International Journal of Marketing, Financial Services & Management Research______________________ ISSN 2277- 3622
Vol.2, No. 2, February (2013)
Online available at www.indianresearchjournals.com

A STUDY ON THE PERFORMANCE OF COMMERCIAL BANKS TOWARDS PRIORITY SECTOR ADVANCES IN TAMIL NADU

DR.P.RAMAN

ASSOCIATE PROFESSOR
DEPARTMENT OF MANAGEMENT STUDIES
PANIMALAR ENGINEERING COLLEGE
CHENNAI, PIN 600 123
TAMILNADU, INDIA

ABSTRACT

The need to of the national importance to certain sector of the economy, known as the priority sectors can be to the Reserve Bank of India (RBI) credit policy for the year 1967–68. Initially the Reserve Bank of India and the Government of India has not fixed any target in this regard, but the banks were providing 15 per cent of the total bank credit at that time. From November 1974, the priority sector target has been fixed and it has changed from time to time and presently the priority sector advances has been enhanced to 40 per cent for public and private sector banks and 32 per cent for foreign banks. The present study analyzes the performance of the commercial bank in the area of priority sector lending for a period of 10 years (2000–2001 to 2009–2010). For analyzing the performance of the commercial banks tools like percentage analysis, growth rate and average are used. From the analysis it has been identified that the performance of the commercial bank in the area of priority sector advances are in increasing trend, that too it has increased by 13.99 times for public sector banks, 35.63 times for private sector banks and 69.09 times for foreign banks. Apart from quantum-wise analysis the NPA created through the priority sector advances for the period 2005–06 to 2009–10 was examined. The share of outstanding priority sector non-performing assets (NPAs) as a proportion of total NPAs has steadily risen from 46 per cent in 2008-09 to 52 per cent at the end of 2010-11. Priority sector lending includes lending to agriculture, small-scale industries, weaker sections, for housing (of less than Rs 25 lakh) and education. However, bad monsoon in 2009-10 may be one of the reasons for rise in NPAs. The agriculture NPA-to-total agriculture loans ratio in 2008-09 was 1.9 per cent when the overall gross NPA ratio of all banks was as 2.44 per cent. Since then, the gross NPA ratio of banks has moderated to 2.35 per cent, while the agriculture NPA ratio rose to 3.3 per cent. The NPAs may have risen further during the current fiscal on account of crop failures and instances of wilful defaults. During the period 2005–06 and 2006–07 the level of nonperforming assets was very high for priority sector advances followed by non-priority sector advances, but in the subsequent period the share of priority sector advances to the total advances has declined considerably.

KEYWORDS: Agriculture lending, Bad loan, Education loan, Housing, Nationalization, NPAs, Priority Sector

---

1. INTRODUCTION

Tamil Nadu is one of the leading states in the financial service sector. Tamil Nadu banking statistics relate quite closing with RBI's expectation and the all India achievement thus highlighting that Tamil Nadu is way ahead in its financial achievementLack of proper education and knowledge regarding financial system is badly influencing the meeting of financial target by Indian commercial banks. One of the major problems for bankers in the sphere of credit flow has been the poor recovery of loans disbursed. But the poor recovery of credit is partly due to poor performance of bank personnel in respect to monitoring of loans disbursed and wherever the monitoring has been effective loans have not gone bad and recovery affected. In order to meet the purpose, a number of programmes have been launched from time to time. Due to various problems experienced in the course of implementation of these programmes, the lofty objectives of these programmes could not be achieved and development of the student community could not be achieved satisfactorily. The study will be of greater interest and importance to all social scientists, social reformers, administrators and non-government officials etc., who are very much interested in the upliftment of the society.

2. Review of Ranking Sector Reform:

However by Eighties, it was clear that the operational efficiencies PSB's was unsatisfactory. PSB's were characterized by low profitability high & growing NPA's. There was a problem of low capital base and lack of proper disclosure system. The quality of customer services did not keep pace with increasing Expectation and there was a feeling that the inefficiency of banking system was encouraging diversion of domestic financial savings away PSB's. As the financial system of the economy underwent a complete change, NBFC's foreign players and capital markets immerged as competitors to PSB's. As may controls weakened, selected credit flow was misused which eroded profitability which in turn effected the deepening of financial system. Banking sector reforms are a means to achieve the ultimate economic development and economic stability in the country. The reforms, are largely intended to improve efficiency and profitability of the banks and make their financial operations more market oriented and transparent (Kaippachery, 2002). The pathetic situation of the banking sector necessitated some immediate reforms to cure all its financial ills. The banking sector reforms were implemented in two phases i.e. the first Narismham Committee report in 1991 and second report in 1998. Added to it was the Verma Committee (Advisory Group on Banking Supervision, May, 2001). The achievements so far are substantial though a great deal remain to be done (Ahuwalia1999). These committees recommended various reforms to Indian Banking System. The following are the reform areas:

2.1) Prudential Accounting Norms:

Prudential regulation refers to the set of laws and rules designed to minimize the risks banks assume and to ensure the safety and soundness of both individual institutions and the system as a whole (D'Souza 2000). It aims to insert best practices in the system like minimum capital adequacy guidelines, liquidity ratios, leading limit intended to improve supervision as listed by Basle Accord adopted by G-10 Industrial Countries. RBI accordingly advised PSBs to set up

Settlement Advisory Committees (SACs) for timely and speedier settlement of NPAs in small-scale sector. In 2000-2001, Union Budge announced setting up of 7 more debt recovery tribunals for recovery of bad lows.

2.2) Capital Adequacy Ratio (CAR):
CAR war introduced in 1992, The profitability and capital adequacy position indicated by Retain on Asset (RoA) and Capital to Risk Asset Ratio (CRAR) (which is an indicator of solvency of a bank and captures prudential strengths) is indicative of the potential strength of the bank (Mathur, 2002).The CRAR was fixed at 8 % and SLR was reduced from 15 % in 1991 to 6.5 % in October 2001.

2.3) Disclosure Norms:
As a move towards greater transparency, banks are directed to disclose the information regarding maturity pattern of loans and advances, investment securities, deposits and borrowings. Also, foreign currency assets and liabilities, movements in NPAs, lending to priority sector has to be disclosed in the 'notes accounts' in the balance sheet from the accounting year end.

2.4) Technological Development in Banks:
Banks have entered the domain of Information Technology and computer networking. The Indian Financial Network (INFINET) is set up., based on satellite communication using VSAT technology and would enable faster connectivity. (INFINET) *would severe as a backbone of Integrated Payment Settlement System (IPSS).*

2.5) Regulatory Reform:
In order to strengthen the financial system regulation like disclosure, transparency, supervision of banking operations is been introduced. Annually Financial Inspection was introduced in 1992 as a supervisory strategy comprising on-site inspection and off-site monitoring and control systems have instructed.

