



ISSN Print: 2394-7500
ISSN Online: 2394-5869
Impact Factor: 5.2
IJAR 2017; 3(11): 363-367
www.allresearchjournal.com
Received: 27-09-2017
Accepted: 28-10-2017

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A performance analysis of various financial institutions with respect to priority sector lending (A case study of Jaipur district of Rajasthan)

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Abstract

This paper analyses and compares the performance of Financial Institutions in Priority Sector lending under Lead bank scheme with special reference to Jaipur District of Rajasthan. The analysis was made by the application of Kruskal–Wallis ‘H’ test to find out the difference among the financial institutions performance during the 11 years annual credit plan from 1st April 2006 to 31st March 2017 in relation to priority sector lending in Jaipur District. The result of the study is that there was a significant difference among the performance of financial institutions in lending to the Agricultural Sector, Micro, small and Medium Enterprises (MSME) and total Priority sector. However no significant difference was found in loan disbursement for the other priority sector. This result hints at lackluster performance of the regional rural banks, cooperative banks and other financial institutions vis-a-vis the commercial banks with regards to priority sector lending. The probable reasons for this could be limited ability to mobilize resources, Low Level of recovery, High cost of transaction, administered rate of interest structure, Government interference etc.

Keywords: Priority sector lending, Kruskal–Wallis ‘H’ Test, commercial banks, cooperative banks, non parametric test, hypothesis

Introduction

Objective of the Study

The aim of the study is find whether there is any significant difference between the performance of the various lending institutions with regards to the priority sector lending in Jaipur district of Rajasthan. For this purpose the data acquired from lead bank office of Jaipur has been analyzed over a period of 11 years.

Financial inclusion of agriculture sector, small scale industries and weaker sections is of utmost importance for a holistic and equitable growth and development of the economy. Since our independence various measures have been deployed for providing institutional credit to the less lucrative and neglected sectors of the economy. Programs like nationalization of banks, service area approach, Priority sector lending requirements, regional rural bank scheme, lead bank scheme and more recently Pradhan Mantri Jan Dhan Yojana, Pradhan Mantri Mudra Yojana, stand up–start up India have catered to the need of institutional credit for the erstwhile credit deficit sectors.

The Lead bank scheme came into existence when the study group presided over by Prof. DR Gadgil recommended in Oct.1969 the adoption of an “Area approach” for the development of credit and banking in the country on the basis of local conditions. The group suggested earmarking of the districts to Commercial Banks so that they could act as space setters in the districts allotted in providing integrated banking facilities. The Committee of Bankers appointed by RBI under the Chairmanship of Sr. F.K.F. Nariman also endorsed this area approach. RBI accepted the recommendation and formulated the Lead Bank Scheme 9LBS) in Dec.1969. Under the Scheme, each district had been assigned to different banks (public and private) to act as a consortium leader to coordinate the efforts of banks in the district particularly in matters like branch expansion and credit planning for the rural economy.

So far, tremendous milestones have been achieved in the path of financial inclusion which is evident by the fact that the percentage of rural households availing formal credit has reached to 54.4% in 2011 from 3.9% in 1947.

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As a result of these three major policy changes, the number of branches of commercial bank have increased from 8262 in June 1969 to 102343 in 2013 (Economic survey 2012-2013) and population per branches decline rapidly from 65000 to 13756 (RBI 2008).

According to the Global Microscope 2016 report India has shown a marked improvement in financial inclusion index from 2014 to 2016. It has emerged as the leader among several countries that have jumped forward substantially this year due to deliberate efforts to upgrade their financial inclusion systems.

However India is yet to progress more on facilitating account use, e-transactions and greater attention is required to upcoming digital technologies.

Review of Literature

Renu Janata's (1996) ^[4] book on "Lead Bank Scheme – A New horizon for Development", focuses on all aspects of Lead bank Scheme and linked to the development of targeted area and has found a profound relationship between the credit deployment and progress of the area.

