

## A Study for Identifying Issues Faced by Bank Officials in Agriculture Priority Sector Lending

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### Abstract

Government want to expand loaning to Agriculture part of Economy. For this reason Reserve Bank of India (RBI) endorsed focus for Indian commercial banks to loan 18 percent of their credit to Agriculture Sector. This is known as Agriculture Priority Sector Lending, however it is watched that regardless of obsession of targets both public banks and private banks are confronting the issues to satisfy the targets. The present study is an attempt to discover the issues confronted by the bank officials for Agriculture Priority Sector Lending (Agriculture PSL). The study range is Delhi NCR. A study of 112 bank officials has been done for the same. For dissecting information, Exploratory Factor Analysis is utilized with the assistance of SPSS (21.0)

**Keywords:** Agriculture Priority Sector Lending, Public Banks, Private Banks, Bank Officials, Exploratory Factor Analysis

### 1. Introduction

To ensure the lending to Agriculture sector, RBI has fixed a target for Indian commercial banks in form of Agriculture Priority Sector Lending. Every public and private bank has to lend 18 percent of their ANBC (Adjusted Net Banking Credit) to agriculture sector. It is clear from Table 1 that both public banks and private banks are not able to fulfil the Agriculture Priority Sector Lending (Agriculture PSL) target.

**Table 1. Agriculture Advances by Different Commercial Banks (Amount in Crores Rs.)**

YEAR	PUBLIC SECTOR BANKS		PRIVATE SECTOR BANKS	
	Amount Outstanding	% of net bank credit	Amount Outstanding	% of net bank credit
2000	45,296	14.3	4,023	8.3
2001	53,571	15.7	5,634	9.6
2002	58,142	14.8	6,381	8.5
2003	70,501	14.5	9,924	10.9
2004	84,435	15.1	14,730	14.2
2005	1,09,917	15.3	21,633	12.3
2006	1,54,900	15.2	36,185	13.5
2007	2,02,614	15.4	52,034	12.7
2008	2,48,685	17.4	57,702	15.4
2009	2,98,211	17.2	76,062	15.9
2010	3,72,463	17.9	90,737	19.4
2011	4,14,991	16.5	92,136	15.7
2012	4,78,600	15.8	1,00,420	14.3
2013	5,30,600	15.0	1,11,900	12.8

(Source: Annual Report of RBI 2005-2006, 2007-2008, 2008-2009 and Report on trend and progress of banking in India 2010-2011, 2011-12, 2012-13)<sup>2</sup>

As banks are not fulfilling the Agriculture Priority Sector lending target. The main objective of the study is to find out the problems faced by bank officials in Agriculture PSL. The whole study is divided in to 9 sections. Section 1 is introduction gives a brief about the whole study. Section 2 is literature review, in this past studies related to Agriculture PSL is reviewed. Section 3 comprises of objectives if the study. Section 4 is related to research methodology. Section 5 concentrates on data analysis. In this section whole data is analysed with the help of SPSS (21). Section 6 highlights the main findings. Section 7 gives the suggestion to improve Agriculture PSL. Section 8 concludes the study and gives suggestions to solve the problems. Section 9 is about references.

## 2. Literature Review:

The concept of Priority Sector Lending is formalized in 1972, in year 1979 all banks were advised to give one third of their advances to priority sectors. In 1980 RBI working group under Dr. K. S. Krishaswamy<sup>3</sup> suggested to extend the PSL target from 33% to 40%. In 1991 Narshimam Committee<sup>4</sup> suggested to phase out the concept of PSL as it is increasing the NPA burden of banks. The recommendation of the committee was not accepted. In 1998 Narshimam Committee<sup>5</sup> again give the report and admitted that PSL is very necessary. In 1995 RIDF fund had been established, and banks are directed to submit the gap amount of PSL target in RIDF. Since then several changes had been made in PSL targets and sub targets and various studies has been done. Different Progress reports of RBI shows that banks are not able to achieve the targets.

