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Title of the Thesis: AN APPRAISAL OF COMMERCIAL BANKS LENDING PRACTICE TO THE PRIORITY SECTORS

ABSTRACT

Banking in India on western lines had started from the beginning of the 19th Century. The commercial banks were known as agency houses and were started by the employees of the East India Company. The first purely Indian Bank was Oudh Commercial Bank, which came into existence in 1884. It was followed by the Punjab National Bank in 1894. The Swadeshi Movement of 1905 gave the great stimulus to start Indian banks.

Social control and the nationalization of banks are important landmarks in the growth and development of the Indian banking system. These measures were undertaken as matters of deliberate interventions by the Government in the working of commercial banks, with the objective of attaining a blend of banking services with national priorities of promoting economic growth and social justice with equity. These were the important turning points in the process of banking development during the period of the study of 40 years i.e. from 1969 to 2009.

This work is a holistic review of the implications of the priority sectors lending, both to the banks and the borrowers. It is designed to provide some understanding and applications of policy support required to the banks to increase efficiency in credit delivery system, which has to be matched equally by the maximisation of benefits in terms of varied service rendered to the borrowers.

The findings of the study indicate that the extension of banking facilities and the increase in priority sectors lending have been at breakneck speed. It has been expedient to fix time bound lending targets for the priority sectors at fairly high-speed far compelling action by the banks. In fact, this has been the only option for planners to accelerate the flow of credit to the neglected sectors. While the targets have become mandatory over the years, the basis of fixation of target has remained virtually unchanged. The targets are only macro indicators of the performance levels to be reached. In essence, the credit demand of various sectors has been subject to inter-regional variations depending upon the state of development and relative human and material resources endowments.

The concern for achieving quantitative targets stipulated at the macro level within the stipulated time frame irrespective of assessed demand or potential has caused an erosion of the qualitative aspects of lending and credit delivery. It has adversely affected the viability of the lending of commercial banks. The weakness manifests in areas like control mechanism, follow-up of loans and recovery of banks due, productivity and profitability. A combination of official policies together with the burden of time bound expansion have reduced the surpluses available for such vital needs as allocation to general services for increasing the net worth. As a result, ratio owned funds of banks to their average assets are much below the required norms.

Of late, the authorities have been making efforts to correct the weakness that have developed in the lending procedure of commercial banks. The steps have been taken to improve the lending and bring about improvement in the functioning of commercial banks for increasing the profitability. There is recognition of the fact that the increased profitability enhances the capacity of the banks to undertake social banking more effectively and for making sizeable investments in computerization and other facilities for improving the quality of the services.

There is a need to publicize various priority sectors lending programmes and simplify the formalities to be observed by various types of beneficiaries for availing themselves of the bank loans. Credit should be made available to the borrowers in adequate quantity and in the minimum possible time. Delay in disbursement of credit may turn productive into un-productive credit. Moreover, it also causes harassment to the beneficiaries

In agricultural sector, younger farmers should be given preference than old farmers. It is perhaps the younger farmers who can run agricultural on scientific lines. Literacy level of beneficiaries has been found to be positively correlated with incremental income which brings out the fact that literate farmer can make more efficient use of bank credit.

To sum up, the success of commercial banks including State Bank of India's role in financing to priority sectors to a great extent depend on how effectively it is administered by the implementing agencies and the extent to which the modus operandi of the programme is understood and accepted by the banks.