andhra Krishna district.

9.8 To assess impact, we adopted the method of Before (taking the credit) and After (taking the credit). For this purpose, in the second stage, from each one of the three districts, randomly 5 Mandals were chosen. From each Mandal, again randomly one village was selected. Here 'sample village' means the main Panchayat/ PACS (Primary Agricultural Cooperative Credit Society) village and its surrounding villages/hamlets. In the 3rd stage, guided partly by the credit providing agencies, beneficiaries were selected. They were post-stratified based on community/income/amount of credit availed. Constrained by limited financial and time resources, it was arbitrarily decided to select uniformly 50 beneficiaries from each one of the 3 districts, at 10 beneficiaries from each selected Mandal.

Time Span:

9.9 As priority sector credit gained momentum with nationalisation of banks in 2 phases by the 1980s, the period of study covers about 3 decades covering mostly the period of 1980s to 2010/11. However, compelled by availability of limited break up data and convenience in handling of data, we took mostly 2 points in time of 1980-81, 1990-91 and from 2000-01 time series continuous data were examined.

Statistical Tools of Analysis:

9.10 Simple statistical tools are used such as index numbers, mean, Ratios and percentages. For decadal growth rates, CARG (Compound Annual Rate of Growth) technique is used. For time series continuous data, the semi-log or the exponential function (i.e. regression equation of the form $Y=ab^t$**)** was employed to calculate growth rates. Also regression technique was employed to analyse part of the primary and secondary data.

Outlines of Chapters:

9.11 The Report is set out in 9 Chapters including the introductory Chapter 1 that covered objectives, issues, methodology, scope and a brief literature survey on the problem. Chapter II, traced evolution of the priority sector policy in India since the 1970s, reviewed changes in the policy including the present policy and summed up main recommendations of the Nair Committee on the scope and coverage priority sector. It examined growth and pattern of sector-wise allocation of credit in India, with focus on agriculture, by all the SCBs. Chapter III focused attention on the main sectors of priority sector credit and examined pattern of priority sector credit by all the SCBs in general and direct credit to agriculture in particular. It analysed both outstanding amounts and number of accounts together with per capita credit. Also outstanding amounts and disbursements were anlysed by size-class of farmers together with a close probe into per capita credit provided to MF,SF & LF.

9.12 Chapter IV and the succeeding Chapters were assigned the job of temporal disaggregate analysis both spatially and bank groups-wise. The task of Chapter IV is an examination of pattern of credit distribution across 5 major states of India and among groups of banks. Bank group-wise analysis of distribution pattern of priority sector credit was conducted at three stages with modified grouping of banks and variables of priority sector credit. Chapter V enquired into the behaviour of NPAs and credit deposit Ratio temporally, spatially and across bank-groups. By decomposing aggregate NPAs into NPAs of priority and non-priority sectors, it attempted to assess to what extent NPAs are higher in the priority sector. Also it enquired into inter-relation between priority sector credit, total credit and deposits.

9.13 Chapter VI analysed sectoral pattern of distribution of priority sector credit in the AP state and examined CD RATIO both at AP state level and at the level of 3 sample districts. It discussed sectoral allocations of outstanding credit amounts, accounts and per account credit. It looked into the behaviour of CD RATIO of all the SCBs in AP. Finally, it probed into the behaviour of CD Ratio and its relation with credit allocation to total priority sector and agriculture in the study district of Nizamabad in AP state.

9.14 Chapter VII sketched profiles of the 3 study districts and analysed CD Ratio based on Annual Credit Plans of the districts. It examined pattern of allocation of priority sector credit in the study areas. Ch VIII, which is wholly based on field survey data, aimed at explaining socio-economic features of sample beneficiaries, institutional credit availed by them and its impact on the 150 sample beneficiaries in terms of enhanced incomes and work intensity. Extent of loans secured by different classes and for different purposes, interest rate paid, dues etc. were discussed.

II

MAIN OBSERVATIONS, INFERENCES & CONCLUSIONS EVOLUTION OF POLICY ON PRIORITY SECTOR CREDIT:

9.15 As in the foregoing, in this Section too we pool observations and conclusions seriatim Chapter-wise. It was noted that notwithstanding social control over banking in the 1970s, till the major 20 banks were nationalised, the farm sector, small traders, rural artisans and small industries were virtually neglected by the banks. By the close of the 1940s, while agriculture secured just 4%, large industries and trade cornered 79% of the total bank credit (paras 2.5& 2.6). The RBI for the first time used the term “priority sector credit” in its credit policy of 1967-68.

