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A Study Of An Immersion Of Bank Of India For Thedevelopment Of Priority Sector

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The Evolution of Rural Credit Delivery System

It has been understood for the first time in the year 1967-68 when National Credit Council was set up on 22nd December, 1967 that the financial aid to agriculture and small scale industries is essential and the advances of commercial banks are concentrated towards the large and medium scale industries and business houses. The report submitted on 24th July, 1968 by National Credit Council emphasized the advances from commercial banks should be channelized to Priority Sector Lending i.e. agriculture and small scale industries. The nationalization of 14 major commercial banks led to reorientation of bank lending to the priority sector.

Financial assistance to agriculture is an effective mean of economic transformation as India is an agricultural economy. The commercial banks, non banking financial institutions, self help groups, co-operative sectors are constantly contributing to Indian Agricultural sector. There are many milestones in the history of banking ballooned the development of priority sector lending in India. To specify, as mentioned above National Credit Council (1967), Nationalization of Commercial banks (1969), RRB’s establishment (1975), NABARD (1982), nationalization of Commercial banks (1980), Financial sector reforms (1991 onwards), down counting public sector banks from 27 to 12 (2017) and merger of banks (2019).Insertion of numerous welfare financial schemes by the Government of India even boosts the sector on a continuous basis.

The recommendation of Narsimha Committee led the establishment of Regional Rural Banks into India in the year 1975-76. The main objectives behind an establishment of Regional Rural Banks were to meet the rural needs. The major focus was to develop rural economy by providing funds for the development of agriculture, trade, commerce, industry and other allied activities in the rural areas specifically credit and other related facilities to small and marginal farmers.

A Regional Rural Bank plays a significant role in the development of agriculture and other allied activities in rural India. The huge network of RRB's have even reached majority remote area of rural India. The major responsibility of the developments lies on the shoulders of Regional Rural Banks. With a view to help the targeted groups, the Reserve Bank of India has fixed targets to the banks for lending and it has made it mandatory to banks to reach certain level of advances under priority sector lending.

Post reconstruction of banking sector, the Indian Banking Sector consists of 12 public sector banks, 22 private sector banks, 46 foreign banks, 56 regional rural banks 1485 urban co-operative banks and 96000 rural co-operative banks in addition to co-operative credit institutions as of November, 2020. The total assets of the entire banking sector including public, private sector and foreign banks has increased to US$ 2.52 trillion in FY20. According to the Reserve Bank of India, the bank credits and deposits stood at Rs.108.6 trillion (US$ 1.48 trillion) and Rs. 151.34 trillion (US$ 2.06 trillion) respectively as on 23rd April, 202121 The Non-Performing Assets of commercial banks has reached a recovery of Rs. 400,000 crore (US$ 57.23 billion) in FY19, which is highest in the last four years. The financial prosperous will always be advantageous to enhance the need for banking services in the rural area.

Targets of Priority Sector Lending as per RBI Guidelines:

The targets are set for priority sector lending and those are to be calculated on the basis of Adjusted Net Bank Credit (ANBC) or CEOBE (Credit Equivalent of Off-Balance Sheet Exposure).

Categories	**Domestic commercial banks (excl. RRBs & SFBs) & foreign banks with 20 branches and above**	**Foreign banks with less than 20 branches**	**Regional Rural Banks**	**Small Finance Banks**
Total Priority Sector	40 per cent of ANBC as computed in Para 6 below or CEOBE whichever is higher	40 per cent of ANBC as computed in Para 6 below or CEOBE whichever is	75 per cent of ANBC as computed in Para 6 below or CEOBE whichever is	75 per cent of ANBC as computed in Para 6 below or CEOBE whichever is

21(https://www.ibef.org/industry/banking-india.aspx)

		higher; out of which up to 32% can be in the form of lending to Exports and not less than 8% can be to any other priority sector	higher; However, lending to Medium Enterprises, Social Infrastructure and Renewable Energy shall be reckoned for priority sector achievement only up to 15 per cent of ANBC.	higher.
Agriculture	18 per cent of ANBC or CEOBE, whichever is higher; out of which a target of 10 percent# is prescribed for Small and Marginal Farmers (SMFs)	Not applicable	18 per cent ANBC or CEOBE, whichever is higher; out of which a target of 10 percent# is prescribed for SMFs	18 per cent of ANBC or CEOBE, whichever is higher; out of which a target of 10 percent# is prescribed for SMFs
Micro Enterprises	7.5 per cent of ANBC or CEOBE, whichever is higher	Not applicable	7.5 per cent of ANBC or CEOBE, whichever is higher	7.5 per cent of ANBC or CEOBE, whichever is higher
Advances to Weaker Sections	12 percent of ANBC or CEOBE, whichever is higher	Not applicable	15 per cent of ANBC or CEOBE, whichever is higher	12 percent of ANBC or CEOBE, whichever is higher