2.6) Risk Management Guidelines
In October 1999, RBI issued detailed guidelines for risk management systems in banks. Banks would put in place loan policies approved by their board of directors covering the methodologies for measurement, monitoring and control of credit risk. Banks were asked to form a definite time frame for moving over Value at Risk (Var) and duration approaches for measurement of interest risk. Banks were also advised to evolve detailed policy and operative frame work for operational risk management.

2.7) Asset Liability Management System (ALMS)
RBI came out with guidelines on ALMS in bank in 1999. These guidelines cover not only the topic of interest rate risk but also liquidity risk and a few other price risks. The objective therefore was to start with at least 60% of the assets and liabilities should be covered but 100% coverage mandatory in due course. The three foundations of ALM were ALM information system, ALM organization and ALM process.

2.8) Bank Insurance

Participation of banks in the Insurance sector has taken place in India and it is now known as 'bank assurance' it is a package of financial services which offers both the backing and insurance products under one roof bank. Assurance it an ideal launch pad for both insurance companies and banks in increase their revenues

2.9) Innovative Banking

New techniques, am methods and new schemes are being introduced in areas of deposit mobilization, bank management and deployment of credit. Merchant banking, equipment leasing housing finance, venture capital and mutual funds are being introduced.

2.10) Assets securitisation Law

Asset Securitization has been used as a risk management mechanism to mitigate the ill effects arising out of asset liability mismatching and other risks. Liabilities are of short duration while assets are created for longer duration of time, this erodes the leading institution abilities to lend further and repay. Asset securitisation involves transferring the assets from the books of lending institution to the books of Special Purpose Vehicle (SPV) for a price. Through this law the banks can recover their assess by issuing notices to defaulter and sell their loans (like shares and bonds).

3. Non Performing Assets (NPA)

Reserve Bank of India has laid down norms for classification of assets and provisioning norms for NPA, however certain exceptions to these norms are discussed below:-

3.1. Temporary deficiencies e.g. non availability of current drawing power due to non-receipt of latest stock statement, temporary delay in renewal of limit on due date etc.

3.2. Natural calamities, where in the wake of natural calamities short term agricultural loans are converted into long term or there is rescheduling of repayment period or fresh short term loans are sanctioned, the term loans as well as fresh short term loan may be treated as current dues and need not to be classified as NPA.

3.3. Facilities Backed by Central Government Guarantee: - credit facilities backed by guarantee of the Central Government though overdue should be treated as NPA only when government repudiates its guarantee when invoked (this exception is only for the purpose of asset classification and provisioning and not for the purpose of recognition of income.)

The Reserve Bank of India has issued guidelines to be followed by all scheduled commercial banks excluding regional rural banks for income recognition, asset classification provisioning and other related matters. Conceptually speaking a credit facility becomes NPA when it ceases to generate income for bank. The guidelines require that income should be recognized only on realization irrespective of the system of account followed by the bank. The guidelines further provide that if interest income from asset in respect of a borrower become subject to non-accrual

fees, commission, and similar income with respect to the same borrower that have been accrued ceases to accrue in the current period should be reversed or provided for with respect for past period, if uncollected where interest is partly realized on any non-performing asset, such interest can be taken to the profit & loss account towards interest are not out of fresh/ additional credit facilities sanctioned to the borrower concerned.
Advance secured against term deposits, national saving certificates eligible for surrender of Indira Vikas patra, Kisan Vikas Patra and LIP have been exempted from the above guidelines. Thus interest on such advances may be taken to income account or due date provided adequate margin is available in the respective account.

Regulation of account by the year end: - The identification of NPA to be done on the basis of assets as on the Balance sheet date. If the account indicates inherent weakness on the basis of the data available, the account should be treated as NPA.

The account where regular/ advance credit limit have not been renewed/ reviewed within 180 days from the due date/ date of adhoc sanction, the account should be treated as NPA.

If any of the credit facilities granted to a borrower become non performing all the facilities granted to the borrower will have to be treated as NPA without having any regard to the performing status of other facilities.

Classification of advances: - The guidelines require bank to classify their advances into four broad categories are as follows:-

a- Standard Asset: A standard asset is one which does not disclose any problems and which does not carry more than normal risk attached to the business. Such an asset is not a non-performing asset.

b- Sub Standard Asset: A sub standard asset is one which has been classified as NPA for a period not exceeding 12 months.
c- Doubtful Asset: A doubtful asset is one which has remained NPA for a period exceeding 12 months.

d- Loss of Asset: A loss of asset is one where loss has been identified by

a. The Bank
b. Internal or External auditor
c. In Reserve Bank Inspection

Example: Every year banks transferred the amount of those accounts which declares as Non performing to the non performing asset and normally not in a position to recover the same from the account holder, following data is relating to NPA declared by banks during the financial year 2009-10

3.4 Causes of Non Performing Assets

There are numerous reasons for the high level of NPAs ranging from both policy and environmental factors. According to RBI statistics 40% of the total banking credit is given to the priority sector viz. Agriculture, small business, transport, poverty alleviation etc. and as much as 47% of non performing assets originates from this sector. Reservation of major sector for investment by the government of India in the public sector structure became a necessary particularly due non availability of private credit. Many of these public sector organizations became loss making cause of investment loss. The banks were not in a position to price the risk premium resulting in cross subsidization across the risk profile of the loan assets. There are other forms of direct credit whether it is through pressure from the government and institutions such as Board of Industrial and Financial Reconstructions for Banks (BIFR) to continue nursing sick accounts. The controlled interest rates further aggravated the NPA scenario.

The populist 'Loan-melas' and cancellation of debts granted to large proportion of peasants, artisans and rural also result in mounting NPAs. Similarly sizable amount of NPAs have also originated as a result of unreturned corporate debts and loans outstanding with the medium and small entrepreneurs. The legal procedures in India are tardy and tortures and it extremely difficult for the banks to realize value from the collaterals of risky loans.

The study objectives are to outline the performance of commercial banks, to appraise the performance of the banks in regulating NPAs, and to identify the problems found by the banks and suggest recognized measures to overcome in efficiency, performance etc.,

4. NEED FOR THE STUDY

Availability of cheap and adequate credit is a boon for the Economic Development (ED) of a country. By providing credit to farmers, industries, traders, housing, Education loan and small businessmen the economic progress can be achieved. The banking system can influence economic growth by enhancing resources in the direction of national objectives and priorities.

5. SIGNIFICANCE OF THE STUDY

The study is attempted to analyze about the various bankers providing financial assistance to priority sector. The present research pays its attention on both Public sector and Private sector banks in Tamil Nadu and the expected and perceived quality on banking services and the satisfaction level of the particular service of the bank. The credit facility is the ultimate determinant of the banking Service and decides the motivation level of the borrowers.

