

**PRIORITY SECTOR LENDING AND ITS IMPERATIVENESS FOR AGRICULTURAL  
DEVELOPMENT- A STUDY FROM BANKERS' PERSPECTIVE****Subhransu Panda<sup>1</sup>****Dr .K. Siva****Nageswara Rao<sup>2</sup>****Dr. Monica Verma<sup>3</sup>****Dr. Sitansu Panda<sup>4</sup>**

**Subhransu Panda<sup>1</sup>**, is the First Author, Research Scholar, Department of Management Studies, VFSTR University, Vadlamudi, Guntur, Andhra Pradesh, India.

**Dr. K. Siva Nageswara Rao<sup>2</sup>**, is the Second Author, Associate Professor, Department of Management Studies, VFSTR University, Valamudi, Guntur, Andhra Pradesh, India.

**Dr. Monica Verma<sup>3</sup>** is the Third Author, Associate Professor, Faculty of Management Studies, Marwadi University, Rajkot, Gujarat, India.

**Dr. Sitansu Panda<sup>4</sup>**, is the Fourth Author, Professor, Faculty of Management Studies, Marwadi University, Rajkot, Gujarat, India.

**Abstract**

*Priority Sector Lending (PSL) is prevalent in developed as well as developing nations. It is in order to bring economic parity in all the sectors. The agrarian economies like India in which large population is depending for their livelihood, yet; its contribution to the country's GDP is not proportionate with the people being employed in it. In this light, it is vital to explore the ground level realities and suggesting developmental mechanism to achieve the objectives of PSL scheme and in long-run in attaining Sustainable Developmental Goals (SDGs). In this paper, relevant studies on PSL pertaining agriculture & allied sector followed by perception of bankers' have been discussed. The perception of bank officials designated with the task of disbursing under Priority Sector Lending scheme is important to be explored as they execute the scheme as well as the beneficiaries directly contact with them. They are in a position to understand the ground level realities, challenges and the future prospects. Hence they are in a position to give feedback to the policy makers necessitating any modification in the existing policy for its better implementation and achievement of the expected objectives of PSL. The study*

*has been conducted in the State of Andhra Pradesh, India. But the findings shall be helpful in developing new models and formulating guidelines to be useful in agricultural development providing scope for researchers and policy makers in future. A conceptual framework has been developed which provides insights in understanding the dynamics of PSL having utility for farmers and bankers. And the framework shall also provide inputs designing and developing research instruments in the area of PSL.*

**Keywords:** Priority Sector Lending (PSL), Banks, Agricultural Development, Farmers

## **I. Introduction**

The banks are crucial in ensuring the agility of financial resources and encouraging the capital formation. In both the developed and developing nations funds are channelized to strategic sectors on priority basis to ensure equilibrium in economic growth (Kohli, 1997). This strategic sector is envisaged as per the overall economic policy of that year/era/decade. Around 1970's the formalisation of Priority Sector Lending (PSL) initiatives started in India, with the objectives to allow better credit infiltration to areas that were credit starved, enlarged loaning to small and marginal farmers (SMFs) and weaker sections, boost credit to renewable energy, and health infrastructure and allied sectors (MoSPI, 2022). There are numerous studies on PSL and its association with the social and economic development. Agriculture sector is significant to the Indian economy as it contributes to country's Gross Domestic Product (GDP) and is major source of employment (Arjun, 2013). In addition, this sector is the prime means of livelihood to almost two-thirds of the employed class in the country, occupying almost 43 percent of India's geographical area. The sector includes a diverse range of activities, including crop cultivation, livestock rearing, and allied industries, all of which collectively contribute to the multifaceted nature of India's agricultural landscape. The share of agriculture and allied sectors in total Gross Value Added (GVA) of economy for 2022-23 is 18.3%. Approximately 75% of the national production is concentrated in the four states of Andhra Pradesh, Tamil Nadu, Karnataka and Gujarat. Andhra Pradesh, which is considered as the "rice bowl of India", has great potential to develop agriculture and allied sectors (Giribabu, 2019). Enabling and helping the farming community is one of the key concerns of Andhra Pradesh, which is facilitated by constant policy and institutional support augmentation with the growth of the rural sector. Scheduled commercial banks have taken a major role in developing economies (Sirisha and Malyadri, 2018). However, there are many challenges for banks that retard the pace of economic progress in general and agriculture and allied sectors in particular. The nationalization of banks in 1969 and banking sector reforms in the 1990s and later in the 2000s were focused on increasing financial inclusion in the country (Tiwari, 2017). PSL encompasses the provision of financial support to specific sectors deemed vital for the socio-economic development of a country. In this context sectors such as agriculture, micro- and smallscale enterprises, weaker sections of society, education and export credit have been identified as part of PSL framework. The PSL framework involves a collaborative effort between various financial institutions, such as Scheduled Commercial Banks-by allocating a significant portion of their loan portfolios to PSL (Mishra, 2016).

The vital role of banks in attaining the PSL goals (Goyal, Agrawal and Aggarwal, 2015) and implementing financial inclusive measures of state (Saxena and Gupta, 2023) have been emphasized. The banks work towards aligning policies and strategies which facilitate the flow of credit to the targeted beneficiaries thereby promoting economic development. This provides impetus to the authors in developing this article by reviewing the relevant studies on PSL and to unfold the ground level realities being perceived by bank (officials) associated with PSL functioning for agricultural development.

## II. Review of Literature

The pivotal role of banks in development of rural, especially in uplifting weaker sections of society, has been extensively studied and acknowledged. This review delves into seminal studies spanning several decades, exploring the multifaceted contributions of commercial banks to economic development with a specific focus on Priority Sector Lending (PSL).

### *i. Genesis of PSL*

The PSL framework in India was initiated in 1967 being intended to address the financial needs of priority sectors particularly agriculture, small-scale industries (SSIs), and exports. Morarji Desai, the Deputy Prime Minister and Finance Minister, recognized the deficiencies in credit allocation to these sectors. Consequently, the term "priority sector" was introduced and social control measures were implemented on banks through the Banking Laws (Amendment) Bill 1967 to align their functions with national objectives. The establishment of the National Credit Council in 1968 emphasized the significance of commercial banks increasing their involvement in financing of priority sectors, viz., agriculture and SSIs (Pillai, 2021). Venkatappiah Committee formed in 1969 paved the way for the 'Lead Bank Scheme.' This scheme assigned commercial banks to specific districts, focusing on identifying credit gaps and promoting growth centres (MoSP, 2022). This initiative aimed to ensure a more targeted and strategic approach to credit allocation in key areas of economic importance.

