# PRIORITY SECTOR ADVANCES :- TRENDS, ISSUES AND STRATEGY A CASE STUDY ON KUMAUN REGION

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## ABSTRACT

The priority sector lending is mainly projected to ensure that the support from the banking system to those sectors of the economy which has not received sufficient support of institutional finance. The attainment of the socio economic priority of the government like enlargement of agriculture, promotion of small entrepreneurs and development of diffident area etc is the major liability of commercial banks. Since seventies, Reserve Bank of India and government of India have predetermined guidelines for priority sector lending by banks. The same was revised on April 30, 2007 and overall priority sector lending target was fixed at 40 per cent for domestic banks and 32 per cent for foreign banks. However, the banks are not able to reach the prescribed target of lending to priority sector. The small entrepreneurs and farmers are continued to be both credit and demand constraints. Thus, it can be observed that the demand for funds for priority sector viz., small entrepreneurs and agricultural sector is enormous. With this backdrop, the present treatise is an attempt to diagnose the various lacunas of priority sector lending by commercial banks in the area under consideration in the context of national scenario.

Key words : Priority sector lending , credit rationing , district plans , credit control model

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## .INTRODUCTION

**Priority Sector Lending** is an important role given by the Reserve Bank of India (RBI) to the banks for providing a specified portion of the bank lending to few specific sectors like agriculture or small scale industries. Basically this is meant for all round development of the economy apart from only focusing on the financial sector.

This kind of lending could be for the purpose of raising crops, pre-harvest and post-harvest activities (spraying, weeding, harvesting, grading, sorting) and export credit for exporting their own farm produce, bank loans to (MSE) engaged in providing or rendering of services would be eligible for direct finance under priority sector upto an aggregate limit of Rs 2 crore per borrower/unit. Loans to governmental agency for construction of dwelling units or for slum clearance and rehabilitation of slum dwellers up to Rs 10 lakh per dwelling unit would come under priority sector.

Loans to economically weaker sections and low-income groups, loans to housing finance companies for refinance, on-lending for purchase or construction or reconstruction up to a ceiling of Rs 10 lakh per dwelling would also be eligible for priority sector lending.RBI further clarified “banks should ensure that loans extended under priority sector are for approved purposes and the end use is continuously monitored. The banks should put in place proper internal controls and systems in this regard.”The central bank has mandated targets for priority sector lending to meet credit needs of large sections of population who had no access to institutional finance.

One of the basic objectives of nationalization was to improve the productivity of big as well as small sector. The concept of priority sector lending was to ensure the flow of endeavor credit to the society, RBI and central government plans for the improvement of credit under the three years schemes based on the recommendation of committees related to different issues .The assistance of these section will be of no use unless it is ensured that the recipient utilizes the assistance for the utility purpose and generate sufficient income to repay the loans and to improve the standard of living.As the schemes is in operation for three decades, an empirical evaluation of this performance was made so that problem could be identify and the performance could be improved with a view to highlight and deliberate on the schemes, to examine the involvement of the banks in to it implementation, to evaluate the extent of success, to identify the problems associated therewith and to improve its working. It's a paramount importance to analyze the impact of priority sector credit on the people and the economy .RBI further clarified "banks should ensure that loans extended under priority sector are for approved purposes and the end use is continuously monitored. The banks should put in place proper internal controls and systems in this regard."

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In the process of development, certain sectors lag behind, but the development of these sectors is essential for accelerating growth. These sectors lag behind because they lack financial resources. As the banks are urban biased and profit-oriented in their approach they are less likely to finance these sectors because the latter are: (1) less profitable, (2) lack collateral securities, and (3) are high-risk sectors for lending. Without providing necessary assistance to these sectors it will not be possible to accelerate the growth of the economy. In India, sector play a major role in solving these problems. This has been recognized throughout the world by the policy makers, governments as well as academicians and researchers. As these sectors can be developed with limited available capital and light technology, it permits more population to participate in gainful economic activities with which we can solve the problem of poverty, reduce the inequalities in the distribution of income and wealth at the national level and unemployment problem at the individual level.

**Need for a new Approach**

The PSL guidelines incorporated in the master circular updated up to June 2010 were reportedly an amalgamation of about 22 circulars issued from 1977 onwards. After the recent Malegam report and M.V. Nair's report, this has undergone further complex changes as late as up to September 2012.

Despite the avowed intention of banking outreach and touching vulnerable groups of population, priority sector targeting, as per the present framework, has left the major part of the population untouched. This has led to the parallel development of new policy initiatives in financial inclusion and gaining of momentum of alternative credit delivery models such as the microfinance movement. These changes have not been recognized and integrated into the approach towards PSL. It is imperative that the priority sector should be redefined more from the standpoint of growth and employment, and the equity angle should be left to be best served through the policy of financial inclusion. Mostly, it could include sectorial classification, leaving the beneficiary oriented groupings to be served by financial inclusion strategy. If one follows this principle, infrastructure financing should gain a significant priority and innovative ways should be explored to allow the banking system to finance infrastructure, while agriculture and micro enterprises should continue to receive attention. But, the level and sub-targets should be rearranged to cover really the vulnerable groups as recommended by the Narasimham committee, and recently by the Nair committee. It is not the medium and large farmers who commit suicide but the small and marginal ones. It is not the small and medium enterprises as a whole that suffer constraint of credit but it is mostly, as the economic census shows, the micro enterprises.