6. OBJECTIVES OF THE STUDY

1. To trace out the evolution and development of Priority Sector lending in general.
2. To evaluate the performance of commercial banks in Tamil Nadu.
3. To analyze the Performance of Priority sector credit with particular reference to education loan in Tamil Nadu
4. To analyze the NPA with regard to priority sector advances

5. To suggest measures to improve the performance of commercial banks in Tamil Nadu.

7. RESEARCH DESIGN AND METHODOLOGY

This study employs analytical type of methodology

7.1 Sources of data collection

The present study has used secondary data. The secondary data at the national level was collected from the publishers of Government of India, RBI, and Indian banks association such as economic survey, lead banks annual report, report on trends and progress in banking, Report on currency and finance, statistical tables relating to bank in India etc.

The state level data and district level data has been collected from the periodical reports of State Level Bankers Committee (SLBC), IOB Central office, Department of Priority Credit Section (PCD), Chennai and Commercial Banks in Tamil Nadu. The above said levels of secondary data are authentic and reliable to make the analysis meaningful for drawing a conclusion.

8. LIMITATIONS OF THE STUDY

The present study has the following limitations:

1. The study is restricted to Tamil Nadu only
2. The study period is restricted to twelve years starting from 2001- 2012
3. The district wise analyses was not possible due to widespread illiteracy among priority sector, from which the researcher could not study the district wise analyses

However, the researcher has made all possible efforts to ensure that the quality of the thesis might not suffer on account of any of these limitations.

9. DATA ANALYSIS AND INTREPRETATION

9.1 Performance of Priority Sector Advances by Commercial Banks in India

Tamil Nadu is one of the leading states in the financial service sector. Tamil Nadu banking statistics relate quite closing with RBI’s expectation and the all India achievement thus highlighting that Tamil Nadu is way ahead in its financial achievement.

Table No.1 highlights the monetary advances made by Public sector banks, private sector banks and foreign banks towards priority sector lending along with the percentage to net bank credit (NBC) and adjusted net bank credit (ANBC). It can be seen from the table that all the banks have made advances to priority sector as per the stipulated norms laid by Reserve Bank of India.

While public sector banks and foreign banks as a whole achieved their overall targets, *viz.*, 40 per cent and 32 per cent of net bank credit, respectively, for priority sector lending, private sector banks fell short of their stipulated target, *viz.*, 40 per cent. The public and private sector banks with shortfalls in priority sector lending and/or agricultural lending as at end-March 2002 were advised to contribute to the Rural Infrastructure Development Fund (RIDF)-VIII established in NABARD with a corpus of ₹5,500 crore, as announced in the Union Budget for 2002-03. In the case of RIDF-I to VI, the rate of interest on deposits placed in the Fund was uniform for all banks irrespective of the extent of their shortfall. Effective RIDF-VII, the rate of interest on RIDF deposits is linked to the banks' performance in lending to agriculture. Accordingly, banks receive interest at rates inversely related to their shortfall in agricultural lending. The foreign banks falling short of priority sector targets as at end-March 2002 have to deposit amounts equivalent to the shortfall with the Small industries Development Bank of India (SIDBI) for one year.

Priority Sector Lending (Chairman: C.S. Murthy) in September 2005 and the feedback received thereon from the Governments, banks, financial institutions, non-banking financial companies, association of industries, media, public and the Indian Banks' Association, the guidelines on lending to priority sector were revised with effect from April 30, 2007. The guiding principle of the revised guidelines on lending to the priority sector has been to ensure adequate flow of bank credit to those sectors of the society/economy that impact large segments of the population and weaker sections, and to the sectors that are employment-intensive such as agriculture, and tiny and small enterprises. The priority sector lending targets were retained at 40 per cent and 32 per cent for the domestic and foreign banks, respectively. However, from April 2007 these are calculated as a percentage of adjusted net bank credit (ANBC) (net bank credit plus investments made by banks in non-SLR bonds held in HTM category) or credit equivalent amount of off-balance sheet exposures (OBE), whichever is higher, as on March 31 of the preceding accounting year, instead of as a percentage of net bank credit earlier. The outstanding FCNR (B) and NRNR deposits balances are no longer deducted for the purpose of computation of ANBC for priority sector lending.

Lending to agriculture by banks, both in the public and private sectors, continued to fall short of the stipulated target of 18 per cent; however, the outstanding advances to agriculture, as percentage of net bank credit, in respect of both public and private sector banks increased steadily in the last few years. The targets have been linked to ANBC or credit equivalent of OBE, whichever is higher, with effect from April 30, 2007. In order to improve credit delivery and promote financial inclusion, a number of initiatives were taken during 2007-08. These included revision of guidelines on lending to the priority sectors with emphasis on enhanced flow of credit to those sectors of the economy which impact large segments of the population and are employment intensive; strengthening of the rural cooperatives; and restructuring of regional rural banks, which cater predominantly to the rural areas. The Reserve Bank also continued with its policy of encouraging multiple channels of lending such as self-help groups (SHGs), micro-finance institutions (MFIs), adoption of business facilitator (BF)/ business correspondent (BC) model; and emphasizing the simplification of the procedures and processes for lending to the agriculture and micro, small and medium enterprises (MSME) sectors. In order to provide

International Journal of Marketing, Financial Services & Management Research________________________ ISSN 2277- 3622
Vol.2, No. 2, February (2013)
Online available at www.indianresearchjournals.com

banking and financial services available to hitherto excluded sections of the population at affordable cost, the Reserve Bank encouraged the banking sector to adopt information and communication technology (ICT) solutions that would enable them to achieve greater outreach and reduce the transaction cost. Public sector banks achieved the overall priority sector lending target of 40 per cent and 32 per cent on the end of March 2008

C. Rangarajan Committee[1] on financial inclusion has defined it as "the process of ensuring access to financial services and adequate credit needed by vulnerable groups such as weaker sections and low income groups at an affordable cost." Thorat, Usha (2008) opines that the working or operational definitions of financial exclusion generally focus on the ownership or access to particular financial products and services. The financial service is a broad concept and it includes savings, loans, insurance, credit, payments etc., the financial system has to provide its function of transferring resources from surplus units but both deficit and surplus units are those with low incomes and poor background. By providing these services, the basic aim is to help them come out of poverty. Sharma & Purti (2009) [2]relates financial inclusion with easy, safe and affordable credit and other financial services to the society and economically weaker sections of the society. Dasgupta (2009) points out the following functional factors as the potent reasons for the financial exclusion in India.

The domestic SCBs, which fail to achieve the priority sector/agriculture lending targets / sub targets, are mandated to deposit into the RIDF such amounts as may be assigned by the Reserve Bank. The Fund has so far completed fifteen years of operation. The Union Budget for 2010-11 had announced that Rural Infrastructure Development Fund (RIDF) XVI (corpus of ₹16,000 crore), micro and small enterprises (MSME) (Refinance) Fund (corpus of ₹4,000 crore) and Rural Housing Fund (corpus of ₹2,000 crore) would be set with NABARD, SIDBI and NHB, respectively, during the year.

[1] Rangarajan.C., Banking Sector Reforms: Rationale and Relevance, RBI Bulletin, Vol.LI, No.1. January, Mumbai, 1997.

