

## Priority Sector Lending and Inclusive Growth in the Life of Rural Farmers of Ramanathapuram District, Tamilnadu

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### Abstract

India lives in its villages and progress of Indian economy lies on the growth of the rural population. Even decades after Indian freedom, more than seventy percent of money borrowing by farmers was from usurious sources. As farm lending is perceived being risky, commercial banks' lending was directed towards corporate and industrial sectors. Agricultural sector, micro & small scale industries and down trodden sections were more deserted because of both risk factor and urban bias. Thus our Government has studied on this verity and decided to aid this sector by offering subsidized advances through Nationalized Banks to bring about a balanced progress of the country. This study is conducted to evaluate the impact of Priority Sector Lending and inclusive growth in the life of rural farmers of Ramanathapuram district, Tamilnadu.

**Keywords:** Financial inclusion, Priority sectors, Agricultural loans, Economic development, Commercial banks, Subsidiary loans

## I. Introduction

Commercial Banks plays an eminent role in the modern economy by providing required credit to various sectors of the economy. In recent years they have been assigned the conscientiousness of financing what are called the priority sectors.

Priority Sector Lending is an imperative role given by Reserve Bank of India to commercial banks to provide a specified portion of their lending to few specific sectors like agriculture, micro and small enterprises, rural housing, educational loan and other low income groups. These sectors stay behind because they lack financial assistances. As most banks are urban biased and profit oriented in their approach, they neglect to finance these sectors because the latter are: (1) less profit earning potential, (2) lack collateral sureties/securities, and (3) are high-risk sectors for lending.

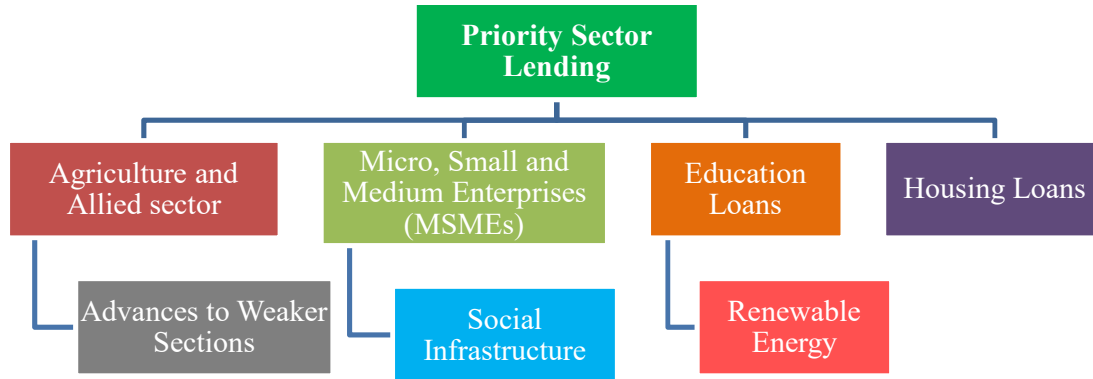
### I.1 Agricultural Finance - Overview

"Agricultural finance is the study of financing and liquidity services credit provides to farm borrowers"<sup>1</sup>.

Tandon and Dhondyal (1962) defined agricultural finance "as a branch of agricultural economics, which deals with and financial resources related to individual farm units"<sup>2</sup>.

Agricultural production in developing countries like India is depends upon crores of small and marginal farmers. Their intensity, endeavour and efficiency have resulted in raising earnings per acre. Finance to agriculture act as a key to success of farmers.

### Areas under Priority Sector Lending



## I.2 Literature Review

Chauhan, Dilip J, 1985 in his study<sup>3</sup> entitled “Role of commercial banks in agricultural development” opined that performance of commercial banks towards PSL still needs to be improved. These lending institutions should have trained staff to offer suitable guidance and service to the farmer borrowers. He also suggested that NABARD should assist lending banks in promoting up suitable cadres in course of time.

Gomathinayagam. V, 2010 in his PhD thesis<sup>4</sup> submitted to Pondicherry University ‘A study of the impact of priority sector lending on the weaker sections of the rural poor’ inferred that the present lending pattern under PSL Scheme is quite satisfactory and further he recommended a single window banking system to educate rural poor about various schemes of our Government and its benefits.

G. Rajeswari, 2013, research scholar of Andhra University, in her study entitled ‘performance of commercial banks towards priority sector lending’ reported that priority sector lending has exerted considerable value addition to GDP and the per capita income in Srikakulam district of Andhrapradesh.