Source: Master Directions – Priority Sector Lending (PSL) – Targets and Classification (Updated as on June 11, 2021)

The Reserve Bank of India has explained the categories of priority sector. The classification of priority sector is as follows:

1. Agriculture :
   - Farm credit to individual farmers
   - Farm Credit - Corporate farmers, Farmer Producer Organizations (FPOs)/(FPC) Companies of Individual Farmers, Partnership firms and Co-operatives of farmers engaged in Agriculture and Allied Activities

- Agriculture Infrastructure
- Ancillary Services
- Small and Marginal Farmers (SMFs)
- Lending by banks to NBFCs and MFIs for on-lending in agriculture

2. Micro, Small and Medium Enterprises
    - Factoring Transactions (not applicable to RRBs and UCBs)
    - Khadi and Village Industries Sector (KVI)
    - Other Finance to MSMEs
3. Export Credit
4. Education
5. Housing
6. Social Infrastructure
7. Renewable Energy
8. Others
9. Weaker Sections:

1	Small and Marginal Farmers
2	Artisans, village and cottage industries where individual credit limits do not exceed ₹1 lakh
3	Beneficiaries under Government Sponsored Schemes such as National Rural Livelihood Mission (NRLM), National Urban Livelihood Mission (NULM) and Self Employment Scheme for Rehabilitation of Manual Scavengers (SRMS)
4	Scheduled Castes and Scheduled Tribes
5	Beneficiaries of Differential Rate of Interest (DRI) scheme
6	Self Help Groups
7	Distressed farmers indebted to non-institutional lenders
8	Distressed persons other than farmers, with loan amount not exceeding ₹1 lakh per borrower to prepay their debt to non-institutional lenders
9	Individual women beneficiaries up to ₹1 lakh per borrower (For UCBs, existing loans to women will continue to be classified under weaker sections till their maturity/repayment.)
10	Persons with disabilities
11	Minority communities as may be notified by Government of India from time to time.

Priority sector lending and Bank of India:

The foundation of Bank of India has taken place way back on 7th September, 1906. It is one of largest commercial bank of India headquartered in Mumbai. The ownership of Bank of India is with the Ministry of Finance, Government of India. With global presence in 18 countries spread over five continents. In the year 1969, it has been nationalized. With a huge network of 5430 branches all over India, it is one of the commendable banks contributing for the economic development of India.

Rural banking is even one of the services vertical where bank has its vigorous attention. There are products like Agri clinics, Composite Cash Credit, Farm Mechanization, Land Development, Poultry Development, Rural Godowns, Financing against pledge of warehouse receipt, Gold Loan, Crop Finance, Financing for draught animals & crafts, Minor Irrigation, purchase of land, Dairy Development, Solar Pump set, Tatkal loan, Term loan etc. Besides, bank provides Kishan Credit Card, BOI Kishan Satabdhi Krishi Vikas Card, Kishan Samadhan Card, and Star Bhumiheen Kishan Card to the farmers.

Research Methodology:

As per the guidelines of Reserve Bank of India is contributing for the upliftment of rural India. To support the study the secondary data related to financial performance of Bank of India was collected from its Annual Reports from last ten years from 2013 to 2022. To prove the arguments, an appropriate selection and practice of statistical tools plays an important role. The researcher here has utilized ANOVA (F- test) as a statistical tool to prove the observations true.

Objectives of the study:

The present study is based on the priority sector lending of Bank of India. The paper is intended towards creating an understanding of its contributions towards the development of rural India. To achieve the objective of the research, researcher has considered three parameters to analyze the contribution of Bank of India towards rural development.

1. Ratio of rural branches to total number of branches
2. Ratio of total priority sector lending to total deposits and total advances
3. Sector wise lending in priority sector lending by Bank of India

- **Branches of Bank of India:**

The number of branches and the increase in the number of branches at rural area is a significant measure of resulting to support the arguments that the Bank of India contributes significantly to the rural development.