[2] Sharma, R.H. Indian Banking -Challenges A head, Chartered Financial Analyst, December 2009

Table No: 1
Priority Sector Advances By Commercial Banks in India
(Amt ₹ in Crore)

Years as on March	Public sector banks	Private sector Banks	Foreign sector banks
2001	1,46,546 (43.0)	21,550 (38.1)	11,835 (34.1)
2002	1,71,484 (43.5)	24,184 (38.4)	9,936 (34.6)
2003	1,99,786 (41.2)	36,648 (44.1)	14,555 (33.1)
2004	2,44,456 (43.6)	48,920(47.3)	17,960 (34.9)
2005	3,07,046 (42.8)	69,886 (43.6)	23,843(35.3)
2006	4,09,748 (40.3)	1,06,586(42.8)	30,439(34.4)
2007	5,21,376(39.7)	1,44,549(42.9)	37,831(33.4)
2008	6,10,450(44.7)	1,64,068(47.8)	50,254(39.5)
2009	7,20,083(42.5)	1,90,207(46.8)	55,453(34.3)
2010	8,64,564 (41.7)	2,15,552 (46.0)	60,290 (35.1)

Source: RBI Annual Report 2002- 03, 2007-08, 2008-09 & 2009-10)
Note: 1. Figures in brackets are percentages to Adjusted Net banking credit (ANBC) or credit equivalent of OFF balance sheet Exposure (OBE) which is higher in the respective groups.
2. The target for aggregate advances to Priority sector is 40 percent of the ANBC or Credit equivalent of OBE, whichever is higher, for domestic banks and 32 percent for foreign banks.

Thus from the above facts and figures it can be concluded that bank nationalization in India and the priority sector lending are the important components of social banking designed specifically for the social economic development of rural India. The disbursements of loan are sector oriented and the banks were successful to a large extent in meeting the targets and standards established by the Government of India right from the inception. It is inferred that commercial banks in India have been performed under the stipulate National norms. An analysis of their performance reveals that the share of priority sector advances as on March 2010 stand at 41.7 percent by public sector banks and Private sector banks by 46 percent well above the National norm of 40 percent. The graphical representation of the performance of Commercial banks in India towards Priority sector advances is given in Figure No. 1

Figure No:1.

Priority Sector Advances By Commercial Banks in India

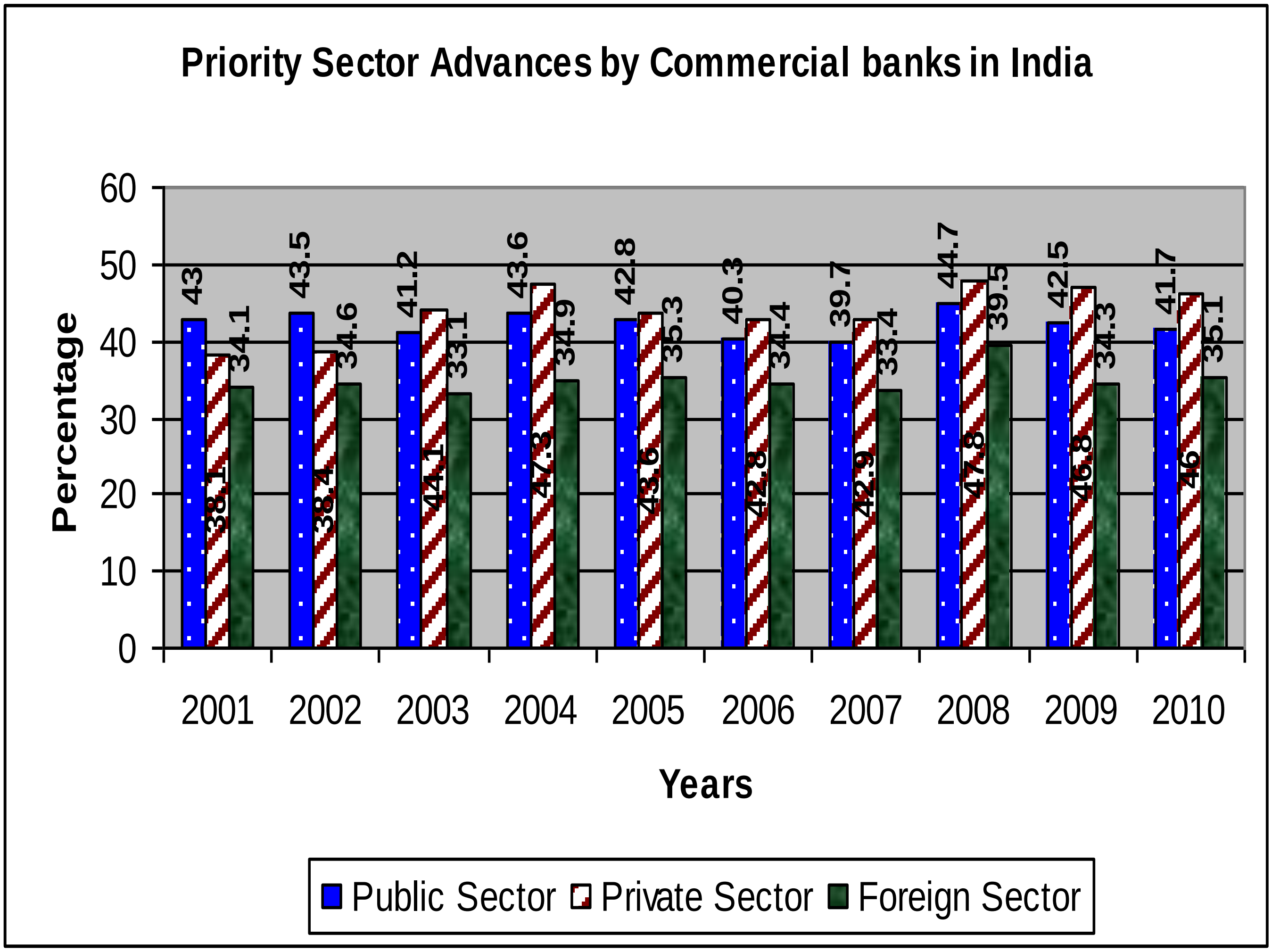


Table-2(a)

9.2 Activity Wise Performance of Priority Sector Advances By Commercial Banks in Tamil Nadu (April-March)

Advances to Priority sector by commercial Banks in Tamil Nadu from April 2000 to March 2010 is presented in the following

(Amt. ₹ in crore)