Ms.K.Kaleeswari and Dr. Rachel Nancy Philip (2017) in their study entitled ‘farmers attitude towards agricultural finance in erode district’ revealed that State and Central Government should contribute more in identifying needy farmer and extent to timely credit to bring overall and balanced growth of the economy.

### **I.3 Scope of the Study**

The study would lime light on the consequence made by the various schemes under which financial assistance is provided. In addition, the study would also attests the credence of the various schemes, the extent of crossing over the poverty trap by the borrowers, the limitations associated with the execution of assistance programmes and the like. Thus the outcome of the research would help not only the nodal executives in implementing the scheme, but also the concerned authorities in making policy changes.

### **1.4 Description of the Study Area**

This study has been conducted in Ramanathapuram district of Tamilnadu. In the year 1910, Ramanathapuram was formed by merging portions from Madurai and Tirunelveli districts. Shri J.F. Bryant was the first district collector. During pre-independence years, this district was called as Ramnad. After independence, the district was renamed as Ramanathapuram to be in conformity with the Tamil Name for this region. Ramanathapuram district comprises 7 taluks, 11 blocks and 2362 villages. With repaid to the hierarchy of administrative arrangement, there are 2 municipalities, 7 town panchayats and 429 village panchayats in the district.

### **I.5 Objectives of the Study**

`This research study has been initiated with the following objectives;

- \* To study the awareness level of borrowers towards PSL scheme
- \* To examine whether timely and adequate credits are advanced to the agricultural sector
- \* To determine pre-borrowing and post-borrowing status of respondents who are granted credit
- \* To look back priority sector advances in the confromation of financial inclusion programmes in Ramanathapuram district
- \* To offer suggestions on the basis of responses of farmer borrowers to make PSL scheme into a prospective one.

### **I.6 Limitations of the Study**

The present study is subject to certain limitations as follows;

- ☞ The sample size is just 150 and is cannot be said to be adequately large
- ☞ When in absence of borrower respondents at their residence, available responsible adult family member were interviewed.
- ☞ The present study is limited to the operational performance of banks comes under PSL scheme.

☞ The research has been conducted only on agricultural loans under Priority Sector Lending

## Data Analysis and Interpretation

**Table.1**  
**Educational qualification wise classification of respondents**

Sl. No.	Education	No. of respondents	% of respondents
1	Illiterate	93	62.0
2	Upto SSLC	40	26.7
3	Upto HSc / ITI / Diploma	12	8
4	Graduates & above	5	3.3
<b>Total</b>		<b>150</b>	<b>100</b>

Source: Primary Data

Table.1 illustrates the classification of the respondents on the basis of their level of literacy. Out of the 150 respondents, 93 (62%) farmer respondents are illiterate, 40 (26.7%) up to SSLC and 12 (08%) are studied upto HSC or ITI or Diploma. Just 5 respondents (3.3%) are graduates. From this observation, it is inferred that majority of respondents are illiterate.

**Table.2**  
**Classification of farmer borrowers on the basis of quantum of land holding**

Sl. No.	Education	No. of respondents	% of respondents
1	Small & marginal farmers	93	62.0
2	Medium farmers	40	26.7
3	Large farmers	17	11.3
<b>Total</b>		<b>150</b>	<b>100</b>

Source: Primary Data

Majority of 62.0% of respondents are small and marginal farmers. About 26.7% are medium farmers and very low majority of 11.3% of respondents are large farmers.

**Table.3**  
**Type of Securities Offered by the Respondents for Availing Priority Sector Loan**

Sl. No.	Security	No. of Respondents	% of Respondents
1.	Title deed of the land	17	11.3
2.	Mortgage of land	3	2.0
3.	Hypothecation of fixed assets	26	17.3
4.	No collateral / security	104	69.3
<b>Total</b>		<b>150</b>	<b>100</b>

**Source:** Primary data.

The above table 5.31 clearly depicts that out of 150 respondents, majority of 104 (69.3%) have secured agri loans without any collateral or security, 17 (11.3%) have offered the title deed of the land as security. About 26 (17.3%) have hypothecated fixed assets to get the loan.

**Table.4**  
**Opinion of the Respondents on the Timing of Availing Priority Sector Loan**

Sl. No.	Opinion	No. of Respondents	% of Respondents
1.	Faster than expected	12	8.0
2.	On time as expected	86	57.3
3.	Later than expected	39	26.0
4.	Too late than expected	13	8.7
<b>Total</b>		<b>150</b>	<b>100</b>

**Source:** Primary Data.

A majority of 57% of respondents opined that they had been sanctioned loans on expected time. The lowest majority of 8.7% respondents feel that the bankers delayed much in sanctioning the loans

**Table.5**  
**Opinion of the Respondents on the Procedural Aspects of the lending bankers**

Sl. No	Statement	Opinion	No .of Respondents		Total
1.	Application processing	Simple / Tough	96	54	150
2.	Processing time	Right / Delay	103	47	150
3.	Service charges	Reasonable / High	112	38	150
4.	Repayment period	Convenient / Too short	69	81	150

**Source:** Primary data

From the above table as regard to processing of application, it is inferred that 96 out of 150 respondents find it simple whereas remaining respondents find it tough.