The description of PLS was formalized in 1972 on the basis of the report by the Informal Study Group on Statistics relating to advances to the Priority Sectors constituted by the Reserve Bank of India (RBI) in May 1971. Further, based on this report, the RBI issued (a) a revised format for reporting priority sector loans and (b) specific guidelines outlining the scope of items to be included within different categories of priority sector. In the beginning, small-scale industries, agriculture, road and water transport operators, industrial estates, retail traders, professional and self-employed persons and education were identified as priority sectors without specific targets (Sweetline, 2017). The introduction of the Differential Rate of Interest (DRI) Scheme in 1972 further supported weaker sectors with concessional interest rates.

The first PSL targets were set in 1974 at 33.3%, escalating to 40% by March 1985. All commercial banks were advised to achieve the 40% of aggregate bank advances as targeted<sup>1</sup>.

---

<sup>1</sup>Recommendation of the Working Group on the Modalities of Implementation of Priority Sector Lending and the Twenty Point Economic Programme by Banks (Chairman: Dr. K. S. Krishnaswamy) MoSP, 2022

Over the years, the scope of priority sectors expanded, with a shift towards focusing on traditionally underserved populations and contributing to financial inclusion. RBI appointed the Internal Working Group, headed by Shri C. S. Murthy, to assess and propose possible changes in the existing PSL policy, including sectors, targets, and sub-targets. Based on the committee report in September 2005 and feedback from banks, financial institutions, the public, and the Indian Banks' Association (IBA) it was decided that priority sector will include only those segments that significantly affect a large population, particularly the vulnerable sections, and sectors with high employment potential, such as agriculture and small enterprises. It was at then that the targets and sub-targets under priority sector lending were linked to Adjusted Net Bank Credit (ANBC)

The Narasimham Committee-I in 1991<sup>2</sup> recognized the crucial role of PSL in reaching of the banking system to deserted sectors. It proposed redefining the priority sector to include marginal farmers and small industries. Despite recommendations to reduce PSL from 40% to 10%, it remained unchanged. The Narasimham Committee-II<sup>3</sup> in 1998 identified challenges arising from directed credit, causing surge in non-performing loans and impacting the efficiency and profitability of banks. Despite acknowledging these issues, the committee accentuated the potential disruption in credit flow if priority sector targets were abruptly reduced. It recognized the problems faced by SMFs as well as small businesses, proposing earmarking 10% of net bank credit within the priority sector for lending to weaker sections. The committee also recommended expanding the scope of PSL to include employment generating sectors viz; food processing and allied service in agriculture, fisheries, poultry and dairying.

The Vyas Committee (2001& 2004)<sup>4</sup>, provided recommendations for refining PSL targets, linking them to credit growth, and progressively increasing the share of SMFs in disbursements. The committees also addressed issues related to indirect lending, interest rates, and the overall comprehensive review of lending targets. Reserve Bank of India, on the recommendation of 'Expert committee on micro, small and medium enterprises' chaired by Shri U.K. Sinha and the 'Internal working group to review agriculture credit' chaired by Shri M.K. Jain issued revised guidelines on September 4, 2020 for PSL by commercial bank including RRBs, Small Finance Bank (SFB), Local Area Bank (LAB), and Urban Cooperative Bank (UCB), to encourage and support environment-friendly lending policies to achieve sustainable development goals. These guidelines shall apply to every banking institution (Master circular of RBI, September 4, 2020)

---

<sup>2</sup>The Narasimham Committee was established in 1991. After economic liberalisation, a significant government challenge was enhancing bank efficiency and competitiveness. To address this, the Finance Minister established the Narasimham Committee, led by M Narasimham, a former RBI Governor. This committee aimed to analyze the financial sector and propose banking reforms.

<sup>3</sup>In 1998, a second Narasimham Committee was formed with similar objectives. M Narasimham, a prominent post-independence Indian banker, is credited for foundational recommendations influencing discussions on NBFC and banking reforms.

<sup>4</sup>During the Mid Term Review of the Monetary and Credit Policy for the fiscal year 2003-04 RBI announced formation of an Advisory Committee on the flow of credit to agriculture and related activities from banking institutions. Prof. V.S. Vyas a distinguished economist chaired this committee.

Thus, the journey of Priority Sector Lending in India reflects a dynamic process, adapting and expanding to accommodate to the changing needs of the economy. From its inception in 1967 to the latest recommendations in the early 2000s, various committees have played a pivotal role in shaping the PSL framework, addressing challenges, and promoting financial inclusion in priority sectors. The continuous evolution of PSL guidelines underscores the commitment to ensuring equitable access to credit for diverse sectors of the economy

*ii. Role of Banks in PSL*

A seminal study by Malhotra and Kulashrestha (1987) revealed the indispensable part played by commercial banks in rural development programs. Srivastava (2017) explored the development of agricultural credit, cooperative financing, and the provision of agricultural credit by commercial banks and RRBs, emphasizing the role of cooperative credit institutions in reorganizing commercial banks for the economic betterment of PSL beneficiaries. The banks playing a significant role in developing priority sector under PSL scheme was highlighted in many studies (Husaini *et al.* 2016; Mundra, 2017; Jain, Parida and Ghosh, 2015). The banks performing catalytic role in agricultural development through PSL was highlighted (Kaur, Chhistsimran and Mahajan, 2022).

Effective measures were proposed to address the issues and ensure the successful implementation of PSL (Anbumani and Niranjana, 1993). And it was recommended for a reduction in priority sector targets, emphasizing the need for a focused approach to specific sectors in the economy. The term Priority Sector, coined during this period, gained prominence for its role in fostering the development of these specific sectors by vital role played by banks.

Swaroop (1969) studied the comparative performance of public and private banks, reporting an overall growth in priority sector loans but a decrease in agriculture and Medium, Small and Micro Enterprises. Bhatt (1986) considered purpose-based financing, while Chawla *et al.* (1988) stressed the need for comprehensive improvement in all sectors to maximize the benefits of priority sector lending. Roseline *et al.*, (2021) in their study analysed the role of banks in developing agriculture sector by lending to priority sector through PSL scheme and suggested for better implementation of PSL scheme for attaining its long-term objectives.

*iii. Challenges in PSL*

The smaller firms face more difficulties in credit access, particularly from state-owned banks that show greater inclination to lend to larger firms was revealed (Kumar and Francisco, 2005). Similarly, small firms are credit-constrained, even though the banks finding such lending profitable, they are reluctant to increase lending, particularly to new firms (Banerjee and Duflo, 2004, 2014) exhibiting poor risk taking ability of banks. Inadequate credit flow to agriculture sector and less awareness to application of new technology for agricultural development was highlighted (Kumar, 2021). The need for more number of banks and their branches in rural areas of India was advocated by Akhtar and Praveen (2024).