Year	Sector-activity	Performance		
		Plan	Achieved	% Achieved
2000-01	Farm sector	4767.47	4646.99	97.47
	Non-Farm sector	3325.56	3422.24	102.91
	Education Loan	49.99	43.05	86.12
	Others	1598.14	1765.65	110.48
	Total PS	**9741.16**	**9877.93**	**101.40**
2001-02	Farm sector	5215.51	5283.60	101.31
	Non-Farm sector	3761.04	3904.98	103.83
	Education Loan	84.43	75.58	89.52
	Others	1994.66	2167.93	108.68
	Total PS	**11055.64 (13.49)**	**11432.09 (15.73)**	**103.41**
2002-03	Farm sector	5888.15	5960.43	101.23
	Non-Farm sector	3999.92	4099.70	102.49
	Education Loan	139.24	115.10	82.66
	Others	2322.83	2650.08	114.08
	Total PS	**12350.14 (11.70)**	**12825.31 (12.18)**	**103.85**
2003-04	Farm sector	6563.22	7135.11	108.71
	Non-Farm sector	4147.03	4065.16	98.03
	Education Loan	168.29	141.41	84.03
	Others	2838.34	3443.46	121.31
	Total PS	**13716.88 (11.06)**	**14785.14 (15.28)**	**107.79**
2004-05	Farm sector	9623.05	10452.32	108.62
	Non-Farm sector	4711.78	4498.81	95.48
	Education Loan	220.70	228.32	103.45
	Others	3347.45	3821.47	114.16
	Total PS	**17902.98 (30.51)**	**19000.92 (28.51)**	**106.13**

Source: State Level Bankers Committee (SLBC), Annual Reports and Background Papers, IOB Central Office, Chennai.

Note: 1. Figures in brackets indicate percentage change in Total PS over the periods.

International Journal of Marketing, Financial Services & Management Research________________________ ISSN 2277- 3622
Vol.2, No. 2, February (2013)
Online available at www.indianresearchjournals.com

Table-2(b)
Activity Wise Performance of Priority Sector Advances By Commercial Banks in Tamil Nadu (April-March)

(Amt. ₹ in crore)

Year	Sector-activity	Performance		
		Plan	Achieved	% Achieved
2005-06	Farm sector	12,345.73	13,646.43	110.54
	Non-Farm sector	5,456.83	5,096.61	93.40
	Education Loan	341.81	371.83	108.78
	Others	3,889.61	4,653.72	119.64
	Total PS	**22,033.98 (23.07)**	**23,768.59 (25.09)**	**107.87**
2006-07	Farm sector	15,388.32	16,137.49	104.87
	Non-Farm sector	6,314.54	5,995.44	94.95
	Education Loan	520.09	416.50	80.08
	Others	4,608.54	5,869.30	127.35
	Total PS	**26,831.49 (21.77)**	**28,418.73 (19.56)**	**105.92**
2007-08	Farm sector	17,357.06	18,591.62	107.11
	Non-Farm sector	7,578.98	7,617.16	100.50
	Education Loan	698.85	529.31	57.74
	Others	5,847.53	6,544.80	111.92
	Total PS	**31,482.42 (17.33)**	**33,282.89 (17.12)**	**105.92**
2008-09	Farm sector	19,826.77	21,007.94	105.96
	Non-Farm sector	8,750.80	8,260.98	94.40
	Education Loan	948.22	883.09	93.13
	Others	6,785.82	7,707.31	113.57
	Total PS	**36,311.61 (15.33)**	**37859.32 (13.75)**	**104.26**
2009-10	Farm sector	22,531.86	25,054.23	111.19
	Non-Farm sector	10,008.23	9,434.08	94.29
	Education Loan	1,349.17	1,191.12	88.29
	Others	8,211.68	9,244.09	112.57
	Total PS	**42,100.89 (15.94)**	**44,926.52 (18.67)**	**106.71**

Source: State Level Bankers Committee (SLBC), Annual Reports and Background Papers, IOB Central Office, Chennai.

Note: 1. Figures in brackets indicate percentage change in Total PS over the periods.

The above table shows that the activity wise performance of priority sector advance by commercial banks with planed and achieved in Tamil Nadu. The priority sector includes Farms sector, Non-farm sector, Education loan and others priority services includes Housing loan, weaker section advances, DRI, SC/ST, credit to small industries, professional and self employed, OPS- miscellaneous.

The total credit extended by the public sector banks to agriculture, small-scale industry and other priority sectors went up from ₹.9741.16 Crore in March 2001 to ₹.11,055.64 Crore in March 2002. As a result, advances to priority sectors increased 13.49 percentages. At the end of 2003 and 2004 the percentage change rates to 11.7 and 11.06 respectively. The rate of progress was quite rapid soon after 2003-04 at 30.51 percentage but later progress was more modest. The relatively slow progress of advances to the priority sectors was due to the fact that the bank officials from top to bottom were not imbued with the new objectives of banking. At the same time banks were also worried at the poor and unsatisfactory recovery performance of the agricultural and small sectors, also attempted to study the percentage of achievement from April 2000 to March ending 2010. The percentage of achievements viz., 101.40%, 103.41%, 103.85%, 107.79%, 106.13%, 107.87%, 105.92%, 105.72%, 104.26% and 106.71 % respectively.

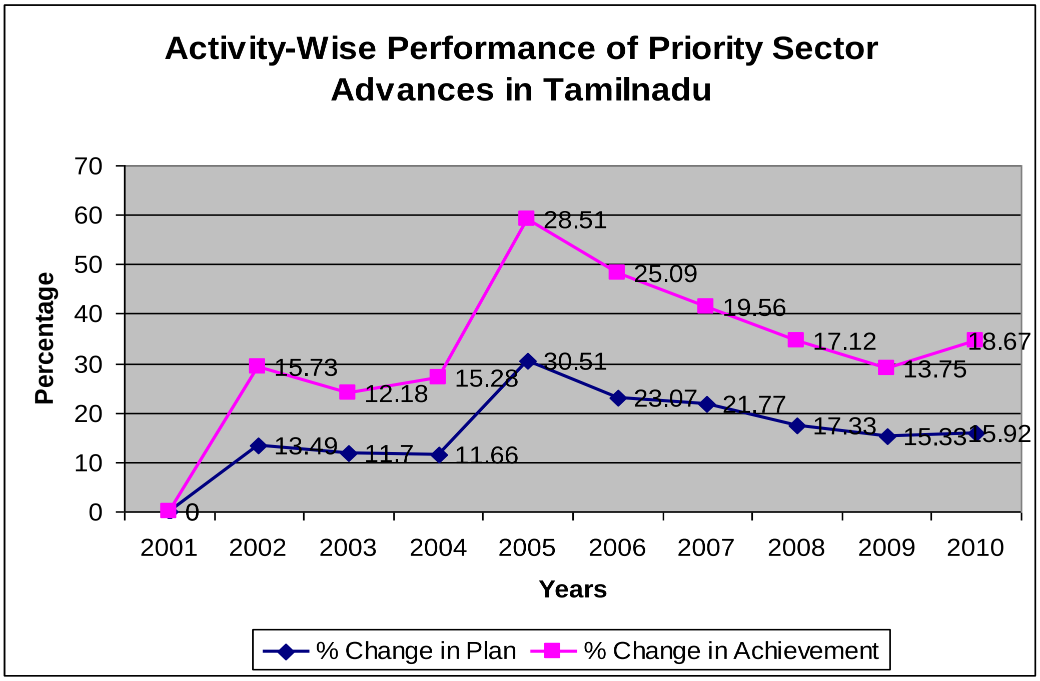
The share of PSA to total advances as on March 2008 worked out to 49.18 percent which is more than the normal norm of 40 Percent. The share of credit flow to agriculture to total advance accounted for 18.96 percent which is greater than the norm of 18 percent. Though to weaker sections has gone up from 8.85 percent in march 2007 to 10.30 percent in March 2008, it is just over the national norm of 10 percent.