Uppal R.K<sup>6</sup>, (2009) had studied the trends of PSL and identified some issues related to it. The main issues in PSL are Low Profitability, High NPAs, Quantitative targets, Government Interference and Transaction Cost. The study also analyzed that no private bank was able to fulfil the agriculture PSL target and only 3 public banks have fulfilled the agriculture target in study period

Ahmed Ud-din Jaynal<sup>7</sup>, (2010) had done a study in Barak Valley to analyze the performance of PSL in study area. Researcher found that the banks were able to achieve the mandatory target of 40% in the study area, but SSI and agricultural advances are comparatively getting less attention than trade and services.

Kaur Jasmindeep, Silony<sup>8</sup> (2011) had reviewed the performance of commercial banks with reference to PSL after reforms era. The researcher analyzed that post reforms PSL of private banks grew faster than public banks. The study also concluded that before 2002 main focus of PSL was on Agriculture sector but after 2002-03, both public and private banks focused on service sector, as this sector emerge as a leading factor for economic development.

Raman P., Thangavel N<sup>9</sup>. (2011) conducted a study on social banking of India. This study was an attempt to know whether the Priority Sector Lending is able to achieve the social banking objective of RBI or not. This study find that in some extent it is successful like Branch expansion in rural areas, Credit to Micro and Small enterprises, Women Entrepreneurs, Sponsored Regional Rural Banks and advances to weaker section. But according to this study PSL is not successful in some areas like agriculture.

Patidar Suresh, Kataria Ashwini<sup>10</sup> (2012) had analyzed the effect of Priority Sector Lending on Non performing assets of banks. The study showed that advances of agriculture PSL sector had contributed highest in NPA.

Shabbir N. (2013)<sup>11</sup> conducted a study to know the sector wise priority advances in India. The researcher objective was to check the willingness of the banks to lend to priority sector and to know whether the banks are lending to the priority sector by direct means or indirect means. The study showed that lending to agriculture has increased but lending to agriculture through direct means has decreased.

It is also analyzed by the author in previous paper titled "A Study of Trends and Practices of Priority Sector Lending Targets of commercial banks since 2000" (2013)<sup>12</sup>

that public banks and private banks are fulfilling the overall PSL target but not able to fulfil the sub target of 18% of agriculture sector. From the above review of earlier studies (Literature Review) and with the best knowledge of researcher it is revealed that most of the studies are based on targets fulfilment of PSL, nature and problems of PSL by banks. The studies also conclude that banks are not able to fulfil the agriculture PSL target. However, the studies relating to finding problems faced by bank officials in Agriculture PSL remained un-researched in the study area.

### 3. Objectives:

- I. To find out the problems faced by bank officials in Agriculture PSL.
- II. To give suggestions to solve the problems.
- III. To give suggestion for motivation of bank employees for increasing Agriculture PSL.

### 4. Research Design and Methodology:

The nature of the study is Descriptive, Exploratory and Empirical. Data is collected through various Secondary & Primary resources. Secondary data is collected through various RBI bulletins, reports, RBI website, various bank websites, newspapers, magazines etc. Primary Data is collected from 112 bank officials through structured questionnaire. For Analysing the data collected through bank officials Exploratory Factor Analysis is used.

### 5. Data Analysis:

In the research study the efforts is done to analyse the problems of the bank officials regarding Agriculture Priority Sector Lending in Delhi/NCR. The 23 statements related to possible reasons of low preference of PSL are included in the questionnaire. The exploratory factor analysis is applied on the responses in order to identify the latent factors which influence the Agriculture PSL.

The results of factor analysis are shown in Table 2 shown below. The Kaiser-Meyer-Olkin measure of sampling adequacy statistic (0.806) indicates that the sample size of the data set considered in the research study is adequate. The exploratory factor analysis is useful for the variables where significant level of correlation among the variables exists. The Bartlett's test checks the correlation matrix of the variables and test the null hypothesis that the correlation matrix of the variables is an identity matrix.

**Table 2. KMO and Barlett's Test**

<b>KMO and Bartlett's Test</b>		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.	.806	
Bartlett's Test of Sphericity	Approx. Chi-Square	1263.459
	Df	253
	Sig.	.000

The twenty three variables can be clubbed into four factors. These four factors are named as

- **NPA and Recovery Problem**
- **Increase Work Burden**
- **Political, social and target pressure**
- **Others**

### 5.1.1. Description of the Extracted Factors

To measure the scale, the researcher, has included many related variables in the questionnaire. After the collection the data from the bankers it is found that some of the variables are highly correlated with each other and these highly correlated variables are clubbed together into few latent construct using EFA. In the present study twenty three variables related to adoption are included in the questionnaire. In present study the variables having high factor loading with the factors on the basis of similarities of the variables to the extracted factor are analysed in the form of tables. The different extracted factors along with the variables having high factors loading are shown in tables.