9.16 The present policy on priority sector credit evolved through a process periodical reviews over 3 decades. Among others, Krishna Swamy and Ghosh Working Groups, Narasimham and Nair Committees made valuable suggestions to make the policy more effective with extended scope. We observed that the process of dilution of the spirit of the credit policy began with the recommendations of Narasimham Committee (1998) and RV Gupta committee (para 2.11) by way of expansion of purposes and classes eligible for priority sector credit.

Growth Rates of ANBC & Total Priority sector credit:

9.17 A scrutiny of trend rates of growth of total credit (ANBC) and total priority sector credit distributed by all the SCBs in India revealed that both in nominal and real terms, the two grew almost equally (Table 2.2). The inference is that growth in priority sector credit kept pace with growth in aggregate credit. The annual trend rate of growth during 1980-2011 worked out to about 12½% in real terms. Out of the total ANBC, over 90% was allocated to non-food sector. Allocation to priority sector was about 30%-40% during the period. In the total priority sector credit, the share of agriculture declined in the recent years. Its share was low at 1% around 2000 and high at 14% of ANBC in the early 1990s.As proportion to total priority sector credit, agriculture accounted for about 1/3rd to 2/5^{ths} (para 2.19).

III

SECTORAL ALLOCATIONS— LENDING MORE INDIRECTLY TO AGRICULTURE:

9.18 An analysis of allocation pattern of total outstanding priority sector credit by all the SCBs in India during 1995-2010 revealed that from 2000s allocations to housing have been enhanced and today agriculture, SSI sector and housing together account for over 90 %. Increased % allocation to agriculture from the 1990s was mainly due to higher indirect lending and not by way of direct lending to individual farmers. The share of indirect lending in total agricultural credit doubled during 1995-2000 (para 3.8).

9.19 Analysis of per account/capita outstanding credit pointed out visible growth over time. Within agriculture, increases in indirect per capita credit were much higher than in direct lending. The Ratio of direct to indirect (per account credit) rose from 1:6 to 1:27.The inference is that differences in increased lending between direct and indirect widened substantially (Table 3.3).

Disbursements & Outstanding Amounts and Relative Shares of MF, SF & LF:

9.20 We observed that on an average, disbursements during a year are marginally lower (about 8%) than outstanding at the end June of the given year (para 3.12). Analysing relative shares of size class of farmers, we noted that MF and SF claimed a share of 2/3rds in accounts (holdings), their share in disbursements constituted 48% but in outstanding it was 55%. The share of LF is a third and even now they secure enjoy a higher share in the total credit deployed by the SCBs. This may be addressed by stipulating a sub target of, say around 12%, (higher than 9% suggested by Nair Committee, para 3.14) to SF and MF.

Elasticity of Farm Credit With Respect to Total Credit & Priority sector credit:

9.21 Double log regressions were run to estimate elasticity of farm credit to total and priority sector credit. The estimated elasticity of outstanding credit of farmers to priority sector credit is substantially higher than unity at 1.83. It means that a 10% increase in priority sector credit may stimulate credit to farmers by 18.3% (para 3.26). Regression analysis revealed that elasticity of number of outstanding accounts to total advances to all farmers is much higher than unity at 1.69 for MF, 1.45 for SF and 1.54 for LF. It implies that accounts grow much faster than total advances and among the 3 classes, elasticity of accounts of MF is higher than SF and LF (para 3.33). Also the elasticity estimates (1.7 MF, 1.13 SF & 1 LF) reveal that total amount of credit advanced to farmers was highly sensitive to total advances of banking sector lent to all borrowers (para 3.36).

IV

DISAGGREGATE ANALYSIS—EQUITY ACROSS STATES

9.22 Condensing about 20 heads of priority sector credit into half a dozen groups, and concentrating on Agriculture, SSI-Small Business and Weaker Sections, we record a few observations. Among the 5 states, always AP stood at top with 11% to 13% share in the total outstanding agricultural credit distributed in India. Although UP has more than twice higher population than AP, it stood at the second place. From 2000-01 due to faster growth of Maharashtra, UP was overtaken by it (para 4.10). However, in the case of SSI and small business, we noticed that in many years Maharashtra dominated others with a share of 18%-24%, followed by UP and West Bengal. In weaker section advances, relative to other states, from 2000-01 Maharashtra allocated more and claimed first rank. Its share in India was very high (except in one year at 14%) at 43%-63% (para 4.12). In brief, allocations to main sectors of priority sector credit across major states remained skewed and the distribution pattern appears to be not aligned to the size of population. Maharashtra and AP performed better than other states.