Berger and Udell (2011) emphasized the comparative advantage of smaller banks in lending based on relationships and "judgment" lending.

The performance of public, private, and foreign banks in India was studied by Uppal (2009) and found that public and private sector banks lending to the priority sector exceeded those of foreign banks. He even contemplated the importance of focusing on agriculture for the economic development of farmers.

The influence of political influence on lending to agriculture and Small Scale Industry under PSL scheme was identified as a challenge (Banerjee, 2009).

In a study by Allen, Kastens, and Jones (2007) the factors impacting PSL on agricultural development were explored. The importance of borrower's characters, ability to take credit risk and characteristics of bank official/s sanctioning loan to the beneficiaries were highlighted.

Roy (2006) studied the progress of bank lending to the priority sector and retail sector, emphasizing the risks involved in agricultural lending and suggested for more efforts by government to improve the PSL beneficiaries.

It was highlighted by Mohan (2006) that linking Self-Help Groups (SHGs) with agricultural banks under PSL scheme was beneficial for development of agriculture sector. It was suggested for bringing changes in PSL scheme to tune with the socio-economic, cultural and technical changes in society to enable the scheme more contemporary and effective in future.

Berger and Udell (2006) delved deep into the availability of credit for small and medium enterprises (SMEs) and discussed the importance of bank size, ownership and the lending environment in attaining success of PSL scheme.

Das (2001) assessed the consequence of reforms on PSL, comparing growth rates pre and post the reform and criticised the reforms which have a negative impact on PSL. In contrast, Kaur (1999) offered a positive view on PSL lending growth rates in her thesis, providing a diverse viewpoint on the impact of reforms.

Vershakerappa (1993) focused on PSL patterns across different social groups in Karnataka, a state in India. The need for a proper credit delivery system to the small and medium farmers in India for ameliorating their socio-economic status was advocated by Majumdar (2005). However, measures should be taken to prevent the benefits of credit delivery system from being skewed towards large farmers at the expense of poorer beneficiaries. The vital role of banks in developing priority sectors was discussed along with delineating the challenges for banks in the execution of PSL scheme.

Rao (1990) pointed out the challenges faced by banking institutions, including misutilization of loans, poor recoveries, an increase in Non-Performance Assets (NPAs), and the imposition of targets with inadequate banking staff. Nevertheless, the importance of banks in developing agriculture and other sectors under PSL scheme was highlighted.

#### *iv. PSL and Agricultural Development*

Agriculture sector provides livelihoods for millions of people and contributes to economic development of the country (Cardno, 2017). Srivastava (2017) shed light on the efforts of scheduled commercial banks to cover more beneficiaries under PSL acknowledging the vital role of the banks in development of farmers along with other beneficiaries under PSL scheme. The Reserve Bank of India provided made statutory measures for the banks to allocate a specific

amount of their lending to the priority sector for the development of economy (RBI, 2021). The vitality of PSL for bringing changes in the socio-economic status of farmers along with other beneficiaries have been highlighted (Das, 2023; Kumar and Kumar, 2023). The economic prosperity of a nation is dependent on agriculture sector (Udemezue and Osegbue, 2018). According to Kalpana and Rao (2017), PSL is an instrumental in advancing the nation like India. Despite the recognized importance of PSL, concerns have been raised regarding its impact on Non-Performing Assets (NPAs). Several researches directly link priority sector landings and the bad loans. (Veerakumar, 2012; Shabbir and Mujoo, 2014; Swami, 2012).

Research studies (Selvarajan and Vadivalagan, 2013; Shabbir and Mujoo, 2014) highlighted the problems of NPAs and over dues in PSL, while the study by Mishra (2016) critically analysed the rising NPAs specifically within the priority sectors of public sector banks in India.

It was recommended for effective evaluation of PSL measures to attain benefits under the PSL scheme as it was found that an enormous percentage of the private banks lacked in substantial contribution towards priority sectors (Kumar and Khabhir, 2012).

Ganesan (2003) explored the impact of priority sector advances on bank profitability. The study emphasizes the income loss ratios experienced by public sector banks due to subsidized interest rates.

Shete (2002) portrayed an adverse scenario of non-achievement of PSL targets by banks while Rao (2006) provided a comprehensive sector-wise analysis, concluding a better position for agricultural lending than other sectors under PSL scheme.

The variations in the performance of public and private sector banks was revealed (Dadhich, 2004; Gupta and Kumar, 2008). The studies by Sharma (2008) and Uppal (2009) indicated variations between public and private banks in PSL, with public sector banks lagging in target achievement than private sector banks.

Improving agricultural sector contributing to Sustainable Development Goals (SDGs) from a global perspective (Yue *et al.* 2021), aligning conservative agriculture with SDGs for better future of the world especially to attain zero hunger and no poverty by strengthening agriculture economy through capacity building and training (Farooq, 2023), enhancing agricultural productivity and land use to achieve SDGs (Hinz *et al.* 2020), improved agricultural productivity enabling rural communities and reducing poverty rates paving the avenues for attaining SDGs in India (Kumar and Rani, 2023); highlight the importance of agricultural sector.

It is revealed from the literature review that Priority Sector Lending (PSL) is vital for development of economic status of farmers and PSL contributes to agricultural development. In order to achieve the PSL goals, banks have been playing an important role. Strengthening agriculture sector for attaining SDGs in future has also been a key finding in the review of literature. However, there are many challenges in the implementation of the PSL scheme in India. Studies have been conducted on the quantitative disbursement of PSL amount and its trend, PSL attributing to Non-Performance Assets (NPAs) and their trends, performance of public sector and private sector banks or challenges in lending to priority sector.

*Research Gap*

Many studies are there on PSL and the role of banks for lending to priority sector in India. These studies are conducted either from primary or secondary sources. However, there dearth of studies on how the bank officials directly associated with PSL scheme perceive their role and activities. Their perceptions about different stages in after implementation PSL scheme has academic and pragmatic significance. This study has been attempted to fill the research gap in terms of taking perceptual study on different dimensions of PSL from bankers' perspective in one of the state namely 'Andhra Pradesh' in India. The objectives and research methodology followed in this study have been discussed.