#### 5.1.1.1. NPA and Recovery Problem

The first factor is named as “**NPA and Recovery Problem**”. This factor has high factor loading (21.918) from nine variables. The reliability of the factor is found to be 0.895 which ensures the presence of internal consistency.

**Table 3. NPA and Recovery Problem**

FACTOR 1	ITEM NO.	ITEM DETAILS	Factor Loading	Cron bach alpha
NPA and Recovery Problem	FA3	Borrower spent amount on social ceremonies FA3	.833	0.895
	FA2	Recovery in PSL is difficult. FA2	.789	
	FA5	Loan amount is not adequate for borrow need FA5	.787	
	FA7	Borrower purchase defective assets FA7	.778	
	FA4	Borrower use loans for paying old debts FA4	.758	
	FA8	Lack of follow up by bank officials FA8	.719	
	FA9	Loss from the activity financed FA9	.717	
	FA6	Defective project appraisal FA6	.707	
	FA1	In Priority Sector Lending there is more wilful default. FA1	.584	

This factor represents how Agriculture PSL increases NPA of banks. Recovery in Agriculture PSL is difficult (.789). Recovery problem are there because borrower spent amount on social ceremonies (.833), loan amount is not adequate for borrow need (.787), borrower purchase defective assets (.778). This factor explains that recovery in Agriculture PSL is difficult and in PSL sector there is more wilful default.

#### 5.1.1.2. Increase Work Burden:

The second factor is named as “**Increase Work Burden**”. This factor has high factor loading (14.260) from six variables. The reliability of the factor is found to be 0.829 which ensures the presence of internal consistency.

**Table 4. Increase Work Burden**

FACTOR 2	ITEM NO.	ITEM DETAILS	Factor Loading	Cron bach alpha
Increase Work Burden	FB4	For recovery, reminder (visits/calls/notices or any other method) are more in Priority Sector Lending. FB4	.818	0.829
	FB2	No of visits pre sanctioning loans are more in Priority Sector Lending. FB2	.749	
	FB1	No of Accounts are more in Priority Sector Lending FB1	.734	
	FB5	Your bank organizes special events for increasing PSL loans. FB5	.725	
	FB3	No of visits post sanctioning loans are more in Priority Sector Lending. FB3	.707	
	FB6	Priority sector loans increase work burden. FB6	.620	

This factor represents how Agriculture PSL increase work burden of bank employees. Agriculture PSL increase work burden because for recovery, reminder (visits/calls/notices or any other method) are more in Priority Sector Lending (.818), Number of visits pre sanctioning loans are more in Priority Sector Lending (.749) and number of visits post sanctioning loans are more in Priority Sector Lending. Bank need to organize special events for increasing PSL loans (.725).

**5.1.1.3. Political, Social and Target Pressure:**

The third factor is named as “**Political, social and target pressure**”. This factor has high factor loading (13.341) from four variables. The reliability of the factor is found to be 0.851 which ensures the presence of internal consistency.

**Table 5. Politial, Social and Target Pressure**

FACTOR 3	ITEM NO.	ITEM DETAILS	Factor Loading	Cron bach alpha
Political, social and target pressure	FC3	For fulfilling the target you need to disburse such kind of advances which are not good. FC3	.837	0.851
	FC1	The borrower having political or social reference get loan early. FC1	.820	
	FC4	For fulfilling the target non PSL loans are also classified as PSL. FC4	.818	
	FC2	Due to political or social reference, banks have to disburse such kind of advances which are not good FC2	.788	

This factor represents how much political social and target pressure is there on bank employees while disbursing Agriculture PSL loans. For fulfilling the Agriculture PSL target bankers need to disburse such kind of advances which are not good (.837). The borrower having political or social reference get loan early (.820). For fulfilling the target non PSL loans are also classified as PSL (.818). Due to political or social reference, banks have to disburse such kind of advances which are not good (.728).