A.Surendran *et al.* ^[1] in their research paper on "Performance of Lead Bank Scheme in Virundhunagar District in Tamilnadu" S mainly focused on Lead Bank Scheme and evaluated sector wise contribution in providing rural credit of commercial banks and Indian Overseas bank set by District Credit Plan.

S.Kanangasabai's Ph D thesis on "An economic analysis of priority sector lending under lead bank scheme in the union territory" submitted to Pondicherry University focuses on trend and analysis of priority sector lending by various financial institutions.

Senthil Kumarand M. J.; Sadeesh Kumar, K. (2012) ^[3], in wrote a research paper "A Study on The Performance of lead Bank Scheme." This study pointed out the role of Lead Bank Scheme (LBS) is useful for the development of the economy especially in the backward area. They also found out that there is no significant relation between the amount of loan and age of the beneficiary.

Rangarajan C. (1982) ^[5], as a consultant to the World Bank have made a study of commercial banks in India. In his study on "Innovations in Banking", the focus was the significant changes that have taken place in mobilization of funds and credit deployment since nationalization of 14 major commercial banks in India in 1969.

Nanjibhai D. Ranparia in his research paper on, "Financial Inclusion in Gujarat: A Study on Banker's Initiatives" has included study of various financial inclusion and to evaluate progress and current status of financial inclusion of the state. Satya Sundaram (1984), in his article entitled "Bank Improving Productivity and Profitability", analyzed the causes for falling profitability of banks and stressed the need for recovery of loans. He suggested rebate in interest to be offered as payment to induce people to be regular.

Naidu and Nair (2003), in their study "Financial Sector Reforms and Banking Sector Performance in India: A Study of Technical Efficiency of Commercial Banks between Pre

and Post Reform Period" have analyzed the technical efficiency of commercial banks between pre and post reforms period. They concluded that technical efficiency level among bank has increased in post reforms period indicating the enhanced competition among banks.

Methodology

Source of Data

The study is mainly based on secondary data. The data required for study were collected from books, journals, Lead bank annual reports and web sites.

Period of Study

The study covers the 11 annual credit plans starting from April 1, 2006 to 31st March 2017 for the Jaipur district of Rajasthan.

Data Analysis

For the purpose of studying data Kruskal–Wallis test named after after William Kruskal and W. Allen Wallis has been used. It can be used with ordinal data as well as with interval or ratio data. The test does not require the assumptions of normality and equal variances.

This is a ranks test used for testing whether samples originate from the same distribution.

The Kruskal-Wallis H Test statistic which is based on the sum of ranks of each of the samples can be computed as follows:

$$H = \frac{12}{N(N+1)} \sum_{i=1}^k \frac{R_i^2}{N_i} - 3(N+1)$$

Where, k = number of population groups (Number of financial institutions) [here 3]

N_i = the number of items in sample i

N = total number of items in the samples [here 33]

R_i = total of the ranks for sample i.

The calculated value of "H" is compared with the table value of chi-square (χ^2) at 5 per cent level of significance which is 5.991. If the calculated value of "H" is less than or equal to the table value of chi-square (χ^2), we conclude that, there was no significant difference among the performance of various financial institutions in lending to the priority sector.

But, if the calculated value 'H' exceeds the table value, the difference will be termed as significant.

Financial Institutions: For the purpose of the study financial institutions implementing the annual credit plan of Jaipur District are divided into three categories, viz. branches of Commercial Banks, regional rural Banks and Central Cooperative banks/Public land development banks located in Jaipur district.

Data Structure

Following data structure has been extracted from the annual credit plans of Jaipur district for analyzing-

Annual Credit Plan For Period (2014-15)												
	Agriculture and allied sector			Medium ,small and micro enterprises			Other Priority Sector			Total Priority Sector		
Financial Institutions	Taregt	Achieved	P. Score %	Target	Achieved	P. Score %	Target	Achieved	P. Score %	Target	Achieved	P. Score %
Commercial Banks	2521.6	2767.01	109.73	1774.5	2781.67	156.76	3100.7	2446.15	78.89	7396.8	7994.83	108.1
Regional Rural Banks	657.69	703.87	107.02	19.21	6.55	34.1	69.11	21.51	31.12	746.01	731.93	98.11
Central Cooperative Banks/PLDB	1229.2	1110.58	90.35	7.44	6.88	92.47	9.52	9.83	103.26	1246.2	1127.29	90.46
Other Financial Institutions	0	0	0	340	133.96	39.4	33.86	0	0	373.86	133.96	35.83
Total	4408.5	4581.46	103.92	2141.1	2929.06	136.8	3213.2	2477.49	77.1	9762.9	9988.01	102.3