### III. Objectives

This research has the following two objectives:

- To study the role of banks with respect to PSL in the state of Andhra Pradesh
  
- To investigate the perceptions of bank officers about different dimensions of PSL in the state of Andhra Pradesh

### IV. Methodology

This study resorts to analysis of primary and secondary data. The bank related data were taken from secondary sources. The bank officials dealing with PSL activities are the respondents. The responses of 52 agricultural officers working in banks and looking after PSL activities were collected and analysed. There are 13 districts in Andhra Pradesh, and four agricultural officers from each district were included in the study. The participants were administered a forty -item questionnaire covering six dimensions of PSL, viz., PSL Awareness, PSL Planning, PSL Execution, PSL Monitoring, and the PSL Feedback PSL Role of the State. The response for each item was indicated using Likert scale ranging from 1 to 5, with '1' indicating 'highly dissatisfied' and '5' indicating 'highly satisfied'. Statistical analysis, was conducted using SPSS 22. The pilot study was conducted before administering the questionnaire to the final respondents in the study. The reliability of the items was tested and was found to be significant with having the value 0.81. The necessary and relevant data from the respondents were collected, collated and tabulated followed by analysis. The research instrument was designed based on the insights taken from literature review. The opinion of the experts and researchers in the area of PSL have been taken in the final draft of the research questionnaire. The perception of respondents have been computed in per cent age terms and significance value of the effectiveness PSL have been established from the 'p' values. The SPSS 26.0 has been used to compute the requisite mean values, standard deviation values and significance values. The data were collected from September 2023 to December 2023. Then data were collated and tabulated followed by their analysis following the necessary statistical tools and tests. The research insights have been taken by referring the research methodology knowledge from secondary source (Nargondkar, 2015).

### V. Data analysis and Interpretation

*Role of Bank with regard to PSL*

The data from secondary sources reveal the yearwise PSL benefits in Andhra Pradesh. The data are shown in tabular form in Tables 1 to 3.

Table 1: Year-wise PSL in Andhra Pradesh (2018-19 to 2020-21)

Sl. No.	Year	Amount in Crores (Rupees)	Remark
1	2018-19	240220.10	Base Year
2	2019-20	251422.72	Increase by 11202.62
3	2020-21	282585.26	Increase by 31162.54

Source: Self-compiled from secondary data, RBI Report

Table 1 shows that from 2018-19 to 2020-21, the amount of lending to the priority sector increased. This increasing trend is an indicator of the positivity and importance given to the PSL in Andhra Pradesh State. The data indicate that 2020-21 had the greatest increase among the three years.

Table 2: Year-wise PSL with regard to Agriculture in Andhra Pradesh (2018-19 to 2020-21)

Sl. No.	Year	Amount in Crores (Rupees)	Remark
1	2018-19	149263.62	Base Year
2	2019-20	157490.11	Increase
3	2020-21	184584.64	Increase

Source: Self-compiled from secondary data, RBI Report

The data in Table 2 reveal that the PSL in the agriculture sector in Andhra Pradesh continuously increased over the three year period from 2018-19 to 2020-21. This clearly reflects how importance has been given by the State towards improvement of the priority sector and the agriculture sector of the economy.

Table 3: Category-wise distribution of banks and PSL in Andhra Pradesh (2018-21)

Sl. No.	Year	Category of Banks	Lending Amount in Crores (Rupees)
I	2018-19	Commercial Banks	198496.89
		Co-operative Banks	14434.31
		Regional Rural Banks	26462.12
		Others	826.76
		Total	<b>240220.09</b>
II	2019-20	Commercial Banks	206241.63
		Co-operative Banks	15226.78
		Regional Rural Banks	29127.81
		Others	827.19
		Total	<b>251423.40</b>

III	2020-21	Commercial Banks	228114.67
		Co-operative Banks	19121.58
		Regional Rural Banks	34730.69
		Others	618.32
		<b>Total</b>	<b>282585.26</b>

Source: Self-compiled from secondary data, RBI Report

Table 3 shows that PSL by different banks in Andhra Pradesh increased annually between 2018-19 to 2020-21. It is interesting to observe that commercial banks stand highest among all banks in providing priority sector lending to beneficiaries. The RRBs also performed well with regard to PSL in Andhra Pradesh. Moreover, all the banks mentioned in the table have shown an increasing trend in distributing PSL amount benefits in the State.

Table 4: Categorywise distribution of banks and PSL in Andhra Pradesh with regard to Agriculture (2018-19 to 2020-21)

Sl. No.	Year	Category of Banks	Lending Amount in Crores (Rupees)
I	2018-19	Commercial Banks	113419.98
		Co-operative Banks	13488.23
		Regional Rural Banks	22355.40
		<b>Total</b>	<b>149263.61</b>
II	2019-20	Commercial Banks	118117.45
		Co-operative Banks	14709.45
		Regional Rural Banks	24663.19
		<b>Total</b>	<b>157490.09</b>
III	2020-21	Commercial Banks	137500.39
		Co-operative Banks	17955.35
		Regional Rural Banks	29128.89
		<b>Total</b>	<b>184584.63</b>

Source: Self-compiled from secondary data, RBI Report

Table 4 shows that commercial banks lead all banks in providing PSL to beneficiaries. Regarding the distribution of PSL benefits, the second position is occupied by RRBs, followed by cooperative banks. There was an increasing trend in providing PSL for all banks during the three years from 2018-19 to 2020-21. The data in the table indicate an increasing trend in the total amount of PSL provided by banks in Andhra Pradesh.

The state of Andhra Pradesh has been categorised into three regions as North Andhra Pradesh, Coastal Andhra Pradesh and Rayalaseema Andhra Pradesh based on the location of different districts in the state. The amount of PSL benefits by banks to the state has been tabulated region-wise.

Table 5: Priority sector lending in various regions of Andhra Pradesh with regard to agriculture (2018-19 to 2020-21)

Sl. No.	Region	2018-19	2019-20	2020-21
I	North Andhra Pradesh	15007.28	17349.84	23612.76
II	Coastal Andhra Pradesh	89593.28	95263,46	108902.04
III	Rayalaseema Andhra Pradesh	44663.05	44876.81	52069.84

Source: Self-compiled from secondary data, RBI Report

The North Andhra Pradesh region includes the Srikakulam, Vizianagaram & Vizag districts; the Coastal Andhra Pradesh region includes the East Godavari, West Godavari, Guntur, Krishna, Nellore &Prakasham districts; and the Rayalaseema Andhra Pradesh region includes the Anantapur, Kadappa, Kurnool & Chittor districts.

Table 5 shows that in all the regions, the amount of PSL increased over the three years. The Coastal Andhra Pradesh region leads among them. This indicates that the districts in the coastal Andhra Pradesh region benefitted more from the PSL scheme with regard to agriculture. It has helped in developing the agricultural sector in different regions of Andhra Pradesh. The perceptions of bank officers about different aspects of PSL are discussed below.