**Growth and Equity Angle**

Directed credit also implicitly gave a continued life to the operation of credit channel of monetary policy, along with increasing prominence of the interest rate channel since the reforms of 1990s. But, the priority sector guidelines, which form the basis of exercising this policy, have lost their initial thrust both from growth and equity angles. Reprioritization is expedient also from the angle of minimizing the adverse shocks emanating from monetary and external shocks and to ensure credit flow to really vulnerable groups.

The sacrifice of growth for containing inflation and the cost of correcting adverse redistributive effects of inflation need not be that large, if reprioritization of directed credit is strategically attempted.

**Scope of priority sector lending extended**

The Reserve Bank of India, eased norms for priority sector lending by banks and also expanded the scope for distributing loans to agriculture and weaker sections of the society.“The additions and amendments will be operational with effect from July 20,” the RBI said in a notification.

The central bank allowed banks to include loans to corporate, including farmers' producer companies of individual farmers, partnership firms and co-operatives of farmers directly engaged in agriculture and allied activities — dairy, fishery, animal husbandry, poultry, bee-keeping and sericulture (up to cocoon stage) — up to an aggregate limit of Rs.2 crore per borrower, to be considered as apriority sector lending.

Further short-term loans for raising crops, which include traditional/non-traditional plantations, horticulture and allied activities, would be included in the priority sector.Loans for pre-harvest and post-harvest activities, spraying, weeding, harvesting, grading and sorting will be included in the priority sector. Now priority sector lending would also include export credit for exporting own farm produce.During the interaction the RBI Governor had with bankers on July 31, 2012 in connection with the first quarter review of Monetary Policy 2012-13, certain concerns were raised by the banks on the revised priority sector guidelines.

“Discussions were held with CMD/CEOs of select banks and also with priority sector heads of select banks. Based on the feedback received, it has been decided to make certain additions and amendments, in the guidelines on priority sector issued on July 20,” the RBI added.

Bank loans to Micro and Small Enterprises (MSEs) engaged in providing or rendering of services will be eligible for classification as direct finance to the MSE sector under the priority sector up to an aggregate loan limit of Rs.2 crore per borrower/unit, provided they satisfy the investment criteria for equipment as defined under the MSMED Act, 2006.In the housing sector, bank loans to any governmental agency for construction of dwelling units or for slum clearance and rehabilitation of slum dwellers subject to a ceiling of Rs.10 lakh per dwelling unit would be considered as priority sector lending.“For the purpose of identifying the economically weaker sections and low income groups, the family income limit of Rs.1.120 lakh per annum, irrespective of location, is prescribed,” it added.

Bank loans to housing finance companies (HFCs) — approved by the NHB for their refinance — for on-lending for the purpose of purchase, construction and reconstruction of individual dwelling units or for slum clearance and rehabilitation of slum dwellers, subject to an aggregate loan limit of Rs.10 lakh per borrower, would come under priority sector lending.However, the RBI stipulated that all inclusive interest rate charged to the ultimate borrower would not exceed the lowest lending rate of the lending bank for housing loans plus 2 per cent per annum. The eligibility under priority sector loans to HFCs is restricted to 5 per cent of the individual bank’s total priority sector lending, on an ongoing basis.

The RBI also asked banks to ensure that loans extended under the priority sector are for approved purposes and the end use is continuously monitored. “The banks should put in place proper internal controls and systems in this regard,” it added.RBI said lending by banks to corporates, including farmers' producer companies of individual farmers, partnership firms and co-operatives of farmers in agriculture and allied activities -- dairy, fishery, animal husbandry, poultry, bee-keeping, and sericulture -- up to an aggregate limit of Rs 2 crore would qualify for priority sector lending.This kind of lending could be for the purpose of raising crops, pre-harvest and post-harvest activities (spraying, weeding, harvesting, grading, and sorting) and export credit for exporting their own farm produce, it said.In case the loan limit per borrower is more than Rs 2 crore, the entire loan should be treated as indirect finance to agriculture, it added.Also, bank loans to (MSE) engaged in providing or rendering of services would be eligible for direct finance under priority sector upto an aggregate limit of Rs 2 crore per borrower/unit.

Loans to governmental agency for construction of dwelling units or for slum clearance and rehabilitation of slum dwellers up to Rs 10 lakh per dwelling unit would come under priority sector.Loans to economically weaker sections and low-income groups, loans to housing finance companies for refinance, on-lending for purchase or construction or reconstruction up to a ceiling of Rs 10 lakh per dwelling would also be eligible for priority sector lending.

RBI further clarified "banks should ensure that loans extended under priority sector are for approved purposes and the end use is continuously monitored. The banks should put in place proper internal controls and systems in this regard."The central bank has mandated targets for priority sector lending to meet credit needs of large sections of population who had no access to institutional finance.