The March 2009 statistics shows a decline in deposit. The reason for this fall is that depositors are shifting cash from banks to other investment tools to the advantage of tax benefits that are available in installments such as PPF and life insurance. The fall in interest rates is responsible for the series of changes prevailing in the banking front. This is having its impact on the deposit mobilization and lending activities of the banks.

Therefore, it is evident that the rate of change on advances to priority segment both planned as well as achievement led the phenomenal growth in not only quantities but also qualitative. The priority sector lending are the important components of social banking for the social economic development of rural India.

The graphical representation of the Activity-wise Performance of Commercial banks in Tamil Nadu towards Priority sector advances and its percentage change in both plan as well as achievement is given in Figure No. 2

Figure No: 2
Activity-wise performance of Priority Sector Advances by Commercial Banks in Tamil Nadu



9.3 Branch Banking and Priority Sector Lending

Government took major steps in this Indian Banking Sector Reform after independence. In 1955, it nationalized Imperial Bank of India with extensive banking facilities on a large scale especially in rural and semi-urban areas. It formed State Bank of India to act as the principal agent of RBI and to handle banking transactions of the Union and State Governments all over the country.

Seven banks forming subsidiary of State Bank of India was nationalized in 1960 on 19th July, 1969, major process of nationalization was carried out. It was the effort of the then Prime Minister of India, Mrs. Indira Gandhi, 14 major commercial banks in the country were nationalized.

The State Bank of India is India's largest commercial bank and is ranked one of the top five banks worldwide. It serves 90 million customers through a network of 9,000 branches and it offers either directly or through subsidiaries a wide range of banking services.

The second phase of nationalization of Indian banks took place in the year 1980. Seven more banks were nationalized with deposits over ₹200 crore. Till this year, approximately 80% of the banking segments in India were under Government ownership.

The primary objective of credit delivery is enabling access to financial products and services from mainstream financial institutions for banks to productive and needy sectors of the economy. This requires creating a conducive environment for banks provide adequate and timely finance at reasonable rates. Such an environment could be created either through incentive for banks or through specific regulations that are designed by intention to attain the objective of economic development.

There are different categories of banks had achieved the overall target for priority sector lending as on date. The analysis shows the performance of Public sector banks, private sector banks and foreign sector banks:

Bank Net work in India and Tamil Nadu

The number of branches is on the increase on the five years period and this increase is reflected in rural, semi-urban and urban areas both at the state and all India level.

Table- 3
Total number of Bank branches

Area	2005-06	2006-07	2007-08	2008-09	2009-10
Rural	1606	1599	1656	1701	1889
Semi-Urban	1381	1495	1676	1821	1931
Urban	1911	2034	2202	2319	2459
Total	**4898**	**5128 (4.69)**	**5534 (7.91)**	**5841 (5.45)**	**6279(7.49)**

Source: Quarterly statistics on Deposit and Credit of Scheduled banks, RBI, June 2007-08 and 2009-10
Note: 1. Figures in brackets indicates percentage change over the study periods

The above table shows that the increase in number of branches over the past five years. In Tamil Nadu, there has been a tremendous increase in the network of bank branches over a period of time. The number of bank has increased from 4898 in 2005-06 to 5128 in 2006-07, registering an annual increase of five percent. During 2007-08 the number increased to 5534 and 5841 branches during the year 2008-09, an annual increase of 5.45 percent. During 2009-10 the number increased to 6279 branches. The proportion of these branches in terms of their location constituted 30percent in rural areas, 30percent in semi-urban and 40 percent in urban areas. Therefore the aim of branch expansion programme is achieved for banking industry is to reach services to the society. Adopted an approach to reach as large a proportion of traditional artisans as possible who belong mostly to society backward and economically vulnerable sections of the community. In Tamil Nadu, there has been a tremendous increase in the network of bank branches over the period of time. The proportion of these branches in terms of their location continued 30 percent in rural areas, 30 percent in semi-urban and 40 percent in urban areas.

Table-.4

9.4 Performances of Priority Sector Advances by Commercial Banks in Tamil Nadu

(Amt. ₹ in crore)

Year	Total Credit	Performance of Priority sector advance				
		Plan	% of change	Achieved	% of change	% of Achieved
2000-01	12,233.30	9,741.16 (79.62)	-	9,877.93	-	101.40
2001-02	13,900.10	11,055.64 (79.53)	13.49	11,432.09	15.73	103.41
2002-03	15,428.23	12,350.14 (80.04)	11.70	12,825.31	12.18	103.85
2003-04	17,268.80	13,716.88 (79.43)	11.06	14,785.14	15.28	107.79
2004-05	21,766.13	17,902.98 (82.25)	30.51	19,000.92	28.51	106.13
2005-06	26,404.71	22,033.98 (83.44)	23.07	23,768.59	25.09	107.87
2006-07	31,347.10	26,831.49 (85.86)	21.77	28,418.73	19.56	105.92
2007-08	36,118.78	31,482.42 (87.16)	17.33	33,282.89	17.11	105.72
2008-09	40,871.23	36,311.61 (88.84)	15.33	37,859.71	13.75	104.26
2009-10	47,660.19	42,100.89 (88.33)	15.94	44,926.52	18.66	106.71

Source: State Level Bankers Committee (SLBC), IOB Central Office, Chennai

Note: 1. Figures in brackets indicate the percentages to Adjusted Net banking credit (ANBC)

2. The target for aggregate advances to Priority sector is 40 percent of the ANBC or Credit equivalent of OBE, whichever is higher, for domestic banks

The above table shows that the performance of priority sector advance by commercial banks with planed and achieved. The total advances by commercial banks had increased by 19.56 percentage in 2006-07 as compared with the previous year 2005-06 as compared with the planed amount the achievement rate at 107.87 percentage which includes the previous years balance. Over the study period starting from April 2000 to March ending 2010 the percentage of achievements viz. 101.40%, 103.41%, 103.85%, 107.79%, 106.13%, 107.87%, 105.92%, 105.72%, 104.26% and 106.71 % respectively. Therefore, it is evident that the rate of change on

International Journal of Marketing, Financial Services & Management Research________________________ ISSN 2277- 3622
Vol.2, No. 2, February (2013)
Online available at www.indianresearchjournals.com

advances to priority segment both planned as well as achievement led the phenomenal growth in not only quantities but also qualitative. Priority sector lending, as percentage of Adjusted Net Bank Credit (ANBC), stood at more than 80 % of ANBC as on March 2005-2010 against the benchmark of 40%. The Bank is actively involved in implementing various government-sponsored schemes The commercial banks in Tamil Nadu have been performing under the stipulated national norms. An analysis of their performance revealed that the share of priority sector advances as on March 2010 stand at 41.7 percent by public sector banks and private sector banks by 46 percent well above the National norm of 40 percent.