Table 1: Ratio of rural branches to Total Branches of Bank of India

PARTICULARS	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
RURAL BRANCHES	1598	1766	1891	1958	2010	2011	1832	1828	1828	2000
TOTAL BRANCHES	4292	4646	4892	5077	5123	5127	5092	5083	5084	5430
% TO TATAL	37.23 %	38.01 %	38.65 %	39.03 %	39.23 %	39.22 %	35.98 %	36 %	36 %	36 %

From the above table 1 it is very clear that the bank has expanded its reach to rural area from 1598 branches in the year 2013 to 2000 branches in 2022, 31st March. The trend showed that in the year 2022 bank has made an addition of significant number to their existing rural branches set up which is a positive aspect towards the path of rural development.

- **Priority sector advances to total advances and deposits:**

Proportion contribution from the total advances of the bank to the priority sector advance is again a measure the efforts of Bank of India towards the development of rural sector. Following table presents the numerical data specifying the total deposits, total advances hold by Bank of India and the proportion out of that attributed to the priority sector to prove the argument true.

Priority Sector advances to Total advances = Priority Sector advances / Total advances * 100

Table 2: Percentage of Priority Sector advances to Total advances

(In '000)

PARTICULARS	TOTAL DEPOSITS	TOTAL ADVANCES	PRIORITY SECTOR	% TO TOTAL ADVANCES
2012-13	3,818,395,859	2,893,674,972	649,660,787	22.45
2013-14	4,769,740,518	3,707,335,364	773,955,592	20.88
2014-15	5,319,066,346	4,020,255,465	850,784,313	21.16
2015-16	5,130,045,218	3,591,889,592	918,603,215	25.57
2016-17	5,400,320,078	3,664,816,671	954,638,291	26.05
2017-18	5,208,543,783	3,413,801,866	1,015,893,551	29.76

2018-19	5,208,623,485	3,410,059,443	1,121,314,154	32.88
2019-20	5,555,049,786	3,688,833,041	1,125,757,202	30.52
2020-21	6,271,135,601	3,656,865,239	1,217,412,779	33.29
2021-22	6,278,959,591	4,208,417,907	1,326,166,340	31.51

"ANOVA" is used by the researcher to examine the relationship between the advances to priority sector and total deposits and the total advances of Bank of India during the tenure of last ten financial years from 2012-13 to 2021-22. The test is two-way ANOVA conducted to prove that the Bank of India is contributing significantly to the rural development by establishing the relationship between the advances to priority sector and total deposits and the total advances of Bank of India. The significance level set at 5%. Considering the area to be examined the hypothesis formed are as follows:

Ho: There is no significant difference in growth of priority sector lending against the total deposits and advances in last 10 years.

H1: There is significant difference in growth of priority sector lending against the total deposits and advances in last 10 years.

Testing of Hypothesis:

Following mentioned table 3 represents the ANOVA Two Factor without Replication. And table 4 shows the ANOVA Result for advances to Priority sector and total deposits and advances by the Bank of India.

Table 3: Anova Two-Factor without Replication

Anova: Two-Factor Without Replication				
SUMMARY	***Count***	***Sum***	***Average***	***Variance***
2012-13	3	7361731618	2453910539	2.65527E+18
2013-14	3	9251031474	3083677158	4.28329E+18
2014-15	3	10190106124	3396702041	5.283E+18
2015-16	3	9640538025	3213512675	4.54144E+18
2016-17	3	10019775040	3339925013	5.02019E+18
2017-18	3	9638239200	3212746400	4.4249E+18
2018-19	3	9739997082	3246665694	4.19655E+18
2019-20	3	10369640029	3456546676	4.94513E+18

2020-21	3	11145413619	3715137873	6.38758E+18
2021-22	3	11813543838	3937847946	6.18745E+18
TOTAL DEPOSITS	10	52959880265	5295988027	4.99856E+17
TOTAL ADVANCES	10	36255949560	3625594956	1.2631E+17
PRIORITY SECTOR	10	9954186224	995418622.4	4.32233E+16

Table 4: ANOVA Result for Priority Sector advances to Total advances and Total Deposits

ANOVA						
Source of Variation	***SS***	***df***	***MS***	***F***	***P-value***	***F crit***
Rows	4.18476E+18	9	4.64974E+17	4.549286835	0.003059	2.456281
Columns	9.40098E+19	2	4.70049E+19	459.8942763	3.54E-16	3.554557
Error	1.83974E+18	18	1.02208E+17			
Total	1.00034E+20	29				

Analysis of Results:

The ANOVA test resulted are depicted in table 3 and 4. According to the test of result conducted, F= 4.549286835 and 459.8942763 as compared to the tabulated value at 2.456281 and 3.554557 respectively. It is observed here that the calculated F value is greater than the F tabulated value; hence null hypothesis is rejected over here. It means it proved that the relationship among the priority sector advances and total deposits and loans seems positive. With an increase in income in the form of deposits and loans has shown proportionate increase in the priority sector lending even in last ten financial years. Bank of India has selected the positive walk in towards the growth in priority sector lending.