***Different Schemes under Priority Sector Lending:***

The priority sector lending includes lending to agriculture (direct and indirect), small scale industries, transport operators, self-employed persons, rural artisans and the weaker sections. The weaker sections within the priority sector comprise: (1) small and marginal farmers with land holdings up to 5 acres, landless labourers, tenant farmers and share croppers, (2) artisans, village and cottage industries enjoying credit limits up to Rs. *25,000/-*, (3) Integrated Rural Development Programme (IDRP). Differential Rate of Interest Scheme (DRI) and Self-Employment Programme for the Urban Poor (SEPUP) beneficiaries and

(4) Beneficiaries belonging to Scheduled Castes and Scheduled Tribes. In accordance with the guidelines recently issued by the Government of India, Ministry of Rural Development. Now the Swamajayanthi Gram Swarozgar Yojana (SGSY) has come into force replacing all the earlier programmes viz., Integrated Rural Development Programme (lRDP), Training of Rural Youth for Self-Employment (TRYSEM). Development of Women and Children in Rural Areas (DWCRA) and so on.

**Areas under Priority Sector Lending**RBI has divided the priority sector into following ten areas or categories the main areas under priority sector lending scheme are as follows:

1. Agriculture sector.
2. Small-scale industrial loans.
3. Small road and water transport operators.
4. Professional and self-employed.
5. Retail trade loan.
6. Educational loan.
7. Housing loan
8. Consumption loan
9. State-sponsored corporations for SC/ST.

**Growing pattern of industrialization in Kumaun region**

Since 1991 India is earning hard from financial sector as we have shown great success in service , infrastructure , power sector and many more but agriculture sector of India – backbone of national income suffers from various drawback because of seasonal variation and less education to farmers , technological updating , land irrigation and many more . It raises a need of Priority sector Lending Though the hill policy had attracted over Rs 220 crore in terms of investments during the past three years, The policy. which was brought in 2008, by Khanduri for a period of ten years would now be available till 2025. Industries setting up new units would get all the incentives like transport subsidy and price purchase preferences for ten years in case they come into production by 2015.

The policy envisages a capital subsidy on fixed capital investment in building, plant and machinery at the rate of 25 per cent. This was a maximum of Rs 30 lakh which has now been doubled to a limit of Rs 60 lakh.

Industries going for sizeable expansion either by investing 25 per cent of the total investment or increasing the production output by more than 25 per cent would also be entitled for all the benefits.The government has also decided to set up 11 new industrial hubs in the hilly region and create high-level infrastructure there. The State

Industrial and Infrastructure Development Corporation of Uttarakhand Limited (SIDCUL), which is credited for heavy industrialization in the plains, have been roped in to develop these 11 new industrial hubs in the hills. According to the new amendments, Sahaspur and Raipur areas of Dehradun district and Haldwani and Ramnagar areas of Nainital district have been included in the hill area category where all the promotional benefits will be available.In yet another significant move, the district industrial centers have now been entrusted with the job of providing pollution certificates to industries.

Uttarakhand has been one of the fastest growing economies in India with a CAGR of 12.75% during 2004-05 to 2013-14 whereas Indian economy as a whole grew at CAGR of 7.59% during corresponding period and the GSDP of similar state -Himachal Pradesh, grew at CAGR of 7.78% during the same period Though share of primary sector in overall GSDP has declined from 22.27% in 2004-05 to just 9.59% in 2013-14, agriculture still holds very important place in the state economy looking at the fact that still about 45%of the main workers in the state are dependent on agriculture for their livelihood. Share of secondary sector is continuously rising with a marginal increase in the share of tertiary sector

***Agriculture Sector***

After accounting for forests and wastelands, only 7.23 lakh has constituting 13% of total reported area is available for cultivation. Small and marginal land holdings constitute 91% of land holdings. The hill regions having steep slopes are susceptible to frequent soil erosions, making the soil less fertile. There is no economy of scale & productivity of major crops is very low.

Wheat and paddy are the main crops, constituting 31.65 and 23.16 per cent respectively of the Gross Cropped Area. The other important crops are sugarcane, maize, pulses and oilseeds. Major fruits are mango, litchi, guava, apricot, while major vegetables are potato, tomato, green pea, cauliflower and capsicum. The sunrise areas viz., horticulture, Medicinal & Aromatic Plants (MAP), floriculture, organic farming, food processing, agricultural marketing infrastructure, micro irrigation, etc., have huge potential for growth etc. are grown in Zone A, Paddy, Wheat, Mandua, Pulses grow in areas falling under Zone B. Kharif crops, Horticulture, Floriculture, Medicinal and aromatic plants are some of the important crops grown in Zone C area. Little agriculture activities are carried out in the geographical area falling under Zone D. Pastures, alpine meadows rare herbs etc. grow in wild in these areas.