When considering processing time, a majority of 103 respondents replied that bankers completed processing work on reasonable time and the remaining respondents consider it delay.

Considering service charges, a high majority of 112 respondents opted that it is high, while 38 respondents felt it was reasonable.

Taking into account the repayment period, out of the 150 respondents, 69 respondents opined that the repayment terms are convenient whereas majority of 81 respondents said that the terms allowed are too short which would pull them in trouble to make huge sum on installment days.

**Table.6**  
**Opinion of the Respondents on the Loan Officers of the Commercial Bank**

Sl. No	Opinion	No. of Respondents	
		Yes	No
1	Officers are informative	98	52
2	Officers offer suggestion for easy sanction of loan	83	67
3	Officers guide in furnishing required information	77	73
4.	Officers are interactive	80	70

**Source:** Primary Data.

From the above table, it is seen that out of 150 respondents, 98 stated that the loan credit officers are informative, while 52 respondents stated that they are not informative.

As for the second statement, out of total respondents, 83 stated that the staff members offer suggestions for the convenient sanction of the loan. About 67 respondents stated that they do not.

With regards to third statement, a majority of 77 respondents got guidance from the staff members. An equivalent majority of 73 respondents stated that the bankers did not offer any guidance on complying with the formalities.

It is understood from the 4<sup>th</sup> statement that majority of 80 respondents satisfied with instructiveness of officers and the remaining respondents stated that they are not interactive.

**Table.7**  
**Quantum of loan sanctioned out of demand made by borrower**

Sl. No.	Demand Vs % of sanction	No. of respondents	% of respondents
1	Upto 50	17	11.3
2	51 to 70	26	17.3
3	71 to 90	69	46.0
4	91 to 100	38	25.3
<b>Total</b>		<b>150</b>	<b>100</b>

**Source:** Primary data.

A majority of 46.0% of respondents were sanctioned loans upto 90% of their demand whereas about 25.3% of respondents got upto 100% credits.

**TABLE.8**  
**Respondents Opinion on Achievement of Purpose of Loan**

SL. NO.	Purpose achieved	No. of Respondents	% of respondents
1.	Yes	107	71.3
2.	No	43	28.7
<b>Total</b>		<b>150</b>	<b>100</b>

Source: Primary data.

A majority of 71.3% of respondents accepted that their intention for getting the loan was fulfilled and the remaining 28.7% stated that their intention was not fulfilled.

**Table.9**  
**Income generation by sample borrowers**

Sl. No.	Classification of farmers	Average income of respondent borrowers per acre (in rupees)			
		Pre-borrow year	Post-borrow year	Variation of income over previous year	% of growth over previous year
1.	Marginal & small farmers	12,566	19,874	+ 7,308	58.15
2.	Medium farmers	39,814	61,404	+ 21,590	54.22
3.	Large farmers	64,220	92,530	+ 28,310	44.08

Source: Primary data.

On an average, marginal and small farmers have showed 58.15% growth over previous year with regards to annual income per acre.

Average annual income of medium farmers has been raised upto 54.22% and about 44.08% of increment in annual income was secured by large farmers.

**Table.10**  
**Change in Economic status after receiving loan**

Sl. No.	Economic Status	No. of Respondents	% of respondents
1.	Raised	113	75.3
2.	No change	29	19.3
3.	Lowered	08	5.3
<b>Total</b>		<b>150</b>	<b>100</b>

Source: Primary data.

A high majority of 75.3% of respondents stated that the loan help increase their credit worthiness. About 19.3% of respondents opined that the loan has made no change in their livelihood.

Very few 5.3% of respondents replied that their economic status was significantly lowered even after getting the loan.

**Table.11**

**Impact of Priority Sector Lending on the Livelihood of Respondents**

Sl. No.	Impact	No. of respondents	% of respondents
1	Increased income and size of farm	51	34.0
2	Settled all dues & increased savings	54	36.0
3	Just settled dues	30	20.0
4	No influence	15	10.0
<b>Total</b>		<b>150</b>	<b>100</b>

**Source:** Primary data.

A high majority of 36% of respondents stated that the lending scheme has increased yield and income and as a result settled their dues and increased savings.