9.23 In terms of number of (outstanding) accounts, we observe that with regard to agriculture, always UP and AP scored the top two ranks. Juxtaposing shares in outstanding amounts and corresponding number of accounts, the amount of credit per account(holding) has been relatively higher in UP, AP and MP. Regarding number of SSI accounts, West Bengal compared to UP claimed higher share and in small business, AP scored first rank with about 10% share (paras 4.15-16).

Bank Group-wise Ratio Analysis—Domestic, Foreign & Priority Sector Advances:

9.24 Classifying all the SCBs under 5 groups, we observe, save foreign banks and until recently private sector banks, the Ratio of domestic to foreign advances was around 90%:10% during the period of 1999-2011. Thus, domestic credit constituted about 90% of ANBC. We observed a puzzle when we worked out % of total priority sector credit in ANBC. Treating total credit as ANBC, in none of the years including in the recent year of 2010-11, any bank could accomplish the stipulated target of 40% (Table 4.4). This is against realisation of the target as seen through various RBI publications. The puzzle partly may be due to not netting/adjusting total advances by us.

Sectoral Allocations—Relative Shares of Bank-Groups :

9.25 We could gather data for only the recent 6 years viz. 2005-11. Dividing the total priority sector credit under 3 main groups (Agriculture, Small & Micro Enterprises, and Weaker Sections) and following threefold classification of bank-groups, we found that about three-fourths of the total priority sector credit in India was delivered by public sector banks and the balance 25% of the total priority sector credit came from private sector and foreign banks. In 25% points, the share of foreign banks is about 5 % points (para 4.23). Not only in the total priority sector credit but also in agriculture, SSI, weaker section lending etc., public sector share is substantial (80%-90%, Table 4.5). We happily noted from the time series data that all the banks including foreign banks could achieve the stipulated targeted lending to priority sector (40%/ 32%). Relatively, the realised targets of private sector banks are marginally higher than public sector banks. Foreign banks over-shot their target of 32% by about 2% points (para 4.24).

V

LEVEL OF NPAs OF TOTAL ADVANCES

9.26 A scrutiny of available 6 year (2006-11) data on Standard Assets and 3 types of gross NPAs revealed that for all types of banks, Standard Assets constituted 97%, which implicitly would mean that NPAs were 3%. Within the NPAs (3%), Loss, Sub-Standard and Doubtful Assets are about 0.5%,1%, 1% respectively (para 5.4). Further, during 1999-2010 period, compared to the initial 5 years, in the subsequent years, NPAs decreased substantially due to adoption of revised Basel Norms and intensified efforts leading to improved recoveries(paras 5.5&6).

Trend in Priority & Non-Priority Sector NPAs:

9.27 Examining the break up data of NPAs of priority and non-priority sectors during the short period of 1995-2011 related to public sector banks, we noticed significant improvement in downsizing the NPAs of priority and non-priority sectors in the recent 7 years compared to the preceding decade (Table 5.4). As in the case of SBI and its Associate Banks, and Nationalised Banks, with regard to public sector banks as whole, the turning point in substantial improvement is 2005.

9.28 During 2005-11, the mean value of NPAs of the Priority Sector is 4.7% of total priority sector credit compared to the mean value of 23.1% in the preceding decade. Put in other words, Public Sector NPAs of priority sector advances decreased by 5 times. A similar trend in decrease of NPAs of non-priority sector is observed. Admittedly, always proportions of NPAs of priority sector were higher than corresponding NPAs of non-priority sector. At present while NPAs of priority sector are 4.7%, for non-priority sector the figure is 2.0%, implying that in priority sector still % of NPAs are still twice higher than in non-priority sector (Table 5.4).

Trend in the Behaviour of CD RATIO:

9.29 Based on the data on CD RATIO of all the SCBs for the period 1980-2010 and drawing a curve on two dimensional plane, we found two clear phases viz. downtrend in CD RATIO from 1980 to 1999 and uptrend thereafter (Graph 5.7). In constant prices, real growth rates were estimated employing regression (exponential) technique. We observed that after 2000, growth rates of deposits, total credit, priority sector and agriculture advances grew at much higher rates than before 2000.