Economic Indicators of the uttrakhand state has been one of the fastest growing economies in India with a CAGR of 12.75%during 2004-05 to 2013-14 whereas Indian economy as a whole grew at CAGR of 7.59% during corresponding period and the GSDP of similar state -Himachal Pradesh, grew at CAGR of 7.78% during the same period. Though share of primary sector in overall GSDP has declined from 22.27% in 2004-05 to just 9.59% in 2013-14, agriculture still holds very important place in the state economy looking at the fact that still about 45% of the main workers in the state are dependent on agriculture for their livelihood. Share of secondary

Sector is continuously rising with a marginal increase in the share of tertiary sector. Status of Agriculture After accounting for forests and wastelands, only 7.23 lakh has constituting 13% of total reported area is available for cultivation. Small and marginal land holdings constitute 91% of landholdings. The hill regions having steep slopes are susceptible to frequent soil erosions, making the soil less fertile. There is no economy of scale & productivity of major crops is very low. Wheat and paddy are the main crops, constituting 31.65 and 23.16 per cent respectively of the Gross Cropped Area. The other important crops are sugarcane, maize, pulses and oilseeds. Major fruits are mango, litchi, guava, apricot, while major vegetables are potato, tomato, green pea, cauliflower and capsicum. The sunrise areas viz., horticulture, Medicinal & Aromatic Plants (MAP), floriculture, organic farming, food processing, agricultural marketing infrastructure, micro irrigation, etc., have huge potential for growth. Banking Network The formal banking structure available in the state comprises of24 Public sector commercial banks, 11 Co-operative banks (1 State Coop. Bank and 10 District Central Coop. Banks), 1 Regional Rural Bank (i.e. UGB) and 13 Private/other banks. Presently, the major banks of the State are State Bank of India (which is also the lead bank in nine districts and SLBC convener in the State), Uttarakhand Gramin Bank, Punjab National Bank (lead bank in Dehradun & Haridwar districts), Bank of Baroda (lead bank in Nainital &U.S.Nagar district), Uttrakhand and State Cooperative Bank and District Central Cooperative Banks (DCCBs). Besides these major banks, a few urban co-operative banks and some private banks also have their presence. As on 31 March 2014 all the banks taken together were operating through 1798 branches, out of which public sector commercial banks constitute 65.35% (1175 branches) and private banks 7.5% (135 branches). Besides this, 769 Primary Agriculture Cooperative Societies (PACS) are supplementing the formal credit delivery system in the State. Banking Business & CD (Credit-Deposit)

Ratio Outstanding advances of all the banks as on 31 March 2014 registered a growth of 25% over previous year whereas growth in deposits was to the tune of21%. As on 31 March 2014 the overall CD ratio was 63.29% in the State which varied between 26.78% in Almora District to 108.82% in US Nagar District. The lower CD ratio particularly in hilly districts is a matter of concern and there is a need to improve the CD ratio in all hill districts. Trends in Ground level Credit (GLC) Flow Sector wise GLC flow in the state for last six years : `crore Year Crop Loan(CL)Agri. Term Loan (ATL)Non-Farm sector/MSME Other Priority Sector (OPS)Total

Trends in Ground level Credit (GLC) Flow
Sector wise GLC flow in the state for last six years : ` crore Year

| **year** | **Crop Loan (CL)** | **Agri. Term Loan (ATL)** | **Non- Farm sector/MSME** | **Other Priority Sector (OPS)** | **Total GLC Flow** |
|---|---|---|---|---|---|
| **2008 -09** | 1050.86 (25.48) | 739.31 (17.93) | 719.77 (17.45) | 1613.90 (39.14) | 4123.84 (100) |
| **2009 --10** | 1319.80 (25.46) | 1016.55 (19.61) | 1026.19 (19.79) | 1822.10 (35.14) | 5184.64 (100) |
| **2010 -11** | 1548.75 (27.00) | 1013.80 (17.70) | 1134.05 (19.80) | 2029.02 (35.50) | 5725.62 (100) |
| **2011 -12** | 1972.53 (31.90) | 973.55 (15.80) | 1217.37 (19.70) | 2013.44 (32.60) | 6176.89 (100) |
| **2013 -14** | 1260.82 (17.44) | 2009.63 (27.81) | 1353.06 (18.72) | 2603.08 (36.02) | 7226.58 (100) |
| **2014 -15** | 2553.19 (25.71) | 1634.12 (16.25) | 2543.60 (24.93) | 4074.66 (33.11 | 9932.22 (100) |
| **CAGR** | | | | | 19.22 % |

[Figures in parenthesis indicate %age share in total; Source: SLBC (but 2013-14 GLC has been compiled as per the figures collected by NABARD from LDMs directly)]

***Credit Projections –SFP 2015-16***

A credit potential of `14744.00 crore has been estimated in SFP for the year 2015-16 in Uttarakhand under priority sectors. This includes potential of `5112.13 crore for Crop Loan (short term loans for agriculture), `1995.13 crore for Long Term investments in agriculture sector, `3084.60 crore for Non-farm sector including MSME and Food Processing and `4551.64 crore for Other Priority sector.