**5.1.1.4. Motivation and Others:**

Remaining all variables are categorised as factor “**Motivation and Others**”. This factor has high factor loading (13.332) from four variables. The reliability of the factor is found to be 0.884 which ensures the presence of internal consistency.

**Table 6. Motivation and Others**

FACTOR 4	ITEM NO.	ITEM DETAILS	Factor Loading	Cron bach alpha
Others	FD2	Number of account consideration can motivate bank employees for more priority sector advances FD2	.864	0.884
	FD4	Incentive can motivate bank employees for more priority sector advances FD4	.863	
	FD1	Due to Priority sector advance net income to the banks is less FD1	.854	
	FD3	Reward can motivate bank employees for more priority sector advances FD3	.854	

This factor show how bank officials can be motivated to increase Agriculture PSL and how Agriculture PSL is affecting banks profitability. FD2 variable shows number of account consideration, can motivate bank employees for more priority sector advances (.864) as compare to amount consideration, FD4 shows incentive can motivate bank employees for more priority sector advances (.863) and FD3 shows that reward can motivate bank employees for more priority sector advances (.854). Apart from this, this factor also shows that due to Agriculture priority sector advance net income to the banks is less (.854).

**6. Findings:**

In the study it is found that bank officials face various problems in Agriculture Priority Sector Lending. The main problems which are observed are as follows:

- Recovery in Agriculture PSL sector is difficult; because farmers use the loan money for other purpose than it is actually taken. They use the loan money for social ceremonies like marriage, functions etc and sometime it is also used for paying old debts. Apart from it sometimes farmers purchase defective assets, due to which chances of NPA increase. There is also wilful default in Agriculture PSL, because farmers wait if there would be any kind of wave off.
- Due to Agriculture PSL work burden of bank officials also increase. The main reason behind this is the number of accounts are more and accounts are of small amount. So pre sanction visit, post sanction visit, instalment reminder, recovery reminders and paper work increase.
- In Agriculture PSL there is lot of social, political and target pressure on bank officials. Bank officials are forced to provide loans to the person who is renowned

at local level, sometimes they need to provide loans to close relatives of local political leaders. Apart from it due to target pressure of RBI, bank officials categorise non Agriculture PSL loans as Agriculture PSL loans.

- The biggest problem in Agriculture PSL is that there is no motivation for increasing such lending. Bank's official's performance is not considered for how many loans they have given, but it is considered on total amount of loans. Bank officials are not given any kind of monetary benefit or reward for increasing such type of loan.

## 7. Suggestion for Solving Problems:

- a) Recovery in PSL is difficult because of diversion of loan. Farmers use the loan money for paying old debts, for social ceremonies and for extension of other projects. Diversion of loans can be stopped if there will be tight monitoring of the bank officials on the use of loans.
- b) Second problem faced by bank employees is increase work burden, because of more number of pre sanction and post sanction visits. In Agriculture PSL numbers of accounts are more of small numbers. Work burden can be reduced if a separated employee is recruited for this type of loans in all agriculture branches.
- c) Third Problem is of political, social and target pressure. Due to target pressures bank officials are classifying non Agriculture PSL loans also as Agriculture PSL loans. For this it is essential that bank managers should be assigned qualitative targets.

### 7.1. Suggestion for Motivating Bank Employees:

It is also being found in the study that bank employees are not getting motivation for increasing Agriculture PSL. Bank employees can be motivated if:

- a) Despite of considering total amount of loans as a percentage target, it should be on the basis of number of accounts.
- b) Incentives should be provided for more Agriculture PSL.
- c) Reward should be there for more Agriculture PSL.

## 8. Conclusion

There are lots of problems being faced by bank officials in Agriculture PSL. NPA and recovery problem can be solved by tight monitoring and supervision system, Bank officials need to supervise that there should be no diversion of loan for other purpose than it was actually taken. Work burden of bank officials can be reduced by new recruitments only; whole banking industry is facing this problem. There should be qualitative target pressure on bankers. It is very essential that RBI should introduce new schemes to motivate bank officials to increase Agriculture PSL.

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