Relation Among Growth of Deposits, Credit, Priority sector credit & Agriculture Credit:

9.30 It is observed that while before 2000, growth in priority sector credit and within it agriculture credit grew at a lower rate than growth in total credit and total deposits. However, after 2000 it is opposite. To be precise, from 2000 to 2010, while increase in total credit was higher at 16.9% than in deposits at 13.3%. Further, growth in both total priority and agriculture credit were higher respectively at 18.5% and 19.8% (than deposits & credit at 13.3% & 16.9%, para 5.28)

9.34 Regression results suggest that if the CD RATIO rises by 1%, credit to priority sector would rise by 0.7%. Priority sector credit is elastic (just closer to unity at 0.93).To be precise, if total credit doubles, priority sector credit would rise by 93% (para 5.31). Elasticity of credit to agriculture with respect to total volume of priority sector credit is estimated at 0.95, which means, a doubling of priority sector credit would increase agriculture credit by 95%.

VI

AP STATE—SECTORAL PATTERN OF PRIORITY SECTOR CREDIT ALLOCATION

9.35 Turning to AP study state and examining growth in credit, we find that in nominal terms, priority sector credit as whole increased by over 16 times and in real terms by over 6 times or at 16% p.a. during 1995-2010.(para 6.2).The SCBs in AP realised, except in 5 years, the stipulated priority sector credit target of 40%. We record that the banks also fulfilled the targeted lending to agriculture at 45% of total priority sector credit (or 18% of ANBC) and sub sector target of not more than 11% (or 4.5% of ANBC) as indirect lending to farm sector. A decline in the share of credit allocated to SSI sector was observed from around 2000 (para6.4) by about 50%(from 30% points to 15%).

Distribution of Accounts and Per Account Lending in AP:

9.36 An analysis of outstanding number of accounts reveals that the proportions of the shares of agriculture and direct outstanding accounts are higher than the relevant shares in outstanding amounts. The implication is that per account (capita) lending is smaller(para 6.5). Further, indirect lending to agriculture per account has always been higher than direct lending to farmers. Over the period under review, the gap between direct and indirect (per account) lending to farm sector widened, reflecting preference of the banks to lend more to less risky corporate bodies related to agriculture (para 6.6).

Behaviour of CD Ratio in AP:

9.37 Similar to the observation recorded in para 9.29 pertaining to trend in CD RATIO at all India level, in AP too in the case of all the SCBs, the credit deposit Ratio fell upto 2002 and in the subsequent period we observe uptrend (graph 6.1). This breakpoint is a close to the one observed in the case of India around 2000.

Growth Rates— Relation Among Deposit, Credit, Total Priority & Agriculture Credit in AP:

9.38 A scrutiny of compound annual growth rates before 2002 (from 1995-96) and after 2002 (upto 2009-10) revealed that in constant prices deposits grew at 13.5% p.a., but total credit grew at 7.6% in pre 2002 and 20.7% in post 2002 period. What is more important for the present study is increase in priority sector credit in general and agriculture credit in particular. We observed that growth in total priority sector credit was higher in both the periods than total credit, growth in credit to agriculture was lower at 5.6% than 10% growth in total credit, and also lower than total credit at 7.6% in the pre-2002 period. As to the post-2002 period, growth in credit to agriculture was marginally higher at 25.3% than 21.5% in the case of total priority sector credit and 20.7% p.a. with regard to total credit (para 6.8).

CD RATIO Behaviour—Growth Rates and Relation Among Deposit, Credit, Total Priority & Agriculture Credit in Nizamabad District in AP:

9.39 Similar to the trend at all India and AP levels (Graphs 5.7 & 6.1), in Nizamabad district too we observed a similar picture Graph 6.2. The CD RATIO has been generally falling from 1996 to 2000 and rose thereafter. However, we observed that growth rates of deposits, credit and priority sector credit were lower at the district level compared to India and AP. In constant prices, growth rates of total priority sector credit and agriculture credit in the pre-2000 period were twice higher (about 10% each) than total credit that grew at 5% p.a. In the post-2000 period, all the three variables grew more or less at the same rate—around 10% p.a. (para 6.15).

VII

SAMPLE THREE DISTRICTS IN AP—NIZAMABAD, KADAPA & KRISHNA

9.40 A scrutiny of profiles of the 3 districts of Nizamabad, Kadapa and Krishna representing the 3 socio-economic regions of AP of Telangana, Rayalaseema and Coastal Andhra reveals both similarities and differences. All are predominantly agricultural economies with working population of about 45%, characterised by different cultures and levels of development. Krishna is relatively richer than the other 2 districts both in GDDP and per capita incomes. Its per capita income is higher (para 7.11) by about Rs. 19000 (at Rs. 63000) than Kadapa (Rs.44000) and Nizamabad (Rs. 45000).