Source :Uco Bank " District Annual Credit Plans ,Jaipur

$$\text{P.score} = \frac{\text{Achieved}}{\text{Target}} \times 100$$

Hypotheses

For the purpose of this study the following null hypotheses were framed:

- H1₀**: There is no significant difference among the performance of various financial institutions in lending to the Agricultural sector
- H2₀**: There is no significant difference among the performance of various financial institutions in lending to the MSME sector.
- H3₀**: There is no significant difference among the performance of various financial institutions in lending to the other Priority sector.
- H4₀**: There is no significant difference among the performance of various financial institutions in lending to the total Priority sector.

Analysis

To find the value of ‘H’, ranks are assigned to all 33 performance scores of 3 financial institutions. The highest

value receives the rank of 1, whereas the lowest value receives the rank of 33. Tied performance scores are assigned average rank values.

Hypotheses Testing

Hypothesis 1

H1₀: There is no significant difference among the performance of various financial institutions in lending to the Agricultural sector.

H1₁: There is a significant difference among the performance of various financial institutions in lending to the Agricultural sector.

Performance of various financial institutions in Agriculture and allied sector

Financial year	P.Score Comm. Banks	Rank. Comm. bank	P.Score RRBs	Rank RRBs	P.Score CCB/PLDB	Rank_CCB/PLDB
2016-17	116.01	11	69.97	29	63	31
2015-16	97.57	20	99.09	18	61.47	32
2014-15	109.73	15	107.02	16	90.35	22
2013-14	90.66	21	114.59	13	98.14	19
2012-13	125.72	8	123.17	9	79.77	23
2011-12	129.88	7	72.62	28	75.77	24
2010-11	178.17	3	175.16	4	66.51	30
2009-10	406.75	1	145.95	6	45.64	33
2008-09	310.37	2	116.04	10	75.43	25
2007-08	146.91	5	115.2	12	75.41	26
2006-07	104.79	17	114.06	14	75.39	27
n	11		11		11	
Sum of Ranks		110		159		292

$$H = \frac{12}{33(34)} \left\{ \frac{(110)^2}{11} + \frac{(159)^2}{11} + \frac{(292)^2}{11} \right\} - 3(34)$$

H = 17.25 > Critical Value = 9.2103

Here since calculated H value is greater than the critical value null hypothesis H1₀ is rejected.

Hypothesis 2

H2₀: There is no significant difference among the performance of various financial institutions in lending to the MSME sector.

H2₁: There is a significant difference among the performance of various financial institutions in lending to the MSME sector.

Performance of various financial institutions in MSME sector

Financial year	P.Score Comm. Banks	Rank_comm_bank	P.Score RRBs	Rank_RRBs	P.Score CCB/PLDB	Rank_CCB/PLDB
2016-17	133.13	12	0.72	31	13.02	24
2015-16	221.09	5	1.93	29	120.82	13
2014-15	156.76	11	34.1	19	92.47	14
2013-14	171.55	10	15.68	22	207.46	6
2012-13	190.7	8	15.08	23	32.48	20
2011-12	183.43	9	0.56	32	12	25
2010-11	271.26	3	1.85	30	40.74	18
2009-10	423.55	1	3.19	27	71.56	16
2008-9	276.3	2	3.15	28	80	15
2007-8	244.89	4	9.2	26	71.11	17
2006-7	197.2	7	16.62	21	0	33
N	11		11		11	
Sum of Ranks		72		288		201

$$H = \frac{12}{33(34)} \left\{ \frac{(72)^2}{11} + \frac{(288)^2}{11} + \frac{(201)^2}{11} \right\} - 3(34)$$

H = 22.97 > Critical Value = 9.2103

Here since calculated H value is greater than the critical value the null hypothesis H2₀ is rejected.