***Investment credit in agriculture***

Capital formation in hills is very low. Area specific schemes would go a long way to augment Bank finances for investment in agriculture. Further, as stated earlier, small and marginal land holdings constitute 91% of land holdings which is disincentive for investment. State govt may take initiative in having tie-up with corporates who may encourage aggregation approach as well as promoting POs using CSR intervention. State govt may consider promoting POs producing milk, spices, vegetables etc. Govt may also take initiative in creation of micro infrastructure which may include input supply, grading & processing, storage & marketing infrastructure etc.

*Issues for discussion*

Seed Production Programme, Strengthening of Seed stores, other farm inputs stores and

farmer training centers, plant protection programme with promotion of micro nutrients, gypsum, zinc, green manure, transfer of technology, consolidation of land holdings, etc. require focused attention.Credit flow for water saving devices such as drip and sprinkler systems, rain water

The potential under various farm mechanization activities in the state for the year 2015-16 is Estimated at `361.17 crore.Certified planting material may be made available to the farmers in the state. Nurseries May be established for supply of quality planting material of medicinal and aromatic plants. Establishing fruit preservation centers & agro-processing facilities close to the points of production in rural areas and developing cold chain facilities will help in reducing post-harvest losses as also in maintaining quality and freshness of the fruits. Shared cold chains may be set up on public private partnership (PPP) model.Some initiatives taken by the state government like setting up of gravitational ropeways to Provide road head access to high value and perishable fruits like apple and pear need to be taken at a larger scale.Organic farming may be popularized for crops like ginger, chilly, litchi etc. Government may consider setting up medicinal and aromatic plants clusters in both Garhwal And Kumaun regions.As of now, banks are not providing finance for maintenance of Horticulture crops. Scales of Finance may also be fixed by DLTC for maintenance Other recommended priority sectors


**Objectives**

1. To identify the challenges and difficulties experienced by the bank and the borrowers in the implementation of the priority sector lending schemes

2**.** To critically evaluate and analyze the agriculture sector in kumaun region in terms of loaning through commercial banks

3. To examine the performance of the banks in terms of the target of priority sector lending.

4. To review the performance of District credit plans in the implementation of priority sector lending schemes

Hypothesis 1: District credit plans significantly do not influence the performance of banks.

**.Literature review**

There are many studies regarding the impact of priority sector lending to agriculture. They have concentrated on individual schemes (IRDP, DRI, Service area approach as such). Also there are plenty of studies on the role of credit in alleviation of poverty (NCAER, 1972), Planning Commission Draft VI Plan, Rao and Aziz (1989), Gunashekaran (1985), Krishnarnaraju (1992), Rao, Malya and Kurian (1980). But not many studies are there which throw light on priority sector lending to small scale industries. A study conducted by Arundati (1991: 168), is a macro level study, which concludes that there is growth in the credit to small scale industries in absolute values, but in percentage terms this growth is insignificant, and also declining.

.Some studies have analysed the impact of government policies on small scale industries. The findings of these studies are the following:

The average size of investment on fixed assets, annual turnover and employment were found to be larger in Bangalore District than those in other three districts namely, Mysore, Dharwad and Gulbarga (Tiwari, and Others, 1991:198).

The units in backward regions have financial constraints and therefore, more liberalisation in the scheme of financial incentives is required. For, financial incentives have brought up labour-intensive units (Bharathan, D. 1990).

Bala's study (1981:302) shows that the smaller the size of the units, the lesser was its ability to borrow from institutional sources. A survey made by the Reserve Bank of India found that this was so in India as a whole.

Studies carried out by Sandesara (1988:649) revealed that, assisted units had higher labour productivity, higher surplus and higher average wage than non-assisted units in a majority of industries. It is estimated that PRIORITY SECTOR LENDING sector accounts for nearly four-fifth of the total workers employed in manufacturing. In the above-mentioned studies pre and post loan framework has been made use of. There are some more studies (Gunashekaran (1985); Rosen, George (1988); Krishnarnaraju (1992); NCAER (1972) and others are based on secondary data alone. They do not give us micro picture of the situation

Generally, small entrepreneurs accumulate capital funds from their own savings. As the aggregate savings of the people in the country are very low because of low per capita income. this provides a meager source of funds for investment. But as the majority of the entrepreneurs who come forward to start small scale units are financially poor. and as they have to depend on the unit for their livelihood they will not be in a position to invest more. So they can accumulate only small amount of capital that too with great hardship. When compared to other sources of finance. the cost they incur here is the interest income that they would get if the same amount had been kept in fixed deposit or lent to some one else. Apart from this they have to take risk and bear the liquidity cost. The point made by the Society for Social and Economic Studies (1959:25). that" the dearth of capital resulted from a low income level. a small capacity to save and hence a lack of capacity to invest" is quite apt here.