Table-5

9.5 Performances of Commercial Banks in Tamil Nadu- Education Loan of PSA

Percentage of advances to Priority Sector versus Credit to Education loan is presented in the following table:

(Amt. ₹ In crore)

Year	PSA	% of changes	Education loan (Plan)	% of changes	Education Loan (Achieved)	% of changes	% of E.L
2000-01	9877.93	-	49.99	-	43.05	-	0.43
2001-02	11432.09	15.73	84.43	68.89	75.58	75.56	0.66
2002-03	12825.31	12.18	139.24	64.91	115.10	52.28	0.89
2003-04	14785.14	15.28	168.29	20.85	141.41	22.85	0.95
2004-05	19000.92	28.51	220.70	31.14	228.32	61.45	1.20
2005-06	23,768.59	25.09	341.81	54.87	371.83	62.85	1.56
2006-07	28,418.73	19.56	520.09	52.15	416.50	12.10	1.46
2007-08	33,282.89	17.11	698.85	34.37	529.31	27.08	1.59
2008-09	37,859.71	13.75	948.22	35.68	883.09	66.83	2.33
2009-10	44,926.52	18.66	1349.17	42.28	1191.12	34.88	2.65

Source: State Level Bankers Committee (SLBC), IOB Central Office, Chennai.

The above analysis shows that the contribution to Education loan from Advances to Priority Sector (PSA) is increasing year by year starting form the study period April 2000 to ended March 2010. The percentage of education loan from priority sector advances also increasing, the rates viz., 0.43, 0.66, 0.89, 0.95, 1.20, 1.56, 1.46, 1.59, 2.33 and 2.65 in the year ended March 2001, 2002, 2003, 2004, 2005, 2006, 2007, 2008, 2009 and 2010 respectively. Education loan and Housing loan continued to grow over 30% and 8% respectively. Therefore, it evident that the commercial banks had taken continuous effort on achieving the targeted rate to disburse credit to priority sector but also observe on Education loan segment. Education loan and Housing loan continued to grow over 30% and 8% respectively. Therefore, it evident that the commercial banks had taken continuous effort on achieving the targeted rate to disburse credit to priority sector.

9.6 COMPOSITION OF NPAs OF PUBLIC SECTOR BANKS IN INDIA - 2001 TO 2009
As on 31st March,

(Amt. ₹ in crore)

Bank Groups	Priority Sector		Non-Priority Sector		Public Sector		Total
A. State Bank of India and its Associates	Amount	%	Amount	%	Amount	%	
2001	8928	44.2	10050	49.8	1213	6.0	20191
2002	8977	47.0	9628	50.4	490	2.6	19096
2003	8053	47.5	8379	49.4	526	3.1	16959
2004	7136	47.1	7803	51.5	220	1.5	15159
2005	7017	47.4	7624	51.5	168	1.1	14809
2006	7250	55.0	5819	44.1	125	0.9	13193
2007	7175	57.1	5193	41.4	188	1.5	12556
2008	8902	58.5	6222	40.9	97	0.6	15221
2009	8447	47.3	9250	51.8	177	1.0	17874
2010	10940	50.11	10646	48.77	244	1.12	21830
2011	15567	55.32	12567	44.66	006	0.02	28140
2012	23911	52.33	21759	47.62	025	0.05	45695

Source: Off-site returns (domestic & provisional) of banks, Department of Banking Supervision, RBI

(Amt. ₹ in crore)

Bank Groups	Priority Sector		Non-Priority Sector		Public Sector		Total
B. Nationalized Banks	Amount	%	Amount	%	Amount	%	
2001	15228	46.2	17257	52.3	1213	1.5	32983
2002	16173	45.7	18777	53.1	490	1.2	35363
2003	16886	47.1	18402	51.3	526	1.6	35849
2004	16705	47.7	17895	51.1	220	1.1	34990
2005	14909	48.4	15626	50.7	168	0.9	30812
2006	15124	53.7	12845	45.6	125	0.8	28185
2007	15779	60.6	9965	38.3	188	1.2	26046
2008	16385	66.8	7941	32.4	97	0.8	24528
2009	15871	60.6	10001	38.2	177	1.1	26169
2010	19906	56.13	15277	43.08	280	0.79	35463
2011	25721	59.90	16947	39.47	273	0.64	42941
2012	32290	48.34	33487	50.13	192	0.29	65969

Source: Off-site returns (domestic & provisional) of banks, Department of Banking Supervision, RBI

9.7 COMPOSITION OF NPAs OF PUBLIC SECTOR BANKS IN INDIA - 2001 TO 2009As on 31st March

(Amt. ₹ in crore)

Bank Groups	Priority Sector		Non-Priority Sector		Public Sector		Total
C. Public Sector Banks (A+B)	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**	
2001	24156	45.4	27307	51.4	1711	3.2	53174
2002	25150	46.2	28405	52.2	903	1.7	54458
2003	24939	47.2	26781	50.7	1087	2.1	52807
2004	23841	47.5	25698	51.2	610	1.2	50149
2005	21926	48.1	23249	51.0	444	1.0	45619
2006	22374	54.1	18664	45.1	341	0.8	41378
2007	22954	59.5	15158	39.3	490	1.3	38602
2008	25287	63.6	14163	35.6	299	0.8	39749
2009	24318	55.2	19251	43.7	474	1.1	44043
2010	30846	53.84	25923	45.25	524	0.91	57293
2011	41288	58.09	29514	41.52	279	0.39	71081
2012	56201	49.96	55246	49.11	217	0.19	111664

Source: Off-site returns (domestic & provisional) of banks, Department of Banking Supervision, RBI

The above table indicates that the major chunk of non performing assets originates from the priority sector lending and financial assistance to the public sector units. The Indian banking sector is facing a serious situations in view of the mounting gross and net NPAs of Scheduled Commercial Banks (SCM) which are to the recovery rate (percentage of recovery to demand) of direct agricultural advances of public sector banks has been declining for last couple of years 2008 and 2009. In line with this trend, the recovery rate declined to 75.4 per cent for the year ended June 2008 from 79.7 per cent a year ago. ₹38602 crore as at end-March 2007 compared to ₹41,378 crore at the end-March 2006. For the second consecutive year, gross NPAs declined in absolute terms, despite the switchover to 90 day delinquency norm with effect from March 2004. The decline in the gross NPA in 2004 was 5.03% compared to 3.03% in 2003, due to significant provisioning. The decline in NPAs is evident across all bank groups. As at end-march 2004, public sector bank(PSB) recorded gross NPAs of ₹.50,149 crore (79.6% of gross NPA of SCBs) in 2003, for the first time, gross NPAs is PSBs declined by 3.03% and the NPAs declined for the second consecutive year by 9.03% and 9.29% respectively for SCBs,. During 2003-04, reduces outpaced additions in the NPA account. SCBs have substandard progress in clearing up the NPAs from their balance sheet