*Banker's Perception about PSL*

The responses of 52 bank officers to different dimensions of PSL were collected and collated after the following statistical tests were performed:

Table 6 Different dimensions of PSL and Response of Bank Officials

Dimensions of PSL	Less Effective	Moderately Effective	Highly Effective	Total No. of Respondents	'p' Value indicating significance level
PSL Awareness	8 (15.39%)	38 (73.08%)	6 (11.53%)	52	0.04 as significant
PSL Planning	6 (11.53%)	18 (34.62%)	28 (53.85%)	52	0.02 as significant
PSL Execution	11 (21.15%)	34 (65.38%)	7 (13.47%)	52	0.03 as significant
PSL Monitoring	15 (28.84%)	29 (55.77%)	8 (15.39%)	52	0.04 as significant
PSL Feedback	18 (34.61%)	27 (51.92%)	7 (13.47%)	52	0.04 as significant
PSL Role	25	23	4	52	0.03 as

<b>of State</b>	(48.07%)	(44.24%)	(7.69%)		significant
-----------------	----------	----------	---------	--	-------------

Source: Primary data

The figures in Table 6 indicate the perceptual response of bank officers with regard to different aspects of PSL. Approximately three-fourths of the respondents perceived the PSL Awareness aspect as moderately effective, whereas as few as one-tenth of the respondents perceived it as highly effective. With regard to PSL planning, slightly more than half of the respondents perceived it to be highly effective, and lightly more than one-tenth of the respondents perceived it to be less effective. According to the response data, slightly more than one-fifth of the respondents perceived PSL execution to be less effective, lightly more than three-fifths perceived it to be moderately effective, and slightly less than one-sixth perceived it to be highly effective. The perceptual value of the respondents with regard to PSL monitoring shows that lightly less than one-fourth of the respondents indicated it to be less effective lightly more than half of the total respondents indicated it to be moderately effective, and the remaining little less than one-sixth of respondents indicated it to be highly effective. The perceptual value of the respondents with regard to PSL feedback indicates that only slightly less than one-sixth of the total respondents perceived it as highly effective, lightly more than half of the respondents as moderately effective and the remaining respondents as less effective. Fewer than half of the respondents perceived the role of PSL as less effective, and lightly more than two-fifths of the total respondents perceived it as moderately effective.

Table 7: Priority Sector Lending Awareness and Type of Respondents from Different Regions

Sl. No.	Type of Respondents	Mean Value	Standard Deviation	F Value	D.F	P=
1	North Andhra Pradesh (12*)	3.73	1.23	7.834	2, 51	.000
2	Coastal Andhra Pradesh (24)	3.88	1.03			
3	Rayalaseema Andhra Pradesh (16)	3.52	1.06			

\*The figures in parentheses indicate the number of bank officers included in the specified region.

Table 7 shows that the agricultural officers of coastal Andhra Pradesh have better perceptions of PSL awareness than do those in other regions of Andhra Pradesh. This is reflected in the mean value of different categories of respondents, which is statistically significant. This shows the existence of variation among the three categories of respondents regarding PSL awareness, which is evident from the p value.

Table 8 Priority Sector Lending Planning and Type of Respondents

Sl. No.	Type of Respondents	Mean Value	Standard Deviation	F Value	D.F	P=
1	North Andhra Pradesh	3.85	1.15			

	(12)			8.223	2, 51	.001
2	Coastal Andhra Pradesh (24)	3.97	1.03			
3	Rayalaseema Andhra Pradesh (16)	3.56	1.04			

Source: Primary data

Table 8 shows that the agricultural officers of coastal Andhra Pradesh have better perceptions of PSL planning than do those in other regions of Andhra Pradesh. This is reflected in the mean value of different categories of respondents, which is statistically significant. This shows the existence of variation among the three categories of respondents regarding PSL planning, which is evident from the p value.

Table 9 Priority Sector Lending Execution and Type of Respondents

Sl. No.	Type of Respondents	Mean Value	Standard Deviation	F Value	D.F	P=
1	North Andhra Pradesh (12)	3.54	1.21	6.139	2, 51	.001
2	Coastal Andhra Pradesh (24)	3.94	1.02			
3	Rayalaseema Andhra Pradesh (16)	3.49	1.05			

Source: Primary data

Table 9 shows that the agricultural officers of coastal Andhra Pradesh have better perceptions of PSL execution than do those in other regions of Andhra Pradesh. This is reflected in the mean value of different categories of respondents, which is statistically significant. This shows the existence of variation among the three categories of respondents regarding PSL execution, which is evident from the p value.

Table 10 Priority Sector Lending Monitoring and Type of Respondents

Sl. No.	Type of Respondents	Mean Value	Standard Deviation	F Value	D.F	P=
1	North Andhra Pradesh (12)	3.42	1.13	7.362	2, 51	.000
2	Coastal Andhra Pradesh (24)	3.83	1.16			
3	Rayalaseema Andhra Pradesh (16)	3.07	1.03			

Table 10 shows that the agricultural officers of coastal areas have better perceptions of PSL monitoring than those in other regions. This is reflected in the mean value of different categories of respondents, which is statistically significant. This shows the existence of variation among the three categories of respondents regarding PSL monitoring, which is evident from the p value.

Table 11 Priority Sector Lending Feedback and Type of Respondents

Sl.	Type of Respondents	Mean	Standard	F	D.F	P=
-----	---------------------	------	----------	---	-----	----

No.		Value	Deviation	Value		
1	North Andhra Pradesh (12)	3.13	1.21	7.125	2, 51	.000
2	Coastal Andhra Pradesh (24)	3.47	1.04			
3	Rayalaseema Andhra Pradesh (16)	3.03	1.03			

Source: Primary data

Table 11 shows that the agricultural officers of coastal Andhra Pradesh have better perceptions of PSL feedback than do those in other regions of Andhra Pradesh. This is reflected in the mean value of different categories of respondents, which is statistically significant. This shows the existence of variation among the three categories of respondents regarding PSL feedback, which is evident from the p value.

Table 12 Role of State in Priority Sector Lending and Type of Respondents

Sl. No.	Type of Respondents	Mean Value	Standard Deviation	F Value	D.F	P=
1	North Andhra Pradesh (12)	3.06	1.16	7.662	2, 51	.001
2	Coastal Andhra Pradesh (24)	3.13	1.08			
3	Rayalaseema Andhra Pradesh (16)	3.02	1.13			

Source: Primary data

Table 12 shows that the agricultural officers of coastal Andhra Pradesh have better perceptions of the role of the state in PSL than do those in other regions of Andhra Pradesh. This is reflected in the mean value of different categories of respondents, which is statistically significant. This shows the existence of variation among the three categories of respondents regarding the role of state PSL, which is evident from the 'p' value.