Trends in CD RATIOs of the Sample Areas:

9.41 Examining the CD RATIOs of SCBs in sample areas during 1995-2010, we observed that their values were low upto the mid 2000s. We noted that the values of CD RATIOs in the state were higher than in the 3 districts. The inference is that compared to the other 20 districts in the state, in the 3 districts credit in relation to deposits has been lower. Based on two end points, we found that in the state as well as the 3 districts, growth in credit has been higher than growth in deposits (para 7.16).

I. Annual Credit Plans, Nizamabad— Pattern of Sectoral Priority sector credit:

9.42 As the Annual Credit Plans of the districts (prepared by the Lead Banks of the districts) give more information in terms of targeted/planned allocations, we enquired to what extent the targets were realistic. Barring in a couple of years, the estimates were about 75%-80% of the actual allocations and in a few years targets were overshot in Nizamabad district. Thus, the two are not far removed from each other. Examining sectoral allocations, we found that 70%-80% of the total priority sector credit was allocated to agriculture. For NFS (including SSI) and business services were allocated a tenth (para7.19). From the estimates given in the Annual Credit Plans, we observe that the share of non-priority sector credit sector is about 10%. It means that the share of priority sector credit is 90% (para 7.20). This observation is at variance with the RBI data of much higher values of non-priority sector credit at 55%-60%. One reasons for the observed very high proportion is that the banks lending more to non-priority sector (and marginally to priority sector) in urban and metro areas.

Share of Top 5 Banks:

9.43 Although about 30 banks provide priority sector credit in the district, a substantial part of the priority sector credit flows out from a handful of banks viz. SBH (State Bank of Hyderabad),SBI, Andhra Bank, RRB (Deccan Grameen Bank)and the Nizamabad DCCB. Both in total and sectoral deployment of priority sector credit, the 5 banks account for 70%-90% share. There is a change in the relative share of the DCCB. Earlier its share was 30%-40% but now the SBH and Andhra Bank are claiming the highest shares (7.23).

Over Dues:

9.44 Defining over dues as excess of ‘Demand’ over recoveries, we found that over dues were not reduced much during the period under review and they constitute 30%-40% of demand. Another notable observation is that among cross of banks, not only the cooperatives (DCCB) were the highest lenders in the district, in over dues too, their share was higher (para 78.25).

II. Annual Credit Plans, Kadapa—Pattern of Sectoral Priority sector credit:

9.45 As in Nizamabad, in Kadapa too over 80% of the credit was allocated to priority sector, which is twice higher than the stipulated target. This needs further enquiry, including investigating into lending to non-priority sector in urban areas. At sectoral level, in this district too, agriculture was allocated 70%-75%. NFS constituted a tenth of the total priority sector credit. The allocation to ‘Other Priority Sectors’ worked out to 13%-20% (paras 7.27& 28).

Share of Top 5 Banks:

9.46 Among various banks operating in the district, the major banks deploying substantial part of total priority sector credit are SBI, RRB (AP Grameen Bank),DCCB, Syndicate Bank and Andhra Bank. They account for about three-fourths of total priority sector credit. Among these 5, SBI and the RRB stand at the top (para 7.31).

Over Dues:

9.47 While the Annual Credit Plans of Nizamanad and Krishna districts do not provide break up data of over dues of priority sector credit, the same are published in the Annual Credit Plans of Kadapa for the recent years. However, they do not contain information as to over dues of non-priority sector. One clear observation is that the absolute size of over dues sharply decreased from 2005-06. However, in terms of % of over dues to demand, significant decline is not noticed and the over dues are about 30% (para 7.30).

III. Annual Credit Plans,Krishna—Pattern of Sectoral Priority sector credit:

9.48 In Krishna district too, priority sector was allocated 77%-80% of the total credit, which is twice higher than the suggested target. In all the 6 years of the study period, the major claimant of priority sector credit was agriculture and NFS was allocated about a tenth of the total priority cr4edit. Nearly 30% of the total priority sector credit was distributed to ‘Other Priority Sectors’ (para7.35).

Over Dues:

9.49 We could secure information about over dues just for three years. Out of the 3 years, at the aggregate of all the banks in the district, over dues were very high at 46% of demand in 2007-08. However, in the other two years, they were much lower at 17% and 18%. The record of the RRB (Sapthagiri Grameen Bank) was better than cooperative and commercial banks. Relatively, the DCCB followed by commercial banks exhibited higher level of over dues than others (para 7.36).

9.50 From the comparison of the average % of over dues in Nizamabad (**40%)** and Krishna (**27%)** pertaining to total credit (priority+non-priority sectors), with that of Kadapa (**31**%) pertaining to priority sector only, we conclude that the % of over dues in priority sector lending are not much higher than in the lending to all sectors (para 7.37).