Second majority of 34% of respondents stated that their farm income has increased which in turn increased the size of farm activities.

About 20% of respondents have just settled the dues of their borrowings and about 10% of respondents stated that the credit lending has shown neither raise nor decrease in their economic status.

## Statistical Testing - Chi-Square Analysis

**Table: 2.1**

**Chi-square analysis on the relationship between category of farmer and post borrowing economic status**

To identify the category of farmer whose economic status is highly influenced post borrowing of agricultural loans, using Chi-Square test and its result is given in Table 1.

Category of farmer	Impact on economic status			Total
	Raised	No change	Lowered	
Small & marginal	72	17	4	93
Medium farmer	28	9	3	40
Large farmer	13	3	1	17
<b>Total</b>	<b>113</b>	<b>29</b>	<b>08</b>	<b>150</b>

Difference of freedom: 4

Table value: Five percent level – **09.48**

Calculated  $\chi^2$  (Chi-Square) value: **1.07**

One percent level – **13.27**

**Null Hypothesis:** There is no significant relationship between category of farmer and post borrowing economic status of respondents.

**Inference:** Chi- square test reveals that the calculated value of chi- square 1.07 is less than the table value at 5% level (  $\chi^2 = 1.07 < 09.48$  ) so the null hypothesis is accepted. Hence it is inferred that there is no significant relationship between category of farmer and post borrowing economic status of respondents.

**Table: 2.2**

**Chi-square analysis on the relationship between quantum of loan sanctioned and impact of PSL on borrowers' livelihood**

Loan demand Vs Sanction (amounts in %)	Impact on livelihood				Total
	Increased income and size of farm	Settled dues and increased savings	Just settled dues	No influence	
Upto 50	4	5	3	5	17
51 to 70	4	9	9	4	26
71 to 90	21	33	12	3	69
91 to 100	22	7	6	3	38
Total	51	54	30	15	150

Difference of freedom: 9

Table value: Five percent level – 16.91

Calculated  $\chi^2$  (Chi-Square) value: 27.43

One percent level – 21.66

**Null Hypothesis:** There is no significant relationship between quantum of loan sanctioned and impact of PSL on borrowers' livelihood

**Inference :** Chi- square test reveals that the calculated chi- square value i.e., 27.43 is greater than the table value at 5% level (  $\chi^2 = 27.43 > 16.91$  ) so the null hypothesis is rejected. Thus it is inferred that there is significant relationship between volumes of loan sanctioned against it is demanded and livelihood status of borrowers after getting grant from Priority Sector Lending Scheme.

## Findings

The major findings of this study were:

- ✍ About 62% of farmer respondents are illiterate. It shows that, such categories of people are more engaged in farming activities till days.
- ✍ About 62% of respondents are small and marginal farmers.
- ✍ 69.3% of respondents secured loans under PSL scheme without any collateral/security
- ✍ About 57.3% respondents are granted credit within their expected time.
- ✍ Out of 150 respondents, 96 respondents opined that the bank's loan application processing is very simple.

- ✍ About 98 respondents stated that the bank executives had assisted and guided them in furnishing required information.
- ✍ 69 respondents were granted credit upto 90% of what demanded by farmer borrowers.
- ✍ About 71.3% of respondents stated that their intention against the borrowing was achieved.
- ✍ Post borrowing income of small and marginal farmers were grew upto 58.15% than previous years.
- ✍ 75.3% of respondents' economic status was raised in continuation with timely credit under Priority Sector Lending
- ✍ About 36% respondents' livelihood have been increased after getting loan

## Conclusion

Agriculture sector in a developing country like India is totally labour intensive and it is hard to get the advantages of modernization of farming activities without adequate financial resources with farmer. Because of lack of awareness and proper education, they do not know where to secure finance at low cost and how to get subsidized lending scheme of our Government. Most financial institutions neglect lending to this sector due to the fear of repayment. Thus, both the central and state government should take steps to reach the needy farmers and to offer them timely credit. Agriculture being the most productive sector of our economy, due consideration and assistance must be provided, unless otherwise these sectors would not get flourish.

## References

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  - <sup>3</sup> [http://shodhganga.inflibnet.ac.in/bitstream/10603/76228/9/09\\_summary%20and%20conclusions.pdf](http://shodhganga.inflibnet.ac.in/bitstream/10603/76228/9/09_summary%20and%20conclusions.pdf)
  - <sup>4</sup> <http://shodhganga.inflibnet.ac.in/handle/10603/1171>