10. SUMMARY OF FINDINGS

Tamil Nadu is one of the prominent states in the financial services sector. The state stands among the top ten in respect of several parameters of the banking services. With proper facilitation and support initiatives from the state government, Tamil Nadu can achieve further growth in this sector. Based on the present study findings were presented in the following:

- The commercial banks have been performing under the stipulated national norms. An analysis of their performance revealed that the share of priority sector advances as on March 2010 stand at 41.7 percent by public sector banks and private sector banks by 46 percent well above the National norm of 40 percent.
- From the study, the activity-wise performance of commercial banks in Tamil Nadu over 10 years starting from 2001-2010, agriculture advances grow over 18%, Education Loan and housing loan continued to grow over 30% and 8% respectively. It is evident that the result of the rate of change on advances to priority sector segment both planned as well as achievement led the phenomenal growth in not only quantity but also qualitative.
- District-wise growth of number of branches of commercial banks in Tamilnadu includes the number of branches in Rural, Urban and semi urban places covering 6279 branches, who is rendering banking services to the society as a whole. It is evident that the aim of branch expansion programme for banking industry is to reach services to the society.
- In Tamil Nadu, there has been a tremendous increase in the network of bank branches over the period of time. The proportion of these branches in terms of their location continued 30 percent in rural areas, 30 percent in semi-urban and 40 percent in urban areas.
- Since March 2004 the education loans have reported a growth of 180%. The education loans percentage in the banks' total loan portfolio has increased with time. Earlier in 2000, education loan comprised of 0.43% of the total advances to priority sector and now they have increased to 2.65% of the total advances to priority sector.
- Much of the rise can be attributed to the increased share of bad loans from agriculture sector during this period. The share of agriculture NPAs to total NPAs is at 18.7 per cent in March 2011, up from 11.7 per cent in 2008-09. The agriculture NPA-to-total agriculture loans ratio in 2008-09 was 1.9 per cent when the overall gross NPA ratio of all banks was as 2.44 per cent. Since then, the gross NPA ratio of banks has moderated to 2.35 per cent, while the agriculture NPA ratio rose to 3.3 per cent.

11. MAJOR SUGGESTIONS:

- Both public sector and private sector banks have achieved the target fixed by the RBI (i.e., 40% of loan to priority sector from the total advances) at the nation and state level. But for the education loan aspect the private sector participation is lesser than the public sector. It is suggested that the private sector banks should concentrate on Education loan segment also.

Based on the detailed observation strengthening the recovery position of NPAs prevention and reduction of NPAs suggest the following:-

- Reforms in the legal system for recovering unpaid dues and reduces NPAs are needed. The Enforcement of Securitization and Recognition of Financial Assets and Enforcement of Security Interest (SARFAESI) Act 2002 has provided significant impacts to banks to ensure substantial recovery without the intervention of courts or tribunals.
- NPA cells may be established at controlling officials to accelerate the recovery process. Transparent compromise proposals and setting up of investment committees at different levels on the bank can result in prompt disposal of cases.
- Reduction of NPAs is necessary to improve the profitability of banks and compliance with capital adequacy norms.

12. CONCLUSION

The performance of priority sector advances by commercial banks in India. The target for aggregate to Priority sector is 40% of the Adjusted Net Bank Credit (ANBC) for domestic banks both public sector and private sector and 32% for foreign sector banks. While public sector and private sector banks and foreign banks as a whole achieved their overall target, viz., 40% and 32% of net bank credit respectively over the study period starting from 2001 to 2010, the activity-wise performance of commercial banks in Tamil Nadu over 10 years starting from 2000-2010, agriculture advances grow over 18%, Education Loan and housing loan continued to grow over 30% and 8% respectively. It is evident that the result of the rate of change on advances to priority sector segment both planned as well as achievement led the phenomenal growth in not only quantity but also qualitative. It is evident that the Non-performing asset in India has adversely affected the profitability and efficient functioning of the banks. To improve the efficiency and profitability, the NPA has to be scheduled. Various steps have been taken by government to reduce the NPA. It is highly impossible to have zero percentage NPA. Expect to see a further improvement in the operating cost structure of public sector banks as they improve their scale of operations.

BIBLIOGRAPHY

1. Acharya, Shankar (2001), "A Vision for Banking ", The Economic Times, December, 6th
2. Ahuwalia, Montek (1999), India's Economic Reforms : An Appraisal, In India in The,era of Economic Reforms, Scahs J. , Varshney ,A. , & Bajpai, N. (Ed.), Oxford University press, New Delhi.
3. B Satish (2002), securitisation Bill 2002', Chartered Financial Analyst September.
4. Bhole, L M (1999), Financial Institution and Market: Structure Growth and Innovations, Tata McGraw-Hill Publishing Company Limited New Delhi, 3 rd Edn.
5. Bhide, M G, Prasad A, Ghosh, Saibal (2002), 'Basking Sector Reforms: A Critical Overview, EPW, Feb 2-8 Vol. 37, No 05.
6. Ganesan, P., “Public Sector banks and Priority Sector Advances- A critical Analysis”, South Economist, Vol.37, No.8, August 15, 1998, pp: 12-16.

7. Mohan T.T Ram (2002) Deregulation and Performance of Indian PSD's EPW Fen 2-8, vol 37, No-23
8. Mujumdar, N.A., "Credit support to priority sectors. A macro perspective", national bank news Review, January-March 1998, pp: 6-10.
9. Raghuram, G (2001), 'Narrow Banking' Chartered Financial Analyst, Fen 1990.
10. Rahjaram Indira & Vasistha Garina (2002).' Non-Performing Loans of PSE's EPW Feb 2-8, Vol 37, No05.
11. RaoV.L & Wengel, J. (2000),"Financial and consultancy services", Sage publications, New Delhi.
12. Reddy, Y. V (2002), 'PSBs and the Governance Chanllenge: Indian Experience', Southern Economic Vol 41, No 17
13. Shekar, Chandra & Kumar, K.B.S (2001), 'Bancassurance ', Chartered Financial Analyst, Oct.
14. Singh Archana Anmol (1999), 'Weak PSB's: SOS for Revival', Chartered Financial Analyst April.
15. 'Securitisation Act', Business World, 23 rd Dec, 2002.
16. Shankaranarayan, (2001),'VRS and PSB's' Southern Economist, Vol 40, No 12
17. Shekar, K.C and Shekar, L (2000), 'Banking Theory and Practise', Vikas publishing house, New Delhi.
18. Talwar S.P (1999), "Banking Regulations and Cooperate Governance", RBI Bulletin, July Vol7.