VIII

The following are the main observations and conclusions based on field survey data in the sample villages.

Sample Beneficiaries—Income Before Taking Loans;

9.51 Majority of the sample members (46% of150) reported Annual income of Rs. 25000 - Rs. 50000, a tenth of them with Rs. 10000 - Rs. 25000 and tenth Rs. 1/2 lakh-Rs. 1 lakh. While just15% reported more than Rs. 5 lakh and 15% had Rs. 1 lakh tors. 5 lakh (para 8.9).

Size of Priority sector credit:

9.52 Out of the total institutional credit of Rs.98 lakh secured by the 150 beneficiaries in the sample areas in the 3 districts (treated as AP), 70% was received by cultivators. The average loan given to farmers worked out to Rs. 73000, as against the overall average loan of Rs. 65000 to the beneficiaries as a whole. Interestingly, for business it was the highest at Rs. 1.1 lakh and the least at Rs. 30000 to agricultural labourers (para 8.11).

Cost of the Loans:

Scrutinising the interest rates in the 3 sample areas for different persons and purposes, we find that the maximum number of respondents (nearly 35%) paid the interest of 9.75% for crop/agricultural loans, followed by 24% of the respondents who paid 11% interest for non-agricultural sectors, 17% paid between 12%-15%, mostly for small scale industry and 7%-8% interest was paid by 7% of the loanees (para 8.12).

Determinants of Loan Amount—Regression Analysis:

9.53 Amount of loan depends on quite a few factors. Our regression results indicated that interest rate, education and caste did not affect the loan amounts, but other economic factors found (such as land & level of income before loan) to be dominant. In general, for extra 1 acre land cultivated, loan amount is higher by Rs.14000. As to the impact of income, loan amount is higher by Rs.500, for Rs.1000 extra annual income (para 8.14).

Size of Priority sector credit— Purpose-wise:

9.54 We found that the highest amount of loan under priority sector credit was given for mechanisation at Rs.2.14 lakh, followed by bore-wells at Rs.1.49 lakh per farmer. However, the % of the loanees in this case are about 8% each. Crop loan borrowers accounted for 57%, for which the average loan sanctioned was Rs. 35000. Average loan is the least at Rs. 25000 allocated for each housing (Table 8.10).

Repayment, Adequacy and Diversion of Loans:

9.55 We noted that the repayment performance of the sample loanees is not bad, as more than one-half of them repaid fully and 29% repaid partly in time. Due to low yield and non-remunerative market prices, repayments were held up. During the field survey we were told that some of them diverted the credit for other pressing purposes but most of them used the credit fruitfully. While 41% of them reported adequacy of the credit sanctioned, for 54% of the loanees the credit was inadequate and they borrowed from other sources(paras 8.21 & 8.22)

KCC, LEC, Supervision of Bank Staff, Problems in Accessing Credit, Help of Middlemen & Preferred Banks:

9.56 KCC and LEC (Kisan Credit Cards, Loan Eligibility Certificate) facilitate farmers to easily access institutional credit, we enquired as to how many of them could secure them. Regarding 51% of the total loanees were having KCC, covering most of the owner-cultivators, LEC coverage was poor. Many were not aware of the facility. Regarding visits of bankers to the sample borrowers, only 55% reported affirmatively and 37% replied negatively. Almost 4/5ths of the 150 loanees reported that the bank staff were courteous. However, in getting sanction of loans, about 60% of them faced problems.

9.57 To majority of them, documentation in applying for loans was simple. A good number of the loan beneficiaries (45%) took the help of middlemen in accessing credit and rewarded them. Payment to the middlemen was depended mainly on the size of the loan— bigger the amount, higher amounts were paid varying in between Rs.100-200 (by 11% of them) and Rs12000 (by 4% of them).These sums included transport, stationery and other expenditure. As asked about which banks they preferred, there was no consensus. While 38% preferred RRBs, 35% cooperative banks and 27% showed their preference for commercial banks.

Interest Subvention Schemes-—Awareness:

9.58 When asked about interest rate concessions given by the state and central governments, we are happy to report that about 2/3rds of them were aware about the state interest rate subsidy. As to the subsidy given by Government of India, 83% were unaware and so also in the case of ADWARDS (Agri. Debt Waiver & Debt Relief Scheme) 86% could not get benefit from the scheme.