After pooling the money. which they have. small entrepreneurs tum to their relatives and friends for financial assistance. This source can be generally used for fixed capital purpose. because working capital needs will be there throughout the process of production for which they cannot relay on relatives and friends. Also the financial position of their relatives and friends is somewhat the same as those of the entrepreneurs. Even here they have to pay interest at a rate that exists in the unorganised sector of the money market. which is normally higher than that of the bank interest rate. Again lenders may demand the money back at any time of financial crisis of the business, which make things worse. So the small entrepreneurs cannot consider this source as a reliable source of credit.

Indigenous bankers or Money Lenders: Long before the formal establishment of the banking industry in India, indigenous bankers were providing credit to business and industry. **In** the beginning nearly 95 per cent of credit needs were met by these lenders. Even today they are playing prominent role in the supply of funds. As they do not come under the purview of the Reserve Bank of India, they charge a very high rate of interest, which will be a real burden on the poor entrepreneurs (interest rate is almost double that of the bank interest). They lend money against movable and immovable assets. One big advantage is, they are ready to lend money as soon as they are approached. On the other hand, the borrower has to wait for more than a week or even for months to get bank loans. The indigenous bankers are not worried about the purpose of borrowing as they lend money both for productive and unproductive purposes. Such lending may result in misutilisation of funds by the borrowers, which may lead to failure of the business. Another problem of this source of finance is that, in case of non-repayment of loans, the moneylenders take over the assets against which loan is lent. So there is the fear of losing the property also on the part of the borrower. This works as a deterrent on attempts to misutilize borrowed funds.

Review of available literature on financial sources of SSIs reveals some interesting points about costs and benefits of borrowing.

It is said "Informal sector enterprises generally have virtually no access to credit facilities from formal sector institutions and where credit is available from informal sources, interest rates are exorbitant". (Sethuram, 1977a: 345). ILO studies have also highlighted this fact.

According to a study conducted by Thippaiah (1993), "It is found that 40.12 percent of the informal sector units borrowed by paying interest of Rs.5 per month on Rs.lOO which comes to 60 percent per annum. 13.77 percent of the households paid 120 per cent interest on their loans. These are largely loans borrowed from the informal money markets. 19.78 percent of the households paid interest of Rs.12 to Rs.18 percent per annum, which are the usual lending rates of commercial banks. The rest (15.57 percent) obtained loans from friends and relatives, which are interest free."

Small firms face some problems such as the following while borrowing from banks:

a) Small firms are not fully aware of the priority loan facilities.

b)lenders have less knowledge about the affairs of small firms than of large fInns. Hence, they do not come forward to lend money to small fInns. Small fInns are also not in a position to prove their credit worthiness to lenders.

c) As the transaction cost tends to vary inversely with the size of loan, transaction cost for small loans will be more.
d) After applying for loans, they have to wait, some times for months to get the money

**Research Methodology**

The research envisages visiting the bank's branches at different location handling various priority sectors lending schemes .The basic nature of the research shall be descriptive. The attempt shall be made to identify the impact of priority sector lending who are concerned with the credit facility of banks .The Research Methodology is proposed as under

**(a)Research design**: A Research Design is the specification of methods and procedures for acquiring the information needed to structure or to solve problems .It is a series of advanced decision that taken together form specific master plan for the conduct of the investigation. As the present study researcher adopted both inductive and deductive approach as there are large bodies of evidence exists on the farmers attitude towards loan. Although evidence exists, the changing nature of the culture due to globalization and entry of multinational national organization, researcher wanted to test these theories through empirical data collection in today's scenario. Further researcher adopted quantitative data collection approach, where data is collected through Pre-determined instrument (such as validated questionnaire) in order to yield statistical data. The data obtained through quantitative nature could be interpreted and analyzed readily. In addition to quantitative, qualitative data will be collected from different banks. Since, qualitative research methods are less structured and more intense than questionnaire based interviews. There is longer and more flexible relationship with the respondent so that the resulting data gives the researcher a greater insight and perspectives

**(b) Sampling:**

(i)Population:The study will be carried out in kuamun region around 500 respondents. The data will be collected through questionnaire and interview. A structured questionnaire will be developed to measure farmer decision making styles in the raising the loan. The questionnaire consists of questions concerning farmer behavior, their decision making styles and demographic information of respondents and their choice between kinds of banks.

(ii)Target area:The study will be conducted in kumaun region . The six cities will be judgmental selected to conduct the consumer and retailer based survey. The district are Almora, Bageshwar, Champawat, Nainital, Pithoragarh,

(iii) Sample design: Sampling design deals with specification which include the method of selecting the sample by stratified Quota sampling it involves both theoretical and practical consideration as systematic Random sampling was used in this study since it is the best known form of probability sample and selects borrowers without showing bias for any personal characteristics . In random sampling each element has an equal Chance of selection independent of any other event in the selection process. About 500 respondents will be selected randomly and 5 commercial banks from each district will also be interviewed.

**(c) Data Collection Method :** This research is based on primary data. The information required for the research is taken from books, journals, past research, news articles and directly from bankers and borrowers of kumaun region. The research is conducted by taking interviews of borrower in order to understand their current functioning and decision-making capabilities and also survey among bankers and borrowers about the impact of priority sector lending schemes.