- **Sector wise lending in priority sector lending by Bank of India:**

Table 5 denotes the performance of the disbursement of loans to various components in Priority Sector by Bank of India. It is observed that the bank is progressive on the part of component wise lending in priority sector since last ten years. Above all the targets set by Reserve Bank of India even have been achieved successfully by Bank of India.

Table 5: Disbursement of Loans to various components in Priority Sector by Bank of India

(In Crore)

Particulars	Agriculture	SME	Education	Housing	Others	% of ANBC
2012-13	27,041	28,912	2,329	6,790	446	36.71%
2013-14	36,071	35,504	2,597	7,517	332	40.45%
2014-15	43,183	39,822	2,872	8,374	321	35.20%
2015-16	50,508	39,466	3,093	10,314	1275	38.97%
2016-17	54,302	42,768	3,188	11,584	1185	40.47%
2017-18	51,938	51,678	3,226	13,690	1159	40.80%
2018-19	57,302	51,866	3,140	17,038	1148	41.86%
2019-20	52,918	52,198	2,860	18,058	203	40.81%
2020-21	59,007	57,267	2,304	20,207	150	41.25%
2021-22	66,418	62,398	2,181	20,481	121	41.55%

"ANOVA" is used by the researcher to examine whether the component wise lending experienced growth in priority sector during the tenure of last ten financial years from 2012-13 to 2021-22. The test is two-way ANOVA wherein years and component wise lending are two different independent factors and the significance level set at 5%. Considering the area to be examined the hypothesis formed are as follows:

Ho: There is no significant growth experienced in component wise lending of priority sector in last 10 years.

H1: There is significant growth experienced in component wise lending of priority sector in last 10 years.

Testing of Hypothesis:

Following mentioned table 6 represents the ANOVA Two Factor without Replication. And table 7 shows the ANOVA Result for Loans to various components in Priority Sector by the Bank of India.

Table 6: ANOVA Two Factor without Replication

ANOVA: Two-Factor Without Replication				
SUMMARY	***Count***	***Sum***	***Average***	***Variance***
Agriculture	10	498688	49868.8	133607098.8
SME	10	461879	46187.9	110447099.7
Education	10	27790	2779	158896.6667
Housing	10	134053	13405.3	27541706.01
Others	10	6340	634	240222.8889
2012-13	5	65518	13103.6	190081254.3
2013-14	5	82021	16404.2	319880522.7
2014-15	5	94572	18914.4	435066459.3
2015-16	5	104656	20931.2	508904605.7
2016-17	5	113027	22605.4	592136276.8
2017-18	5	121691	24338.2	651399522.2
2018-19	5	130494	26098.8	717333825.2
2019-20	5	126237	25247.4	668025516.8
2020-21	5	138935	27787	828600564.5
2021-22	5	151599	30319.8	1033163133

Table 7: ANOVA Result for Loans to various components in Priority Sector by BOI

ANOVA						
Source of Variation	***SS***	***df***	***MS***	***F***	***P-value***	***F crit***
Rows	22598930599	4	5649732650	172.4471311	5.98018E-23	2.633532
Columns	1268519095	9	140946566.1	4.302120555	0.000748129	2.152607
Error	1179436121	36	32762114.48			
Total	25046885816	49				

Analysis of Results:

The ANOVA test resulted are depicted in table 6 and 7. According to the test of result conducted, F= 172.4471311 and 4.302120555 as compared to the tabulated value at 2.633532 and 2.152607 respectively. It is observed here that the calculated F value is greater than the F tabulated value; hence null hypothesis is rejected over here. It means it proved that the component wise lending experienced growth in priority sector during the tenure of last ten financial years from 2012-13 to 2021-22. It’s an optimistic indication towards the kind of efforts put in by the Bank of India for the rural development.

To conclude:

The Government of India has given the scheme in the form of RBI guidelines for the priority sector lending to develop rural economy. Concentration of funds towards rural economy was the basic objective behind this policy. Bank of India as one of the leading commercial banks in India is performing efficiently for the immersion of funds into the rural economy. Granting 40% of the total advances to borrowers in the priority sector have been reached by the Bank of India since last ten years of period of time as per RBI guidelines. The relationship between the advances and deposits earned by the bank and the priority sector lending found progressive. The only thing that all banking institutions should keep in mind is NPA management. Advisable credit policies and complete and on time recovery of the loan amount from the customers will always been proved as the key of successful financial set up of any financial institution.

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