Impact Assessment:

9.59 Barring a small % of the respondents who borrowed for housing and education, as majority of them borrowed for production, we hypothesised that the priority sector credit had favourable impact on incomes and number of hours of work. To test the hypothesis, we gathered information from the 150 respondents change in income and work intensity after utilisation of credit secured under priority advances. With an awareness of the limitation of the assessment method of "Before and After" and operation of other factors simultaneously, we draw inference as to the impact.

9.60 On an average 73% of them (109 borrowers could improve their annual income by Rs. 29000 but in the case of 17% (26 loanees), income diminished by Rs. 23000. With regard to 10%, income was almost constant. For all the sample loanees as a whole, annually each could improve income by Rs.17400. This is not a mean benefit of the institutional credit. Also 87% of them reported increase in work intensity after taking loan and for others number of working hours did not change (para 8.33 and Table 8.18).

III. Limitations, Suggestions and Areas for Further Research

9.61 The limitations of research based on secondary data are well known. Errors might have crept in to the study in equating total credit as ANBC. Also, in identifying components of priority sector credit under main and sub targets. As the beneficiaries reported based on recall, its limitations should be kept in mind. The reported observations, inferences and conclusions are to be cautiously interpreted.

Suggestion to Raise the 40% Target & Pruning the Eligible Borrowers Under Priority sector credit:

9.62 Accessing priority sector credit is not easy. There is a case for liberalising the formalities in accessing credit and the bank staff to be sensitised to be customer-friendly. As rural India still accounts for about 60% of total employment and as the urban industry and service sector miserably failed to absorb growing workforce, it is desirable to raise the priority sector credit target, to say 45% and to direct farm credit by similar increase (5% points). As banks have shown preference to lending more indirectly to agriculture and nearly 2½ times higher to LF compared to SF and MF (Tables 3A & 3B), % allocation to them is to be reduced. A higher sub target on the lines indicated by Nair committee (but higher than 9% to MF& SF[β]) for agriculture and, SSI and Micro Units is to be stipulated. Alternatively, indirect lending is to be dropped from the list.

9.63 We suggest slimming the list of persons and activities eligible under priority sector credit. The following, that are now eligible under priority sector credit, may be decoupled: lending to Electricity Boards, NABARD, State Industrial Development Corporations, State Finance Corporations, cold storage, milk chilling plants, construction and running of godowns, warehouses and market yards, credit to plantation crops (that are generally large sized), suppliers of farm inputs including farm machinery and equipment, transport operators exceeding 2-3 vehicles, processing units, education and housing. Its purpose is to force the banks to do justice to the goal of more inclusive growth through finance and showing more interest for the well being of small borrowers and producers including those in agriculture.

9.64 Based on the limited temporal, spatial and cross section data and analysis, we find that institutional credit delivery under priority sector percolated to rural areas, raising incomes and working hours. However, the goals of financial inclusiveness, equity across regions and classes, especially MF & SF, and micro units remain elusive. The spirit of priority sector credit policy is not given much importance. Policy changes are warranted to address these sections more effectively.

β This suggestion is similar to that of Krishna Swamy Committee of 1980 (para 2.9) which recommended at least 50% of the direct farm credit should benefit the weaker sections which include SF, MF and agricultural labourers.

Areas for Further Investigation & Improvements:

9.65 For firm conclusion of inequities across regions in the distribution of priority sector credit, there is a need to include more states, especially from north-east/ west. Also, research is needed with bigger sample size to know ground realities at village level. of More intensive work is needed to verify the authenticity of the information published in Statistical Tables Relating to Banks in India for the recent 17 years of 1994-2011 (Table 4.4), where the data are amenable for interpretation to conclude that in all the years, none of the bank groups could realise the set 40% target. Also, there is need to improve MIS (Management Information System) of banks. The SCBs should be required to publish detailed data to justify that how the district level (3 sample districts), the banks were able to lend to priority sector nearly twice higher than the stipulated target of 40%. Although the banks have copious valuable information in their records, they keep it as a guarded secret and neither they publish nor provide on request. The Annual Credit Plans do not define ANBC and sometimes book a single loan under two or three heads such as weaker sections, small business and self employment. The publications do not contain information on NPAs of priority and non priority advances and simply give information on demand, collection and over dues.

Annexure

NATIONAL AKADEMI OF DEVELOPMENT, HYDERABAD

(Regd.1979)

PRIORITY SECTOR CREDIT ACROSS STATES & BANKS

Issues of Inclusiveness—Equity Across Regions & Impact Assessment

QUESTIONNAIRES to BENEFICIARIES OF PRIORITY SECTOR CREDIT

In Nizamabad,Kadapa & Krishna Districts, AP

(Note : The information collected will be used strictly for academic work. The names of the borrowers and views expressed will be kept confidential.)