The primary reason to choose this topic is to analyze the impact of advent of agriculture loan and its importance in kumaun region, with the primary focus on the farmer's behavioral changes and also interview among them. This study can be used by the bankers in evaluating the policies and considerations to be taken care in order to win over in a given complex situation of a city in kumaun region.

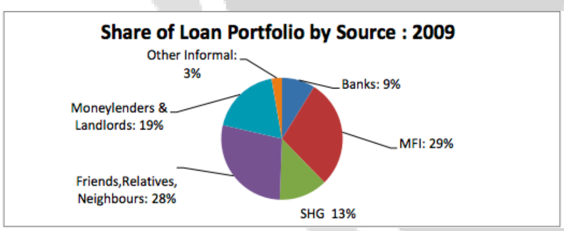
Secondary data is information gathered previously on the same / similar topic by some other researcher. Researcher collected secondary data from academic publications, journals, news papers, government publications, policies, annual reports, and company websites.

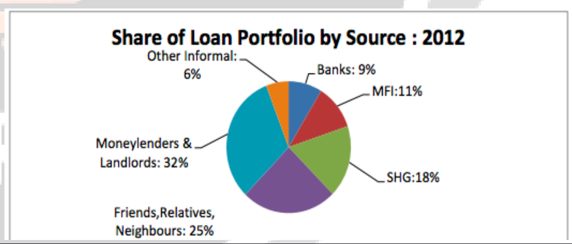
**(d) Analysis and Interpretation**: Data in the table shall be complied, analyzed and interpreted accordingly before their meaning and implication are understood. Various statistical techniques shall be including for testing the hypothesis and drawing the inference and conclusion about the relationship. Computer facilities shall be used wherever needed.

Raw data collected will be entered into an excel sheet and exported into statistical analysis software for further analysis. The data was analyzed using SPSS software. Descriptive statistic are used to analyze continuous and categorical data and presented in the form mean, standard deviation and percentage, while proportions are analyzed using chi-square test. Factor and regression, ranking will be used. P <0.05 was considered significant. The data so collected would be compiled, tabulated and analyzed with the help of appropriate statistical tools and techniques e.g. Correlation, regression, chi-square test, T-test, Factor analysis, descriptive statistics etc. For extracting more meaningful results SPSS will be used.

The proposed study will be based on mixed methods but will focus more on quantitative research method. Objectivism, positivism and deductive approach are the main characteristic of quantitative research method. Moreover, the main goal is to explain the factors that affect investors' behavior which may be done effectively by using quantitative research as long as the quantitative research is designed to define and describe the variables for making relationship between them.

**Data Interpretation and finding**




(Assessing the Impact of uttrakhand Microfinance Crisis on Access to Finance of the MFI Clients, CMF Working Paper Series)

Operationalisation of accounts opened through BCs is required. For the purpose, focused financial literacy activities to ensure 2-3 transactions per account per month may be undertaken & same may be reviewed in DLRC meetings
There is need to intensify SHG movement by promotion of model SHGs in various districts Production Credit Potential for credit flow for Production and marketing credit in the state during 2015-16 has been assessed at `5112.13 crore. The existing average yield level of important crops is low in hills. Non-adoption of improved technologies, dependence on rain fed agriculture, less soil fertility, low seed replacement, continuation of traditional system of agriculture, small size of land holdings and low farm mechanization are the major reasons for low crop yield.

**7.Conclusion**

***Commercial Viability**:* A commercial venture is profitable only when it is capable enough to tap sizeable market. The enterprise will be commercially viable if it precisely assesses the demand for the product. The demand assessed at the planning stage should be realistic. Many projects have failed due to lack of proper market survey, which is an important factor to be considered while assessing the demand. The deciding factor for assessing the demand for the product is demand and supply gap and seasonal fluctuations.

***Technical Feasibility****:* Technical feasibility deals with whether the desired output can be achieved with the available facilities. Following factors are to be considered for evaluating the technical feasibility of the project:

- Plan Layout
- Raw Materials
- Labour
- Power
- Manufacturing
- Location
- Land & building
- Plant & machinery

The entire production flow chart from the state of raw materials to finished product has to be examined in detail.

Location has its own influence on the success of the unit. The proximity to market, availability of raw materials, skilled labour, power, etc., are the vital points for the success of a project. Land and Building: The entrepreneur should be advised to start the activity in a rented building. Many projects have failed because of heavy investment on land and building.

Plant and Machinery: Plant and machinery should be in accordance with the technology and market demand.

Plant Layout: The machinery should be installed in such a way that there should be easy flow of material from one machine to another.

Raw Materials: Raw materials playa very important role in the production process. Regular and adequate supply of raw materials at reasonable price has to be ascertained before granting the credit.

Labour: SSIs require skilled, semi-skilled and unskilled labourers. Arrangements should be made by the entrepreneur to employ all categories of workers.

Power: Without power, production cannot be carried on. The power requirement and the cost of power should be correctly ascertained. Before considering the loan, it should be ensured that the concerned authorities sanction the power.