Hypothesis 3

H3₀: There is no significant difference among the performance of various financial institutions in lending to the other priority sector.

H3₁: There is a significant difference among the performance of various financial institutions in lending to the other priority sector.

Performance of various financial institutions in other Priority Sector

Financial year	P.Score Comm. Banks	Rank_comm_bank	P.Score RRBs	Rank_RRBs	P.Score CCB/PLDB	Rank_CCB/PLDB
2016-17	58.88	21	16.51	30	12.81	32
2015-16	69.46	18	35.13	26	175.69	2
2014-15	78.89	14	31.12	28	103.26	10
2013-14	108.5	9	31.01	29	62.29	19
2012-13	100.14	11	15.81	31	154.63	3
2011-12	10.59	33	70.53	17	119.58	8
2010-11	59.83	20	41.64	25	50	24
2009-10	72.72	16	51	23	51.55	22
2008-09	122.16	7	34.52	27	97.42	12
2007-08	128.81	6	129.43	5	88.41	13
2006-07	137.99	4	208.39	1	77.23	15
n	11		11		11	
Sum of Ranks		159		242		160

$$H = \frac{12}{33(34)} \left\{ \frac{(159)^2}{11} + \frac{(242)^2}{11} + \frac{(160)^2}{11} \right\} - 3(34)$$

H = 4.41 > Critical Value = 9.2103

Here since calculated H value is less than the critical value; null hypothesis H3₀ is accepted.

Hypothesis 4

H4₀: There is no significant difference among the performance of various financial institutions in lending to the total priority sector.

H4₁: There is a significant difference among the performance of various financial institutions in lending to the total priority sector.

Performance of various financial institutions in Total Priority sector

Financial year	P.Score Comm. Banks	Rank_comm_bank	P.Score RRBs	Rank_RRBs	P.Score CCB/PLDB	Rank_CCB/PLDB
2016-17	105.16	16	56.44	31	53	32
2015-16	118.35	10	92.81	20	62.66	30
2014-15	108.08	15	98.11	18	90.46	21
2013-14	116	12	103.99	17	98	19
2012-13	127.52	5	109.53	13	80.63	23
2011-12	120.22	9	72.57	28	76.5	24
2010-11	127.39	6	123.72	8	65.57	29
2009-10	196.02	1	108.61	14	46.01	33
2008-9	193.54	2	83.27	22	76.15	25
2007-8	154.25	4	118.12	11	75.77	26
2006-7	125.04	7	156.7	3	75.39	27
n	11		11		11	
Sum of Ranks		87		185		289

$$H = \frac{12}{33(34)} \left\{ \frac{(87)^2}{11} + \frac{(185)^2}{11} + \frac{(289)^2}{11} \right\} - 3(34)$$

$$H = 19.84 > \text{Critical Value} = 9.2103$$

Here since calculated H value is greater than the critical value; null hypothesis H_0 is rejected.

Result and discussion

It has been found after analyzing the data that there is a significant difference between performance of the various financial intuitions in lending to agriculture and allied sector, MSME and total priority sector. Only in other priority sector no significant difference has been found. The data suggests that barring commercial bank other lending agencies like Central Cooperative Banks, Regional Rural Banks etc have not been performing comparatively well. This holds significance in the light of the fact that the mandated limit of lending to priority sector in RRBs has been raised to 75% from 50% in the latest guideline revision by RBI.

Conclusion and suggestions

Cooperative banks, Regional Rural Banks needs to overcome their problem areas like paucity of resources, mounting over dues, administered rate of interest, government interference lack of man power etc in order to improve its performance as compared to other banks in the district. These banks should adopt the modern methods of banking like internet banking, credit cards, ATM, etc. These agencies should improve customer service, provide tailor made loans to needy, deploy professional management, improve monitoring mechanism of Loans and advances, and fulfill KYC norms.

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