The **questionnaire is to be served to Priority Sector Credit Beneficiaries only,** who borrowed from any bank or cooperative society in the previous year (say 2011-12). While noting annual income, care is to be taken not to over or understate the income. Try to cross check the information.

Village:.. Mandal.............................

Dist...

Name of the Farmer:..

I. Social Profile:

1. Education (of the borrower): Illiterate (can not read & write)/PS (1 to 5 Classes)/UPS-HS (6 to 10 classes)/Inter/ Degree & above (specify............).Tick √ the proper & X (cross) the not relevant for clarity

2. Community : OC/BC/SC/ST .... Tick √

3. Family size (including the borrower) : 2/3/4/5/............ Tick √

4. Age : .... (years approx)

5. Occupation : Cultivator/Agricultural Labourer/Other Labourers/Household Industry/Salary Earning Wage Employee/Business/Artisan (e.g. carpenter/blacksmith/goldsmith/potterer/tailor/cobbler/business/self employed (specify..) Tick √

6. If you are a farmer, do you have KCC (Kisan Credit Card)? Yes/No Tick√

7. If you are tenant cultivator, are you provided LEC (Loan Eligibility Card)? Yes/No Tick √

8. How much land do you own?

(a) Nil (b) Upto 2.5 acres (c) 2.5 — 5 acres (d) above 5 acres (specify.......... acres) Tick √

II. Borrowings/Repayments/Incomes:

9. (a) How much you borrowed? Rs.............

(b) Name of the Bank (or PACS)..

(c) At what interest rate the loan was lent..........% p.a.

(d) For what purpose you borrowed ....

(specify the purpose)................

10. (a) What part (%) of the borrowed loan was used for other purpose, other than the purpose for which it was lent?... .....% (approx.)

11. Any bank official visited your village to inspect/verify utilisation of the loan for the purpose for which it was sanctioned? Yes/No.Tick √

11. (a) Was the loan adequate? Yes/To some extent/No. Tick √

(b) In case the loan given by the bank was inadequate, did you borrow from others? Yes/No

12. Did You repay the loan with interest within the due date to the bank/PACS? Yes/No/Partly

13. If not paid fully or not repaid at all, what are the reasons?

(a) Less Yield, (b) Unremunerative Market/Support Price for the produce, (c) Natural calamities, (d) Personal family problems/urgency to meet domestic expenditure, (e) Health Problems, (f) Earned income used to clear debt taken from relatives/friends/

14. Please recollect your annual income **Before** taking the loan and after taking & using the loan: **Before** Rs....................p.a., **After**: Rs.....p.a. (income might have increased/decreased or almost the same)

15. Please inform whether due to the utilisation of the loan fruitfully, was their any increase in average number of hours of work, compared to the work intensity before taking the loan?

Yes/No/Negligible/Moderate Tick √

III. Awareness/Responses/Problems :

16. Were the staff of the banks/PACS courteous? Yes/No/Fairly Well/Not Bad. Tick √.

17. (a) Did you face any difficulty in getting the loan from PACS (coop. societies)/banks? Yes/No/Minor/Tough

(b) In getting the finance, did you take the help of any middleman/agent/pyravikar? Yes/No. Tick √.

(c) If yes (help taken from third parties), did you reward(pay) them? Yes/No. Tick √.

(d) If yes, how much did you pay? Rs.............

18. Was the documentation process simple and can be obliged without much difficulty? Yes/No. Tick √.

19. (a) Between Cooperative Credit, and RRB-Commercial Bank Credit, which you prefer ? Cooperatives/RRB/ Commercial Banks. Tick √

(b) Why did you prefer it? Give reasons: (a) Low interest rate (b) Easily accessible (c) These institutions are lenient/have soft corner and appreciate farmers'/loanees problems and provide relief by rescheduling debt, (d) others (specify..........................) Tick √.

20. Are you aware of Pavala Vaddi (3% interest p.a. provided the borrower repays in time & then government pays 4% to the banker to realise in all 7%) Scheme implemented by the State Government through banks and PACS for farmers? Yes/No

21. Are you also aware of the interest subvention (subsidy) at 2% given by the Government of India to Public Sector Banks for short term production credit? Yes/No. Tick √

22. Also, the Government India pays a further interest subsidy of 3% to those farmers who repay in time. Are you aware of it? Yes/No. Tick √

23. Are you benefited by ADWDRS (Agri. Debt Waiver & Debt Relief Schemes)? Yes/No. Tick √

24. Suggestions to overcome the problems and improve the Priority Sector Lending.