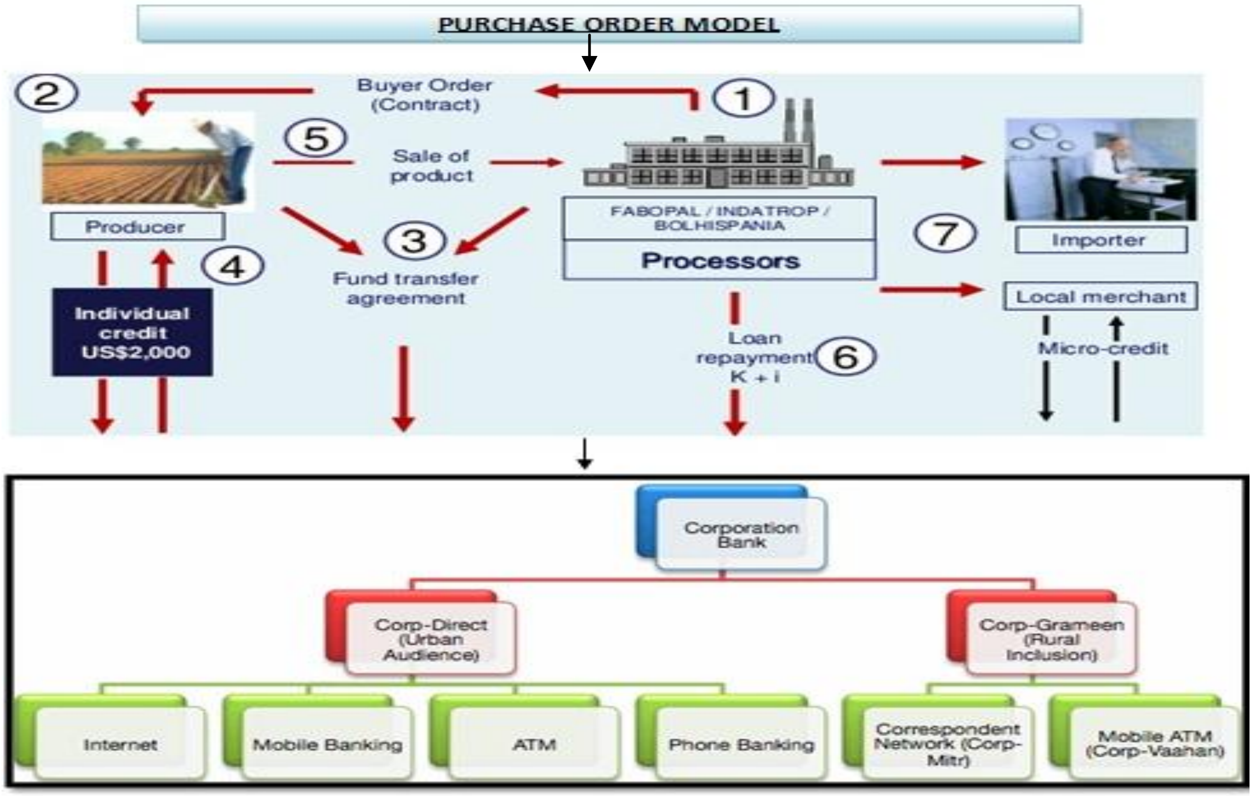
***Financial Viability:*** The financial viability deals with the total project fast and the means of financing the project.

*Economic Viability:* Operating profit, break-even point, gestation period are to be taken into account to assess the economic viability of the unit. The entrepreneurs have to survey the market regarding input-output linkages. After examining the viability of the project, one should prepare the project proposal giving details regarding all the aspects. The entrepreneur can approach Small Industrial Service Institute (SISI) for guidance regarding these matters. SISI provides proper guidance for the entrepreneurs regarding all these factors.

*Asset Liability Ma1Ulgement (ALM):* Availability of credit at right time in adequate amount on appropriate terms has a bearing on production. In the process of widening and deepening of credit the health of the credit institutions is increasingly strained.

As a result of liberalization and deregulation of interest rates, there is a sort of interest war between competing banks. Hence, today interest rates are market driven which has resulted in narrowing down of interest spread, (i.e., interest income minus interest expended). Net interest income (spread) of public sector banks as a percentage to assets has shown a decrease of 25 basic points from 3.16 in 1996-97 to 2.91 in 1997-98. This has led to liquidity crunch and forced the banks to go for costly source of funds, which has a direct bearing on profitability of banks. To avoid liquidity crunch, there should not be any mis-match of assets and liabilities. So, this should be dealt scientifically for which commercial banks have to undertake a comprehensive asset-liability management.

***Proposed model for the better functioning of district plan***




Banks in the process of providing financial services assume various kinds of financial risks viz., credit, interest rate, foreign exchange and liquidity risks. To some extent this could be eliminated through sound business practices and also through a combination of product design and pricing. Till now banks were concentrating solely on asset-management with liquidity and profitability being regarded as two opposing considerations. So, given certain liquidity levels, banks have to distribute the remaining assets in such a way as to get maximum returns.

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