## VI. Discussion

The data reveals a positive trend in PSL in Andhra Pradesh from 2018-19 to 2020-21, demonstrating the commitment to supporting priority sectors. The amount of lending has consistently increased, with the year 2020-21 recording the highest PSL benefits.

PSL towards the agriculture sector has seen continuous growth, emphasizing the importance given to the improvement of the agricultural sector. This reflects a proactive approach to address the financial needs of farmers and enhance agricultural development.

The breakdown of PSL distribution among commercial banks, co-operative banks, RRBs, and others highlights the active participation of different banking entities. Commercial banks lead in providing PSL, followed by RRBs and co-operative banks.

The regional distribution of PSL in different areas of Andhra Pradesh, namely North Andhra Pradesh, Coastal Andhra Pradesh, and Rayalaseema Andhra Pradesh, indicates variations in the

benefits received. Coastal Andhra Pradesh leads in PSL distribution, reflecting the region's emphasis on supporting priority sectors.

Bankers' perceptions regarding various aspects of PSL, including awareness, planning, execution, monitoring, feedback, and the role of the state, are crucial. The data suggests a positive perception of bankers about PSL having variations among respondents from different regions, with Coastal Andhra Pradesh consistently showing a better perception.

## **VII. Suggestions**

The corroboration of findings has brought suggestive measures inviting the attention of policy makers, State and bank officials, farmers and other beneficiaries of Priority Sector Lending (PSL). There should always a continuous search for better role and activities of all the parties or actors involved in PSL. The farmers being the beneficiaries under PSL scheme relating to agriculture sector should be created awareness followed by multifarious trainings viz; banking norms under PSL scheme, use of technology in cultivation and crop production, linking farm based activities with larger regional, state and national markets, agribusiness and related activities. Periodical workshops for development of farmers in the areas of financial inclusion and managing crop related crisis to motivate and build their confidence. The beneficiaries of the PSL plan should be encouraged to align their planning with the norms and suggestions of agricultural officers from banks and state officials. Foster collaboration between farmers and officials to ensure effective implementation.

Develop strategies with special focus on less developed geographical regions under PSL scheme to address regional disparity in agriculture development considering specific needs and priorities of the regions. Coastal Andhra Pradesh, being a leader in PSL benefits, can serve as a model for other regions to emulate.

Identifying and addressing challenges in less-performing regions can help achieve more equitable PSL distribution. Strengthen feedback mechanisms to gather insights from both beneficiaries and bankers on the effectiveness of PSL initiatives. Continuous feedback loops can contribute to refining policies, addressing challenges, and enhancing the overall impact of PSL on priority sectors.

**Proposed Model:** A model has been proposed keeping the farmers and bankers role and responsibility in attaining PSL objectives in long-run striving for fulfilling SDG goals (Figure 1). Devise and implement resilience measures for priority sectors in the face of unforeseen crises. This may include the creation of contingency funds, flexible lending policies during crises, and the development of digital platforms to ensure the smooth flow of funds.

The lack of adequate banking personnel to address PSL issues and challenges should be addressed by employing more committed and qualified agricultural technical bank staff. Timely intervention by bank officials to provide feedback to farmers and effective measures by the State are suggested. The authors also advocated for collaborative work by NGOs, Farmer Producer Organizations (FPOs) and state officials to improve the marketability of agricultural products, and improve the financial literacy of farmers. The inclusion of more beneficiaries under PSL will help farmers in developing their social and economic status.

*Implications*

The study has managerial as well as academic implications. The study provides insights to the managers, bank officials, agricultural officers, State officials associated with PSL scheme to carry out their respective roles, responsibilities and functions better in future. The findings are also useful for researchers in exploring future scope of intervention in achieving PSL goals overcoming the impediments and intricacies of PSL scheme. A model has also been suggested by the authors providing scope for further research in testing it and creating new knowledge.

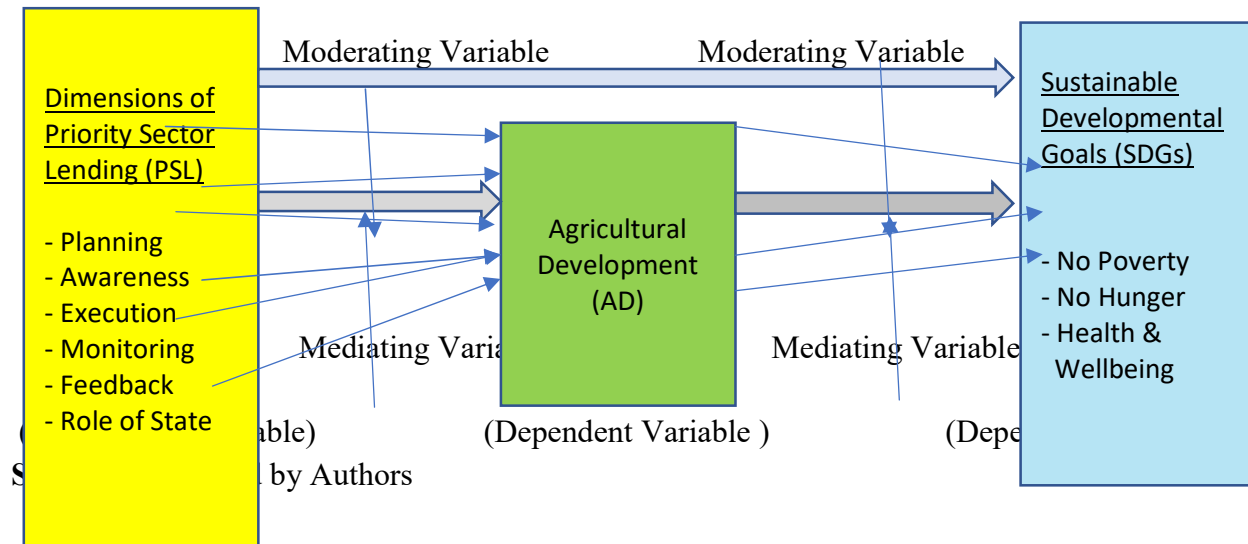
*Recommendations*

This research findings provide insights to policy makers to bring amendments in the existing guidelines and modalities considering the issues and challenges of PSL at the execution level. The essentiality of full-fledged banking system having a core functional team with competent agricultural experts monitoring the progress of beneficiaries and enriching the farmers to attain PSL goals in real sense. The flexibility in application of the PSL guidelines is the need of the hour being recommended in this study.

**VIII. Conclusion**

The banking sector plays an important role in agricultural development in the State of Andhra Pradesh. The distribution of the PSL amount to beneficiaries in different regions of the state showed an increasing trend over the last three years, with an effect from 2018-19. The perceptual regional variation in different dimensions of PSL being opined by bankers requires timely intervention and appropriate measures for the development of the agriculture sector in the State. The banks in rural areas, agricultural offices, and state machineries should work collaboratively to enhance the technical and managerial skills of farmers. More awareness should be given to farmers regarding technology -based farm cultivation, financial literacy, crisis management measures and the benefits of linking with market chains prevailing at the regional levels to begin with for linking with state and national level markets. Efforts should also be taken by banks to provide better services and feedback to farmers to improve their agricultural production and productivity. Farmers should work with various Farmer Producer Organizations (FPOs) to overcome their farm -based problems and explore better opportunities for the marketability of their agricultural products. The increasing trend in PSL in Andhra Pradesh signifies a positive approach towards supporting key sectors for economic development. The consistent growth in PSL towards agriculture and the distribution of benefits among various types of banks indicate a comprehensive effort to address the financial needs of priority sectors.

**Figure 1:** Proposed Model on Priority Sector Lending Imperativeness for Agricultural Development Contributing to Sustainable Developmental Goals (SDGs)



**References**

Akhtar, S. K. J. and Praveen, S. (2024), An assessment of branch expansion of scheduled commercial banks in India, *Journal of Business & Economic Policy*, Vol. 1, Issue 2, pp 85-96.

Allen M. Featherstone Christine A. Wilson Terry L. and Kastens John D. Jones, (2007). Factors affecting the agricultural loan decision-making process.

*Agricultural Finance Review*, Vol. 67, Issue 1, pp 13–33.

DOI:10.1108/00214660780001195.

Anbumani, V. and Niranjana, S. (1993). Social Objective and Priority Sector Lending. In A. Banerjee & S. K. Singh (Eds.), *Banking and Financial Sector Reforms in India*, Deep & Deep Publications Pvt. Ltd., pp 235-260.

Arjun, K. M. (2013). Indian Agriculture- Status, Importance and Role in Indian

- Economy. *International Journal of Agriculture and Food Science Technology*,  
Vol. 4, Issue 4, pp 343-346.
- Banerjee, A. V. and Duflo, E. (2014), Do firms want to borrow more? Testing credit constraints using a directed lending program, *The Review of Economic Studies*, Vol. 81, Issue 2, pp 572-607.
- Banerjee, A. and Duflo, E. (2004). What do banks (not) do? *Economic and Political Weekly*, pp 4212-4213.
- Banerjee, A.V., Cole, S., & Duflo, E. (2003). Bank Financing in India. MIT, Department of Economics, Working Paper Series, October.
- Berger A.N. and Udell G.F. (2006). A More Conceptual Framework for Financing of Small and Medium Enterprises, *Journal of Banking and Finance*, Vol. 30, Issue 11, pp 2945-2966.
- Berger, A. N. and Black, L. K. (2011). Bank size, lending technologies, and small business finance, *Journal of Banking & Finance*, Vol. 35, Issue 3, pp 724-735.
- Banerjee, S. and Pugh, J. (2009). What is Radical Politics in India Today? *Radical Politics Today*, Vol. 4, Issue 2.
- Bhatt, N.S.(1986), *Priority Sector Financing, Trend and Progress of Banking in India*, Deep and Deep Publications Pvt. Ltd., Delhi, pp 111-119.
- Cardno (2017), Agricultural Development as a Key Role in Food Security and Economic Development in Most of the World's Population in Rural Areas. In Issac A. F., Wei Hong and Fan Q. (2022), *Assessing the Impact of Financial Support on Ghana's Agricultural Development*, Vol. 9, Issue 1, January 10.

- Chawla, A. S., K.K. Uppal and K. Malhotra, (1988). *Emerging issues in priority sector financing, Indian Banking towards 21st century*, Deep and Deep Publication, pp 66-70.
- Dadhich, C. L. (2004). Redesigning Priority Sector Lending Operations in the Liberalized Regime. *Indian Banking: Managing Transformation* (1st ed., pp. 3-15). ICFAI University Press, Hyderabad. *Journal of Economics and Sustainable Development*, Vol. 7, Issue 7.
- Das, H. C. L., (2001). Priority Sector Lending by Public Sector Banks under Financial Sector Reforms in India. *In Banking and financial sector reforms in India, Reserve Bank of India*, pp. 246-263.
- Das, S. P. (2023), Problems and Prospects of Priority Sector Lending by Commercial Banks- A Case Study of Small Scale Industries in Darbhanga District. *Doctoral Thesis*.
- Farooq, M. (2023), Conservation agriculture and sustainable development goals, *PJAR*, Vol. 60, Issue 3, pp 291-298.
- Ganesan, P. (2003). Impact of Priority Sector Advances on Profitability of Public Sector Banks in India. *Journal of Financial Management and Analysis*, Vol. 16, Issue 2, pp 169-179.
- Giribabu, M. (2019). Agriculture Growth in Andhra Pradesh: A Study on Performance and Determinants. *Journal of Economic & Social Development*, Vol. 15, Issue 1.
- Goyal N, Agrawal, R. and Aggarwal, R. (2015), Review of Priority Sector Lending Performance of Indian Commercial Banks, *Asian Journal of Management*, Vol.

6, Issue 4, pp 1-5.

Gupta, Y. and Kumar S. (2008), A Comparative Study of Priority Sector Lending India by Public and Private Sector Banks, *Indian Journal of Economics*, Vol. 89, Issue 335, pp 193-205.

Hinz, *et al.*(2020), Agricultural development and land use change in India: A scenario analysis of trade-offs between UN Sustainable Development Goals (SDGs), *Earth's Future*, Vol. 8, Issue 2, pp 1-19.

Husaini, A., Tupamahu, M. K., Rulinawaty and Sahoo, B. P. (2016), Impact of cash in hand in the total priority sector lending: an empirical assessment. *Linguistics and Culture Review*, Vol. 5, Issue 53, pp 74-80.

Jain S., Parida, T. K. and Ghosh, S. K. (2015), Rethinking Priority Sector Lending for banks in India, *IIBF Macro research Paper Report*, Oct, pp 1-91.

Kalpana, B. and Rao, T. V. (2017), Role of Commercial banks in the economic development of India, *International Journal of Management and Applied Science*, Vol. 3, Issue 4, pp 1-4.

Kaur D., Chitsimran and Mahajan, R. (2022), Priority Sector Lending in India: A Non Parametric Analysis, *NLDIMSR Innovation Journal of Management Research*, July, Vol. 6, Issue 2, pp 30-39.

Kaur P. (1999). Growth and performance of rural banking in Punjab, *PhD Thesis*, Punjabi University, Patiala, Punjab.

Kohli, R. (1997). Directed credit and financial reform, *Economic and Political Weekly*, Vol. 32, Issue 42, pp 2667-2676.

Kumar, K. and Khabhir, A. (2012). Commercial Banks Financing Priority Sector: An Impetus to Economy – A Study of Problems and Prospects. *IOSR Journal of Business and Management*, Vol. 1, Issue 5, pp 45-48.

Kumar, A. and Francisco, M. (2005). Enterprise Size, Financing patterns, and credit constraints in Brazil. Analysis of Data from the Investment Climate Assessment Survey. World Bank Publications, 6<sup>th</sup> publication in year.

Kumar, P. and Kumar, D. (2023), A Comparative Study of Commercial Banks Lending to Priority Sector in India (2013-2022), *International Journal of Research Trends and Innovation*, Vol. 8, Issue 2, pp 360-366.

Kumar, S. and Rani, A. (2023), India's Agriculture Sector and Its Contribution to the Sustainable Development Goals, *International Journal of Research Publication and reviews*, October, Vol. 4, Issue 10, pp 96-102.

Kumar, V. K. (2021), Trends and Patterns in Agriculture Credit in India: A District Level Analysis of Uttar Pradesh, NABARD, Working paper-I, June.

MoSPI (2022), The Second Advance Estimates of National Income for the years 2020-21, 2021-22, and 2022-23. Released by the Ministry of Statistics & Programme Implementation.

Malhotra, S. L. and Kulashrestha, D. K. (1987). Banking for Weaker Sections. *Agricultural Banker*, Vol. 10, Issue 4, pp 15-30.

- Mohan, R. (2006). Agricultural Credit in India: Status, Issues and Future Agenda, *Economics and Political Weekly*, Vol. 41, Issue 11, pp 1013-1040.
- Mishra, A. K. (2016). An analysis of NPAs in priority and non-priority sectors with respect to Public Sector Banks in India. *IOSR Journal of Business and Management (IOSR-JBM)*, 87-92. DOI: 10.9790/487X-15010020287-92.
- Master Circular of RBI. (2020). Priority Sector Lending Targets and Classification. RBI/FIDD/2020-21/72 Master Directions FIDD.CO.Plan.BC.5/04.09.01/2020-21.
- Mundra, S. S. (2017), Priority sector lending- status, issues and future agenda, *Conference Proceedings*, College of Agricultural Banking, Reserve Bank of India, Pune, June, pp 1-7.
- Nargondkar, R. (2015), *Marketing Research: Text and Cases*, Tata McGrawHill, New Delhi, India.
- Rao, B. R. (1990). Priority Sector Advances- Evolution and Monitoring. *Journal of Indian Institute of Bankers*, July-September.
- Rao, N. K. (2006). Bank credit: Redefining priorities. *Professional Bankers*, ICFAI University Press, Hyderabad, pp 11-14.
- Roseline A. L. *et al.* (2021), Trends of Priority Sector Lending in India, *Business Studies Journal*, Vol. 13, Issue 6, pp1-4.
- Roy, M. (2006). A Review of Bank Lending to Priority and Retail Sectors, *Economic and Political Weekly*, Vol. 41, Issue 11, pp 1035-1040.
- Volume 23, Issue 01, March 2024 1791

RBI Report. (2021) <https://dbie.rbi.org.in/DBIE/dbie.rbi>

Saxena, P. and Gupta, U. (2023), Priority Sector Lending in India: The Role of Regional Rural Banks, *European Chem. Bulletin*, Vol. 12, Issue 7, pp 1932-1940.

Selvarajan, B., and Vadivalagan, G. (2013), A study on management of non-performing assets in priority sector reference to Indian bank and Public Sector Banks (PSBs), *Global Journal of Management and Business Research*, Vol. 3, Issue 2, pp 49-58. DOI: 10.20525/ijfbs.v2i1.139.

Shabbir, N. and Mujoo, D. (2014). Problem of non-performing assets in priority sector advances in India. *Journal of Economics and Development Studies*, Vol. 2, Issue 1, pp 241-275.

Shete, N. B. (2002). Priority Sector Advances of Banks during the post-reform period. *Prajnan*, Vol. 31, Issue 1, pp 21-37.

Sharma, P. (2008). Priority Sector Lending: A Comparative Study of Public and Private Sector Banks in India. *Ph.D. Thesis*, Punjab University, Chandigarh.

Sirisha, S. and Malyadri, P. (2018). A Study on the Financial Performance of Scheduled Commercial Banks, *International Journal of Business and Management Invention*, Vol. 7, Issue 2, pp 1-15.

Srivastava, S. M. (2017). Priority Sector Lending through MFIs: An Analysis of NPA of Few Banks in India, *International Journal of Management and Social Science Research Review*, Vol.1, Issue 31, pp 82-91.

Swami, V. (2012), Impact of macroeconomic and endogenous factors on non-

performing bank assets,*International Journal of Banking and Finance*, Vol.

1,

Issue

9.

Swaroop, G. (1969), Public Sector Banks and Small Scale Industries,*The Indian Journal of Commerce*, Vol. 22, Issue 1, pp 1-9.

Sweetline Udhaya A. (2017), Priority Sector Lending in India – An analysis. *International Journal of Current Advanced Research*, Vol. 6, Issue 11, pp 2319-6475.

Tiwari, S. (2017), Performance of Priority Sector Lending in India: A Critical Review,*Journal of Management & Research*, Vol. 15, Issue 1, pp 23-33.

Udemezue, J. C. and Osegbue, E. G. (2018), Theories and Models of Agricultural Development, *Annals of Reviews and research*, April 25, Vol. 1, Issue 5, pp 134-137.

Uppal, R. K. (2009). Priority Sector Advances: Trends, Issues and Strategies. *Journal of Accounting and Taxation*, Vol. 1, Issue 5, pp 79-89.

Vershakerappa, K. (1993). Priority Sector Lending- A Case Study,*Southern Economy*, March.

Veerakumar, K. (2012). Non-performing assets in priority sector: a threat to Indian scheduled commercial banks,*International Research Journal of Finance and Economics*, Vol. 93, Issue 1, pp 6-23.

Venkatappiah Committee (1969), established in July 1966, evaluated the progressions in credit supply for intensive agricultural production and marketing from all institutional sources . In its July 1969 report, it stressed strengthening cooperatives while advocating a multi-agency approach.

Yue *et al.* (2021), Achieving sustainable development goals in agricultural energy-water-food nexus system: An integrated inexact multi-objective optimization approach *Resources, Conservation and Recycling*, Vol. 174.