RESEARCH PAPER

Trends in allocation of funds by lead bank to the priority and non-priority sectors in Dharwad and Belagavi districts

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Abstract: The banking sector plays an important and active role in the economic development of a nation. The contribution of banks to Indian economic growth through priority sector lending is remarkable. As of March 2020, a total of 717 districts covered by 18 public sector banks and one private sector bank took the responsibility of a lead bank in India. This present study aims to analyses the trends in fund allocation by lead bank to priority sector and non-priority sectors in Dharwad and Belagavi districts using secondary data collected for a period of 15 years (2004-05 to 2018-19). Collected data were processed and analyzed using Kruskal Wallis H-Test and Compound annual growth rate (CAGR) technique. Results of the Kruskal Wallis H-Test showed a significant difference between the performance of various financial institutions (H>5.99) in respect of allocation of funds to priority and non-priority sectors in Dharwad and Belagavi districts, but only the agriculture sector of Dharwad district showed as no significant difference (H value 4.81). Results of CAGR shows that in both the study districts other priority sectors were growing with a high growth rate i.e., 45.65 and 40.55 per cent per annum in Dharwad and Belagavi districts respectively. The growth rate in funds allocation to the education sector was found to be lowest (5.72 % per annum) in Dharwad district when compared to Belagavi district 10.19% per annum).

Key words: Allocation of Funds, Lead bank, Priority Sectors, Trend

Introduction

The banking sector plays an important and active role in the economic development of a nation. The contribution of banks to Indian economic growth through priority sector lending is remarkable. The lead bank scheme came into existence when the study group presided over by Prof. D. R.Gadgil recommended for the adoption of an "Area approach" for the development of credit and banking in the country on the basis of local conditions in October 1969. The group suggested earmarking of the districts to commercial banks so that they could act as space setters in the districts allotted in providing integrated banking facilities. The Committee of bankers appointed by RBI under the Chairmanship of Sr. F.K.F. Nariman also endorsed this area approach. RBI accepted the recommendation and formulated the Lead Bank Scheme (LBS) in December 1969.

A bank having a relatively large network of branches in the district is selected as the lead bank of the district and provided with sufficient financial and manpower resources has generally been entrusted with the lead responsibility for that district. As of March 2020, a total of 717 districts covered by 18 public sector banks and one private sector bank took the responsibility of a lead bank in India. The lead bank acts as a leader for regulating the efforts of all financial institutions in the allotted districts to increase the flow of credit to agriculture, allied, housing, and other economic activities included in the priority sector in rural and semi-urban, and urban areas of the district. In Dharwad district, Vijaya bank and in Belagavi district, Syndicate bank worked as lead bank.

As a result of bank nationalization, the number of bank branches has increased from 8,262 in June 1969 to 1,20,000 in March 2019 (Economic survey 2018- 2019) and the population

per branch decline rapidly from 65,000 to 13,756 (RBI 2018). With the introduction of financial inclusion in 2005, many changes have taken place in the banking industry, such as expansion of bank branches in remote areas, increasing the number of ATMs, appointing bank correspondence agents, etc. As a result of this inclusion, credit disbursement for priority sectors increased from Rs. 89.61 lakhs (2005-06) to Rs. 1184.54 lakhs (2018-19) in Dharwad district and 37.79 lakhs (2005-06) to Rs. 673.09 lakhs (2018-19) in Belagavi district.

Karnataka state is one of the 29 states in India located in the southern part of the country between 11°31 and 18°45 North latitude and 72°12" and 78°40 east longitudes. It is bordered by Maharashtra and Goa states in the North, Andhra Pradesh state in the East, and Tamil Nadu and Kerala states in the south. On the west, the states open to the Arabian Sea. The state covers an area of 1,91,976 sq. km which, accounts for about 6 per cent of the total geographical area of India.

Material and methods

The present study was carried out based on secondary data collected from the lead banks' annual reports, RBI annual reports, District credit plans, etc. For the purpose of analyzing trends in the allocation of funds by the lead bank to the priority and non-priority sectors, the required secondary data on the allocation of funds across priority sectors collected for a period of 15 years from 2004-05 to 2018-19 in Dharwad and Belagavi districts. Statistical tools employed for the analysis and processing of the data were briefly discussed as follows.

Growth rate analysis

In order to assess the growth in lending to different sectors in the district, compound growth rates were worked out for a

period of 15 years from 2004-05 to 2018-19. The compound growths were computed by using the exponential function of the form.

The compound growth rate is estimated by fitting a semi-log trend equation (1) of the following form:

$$Y_t = AB^t u_t \text{———————————— (1)}$$

Where,

Y_t = Credit lending to priority sectors in time t

A = Constant

t = Time period

u_t = Error term

B = (1+g), where g = growth rate

By taking the logarithm, equation (1) was reduced to the following form.

$$Log\ Y_t = Log\ A + t\ (Log\ B) + Log\ u_t \text{———————— (2)}$$

Where, log A and log B were the parameters of the function obtained by Ordinary Least Square(OLS) method. Once the above equation is estimated, the growth rate 'g' can be computed as:

$$g = [Antilog\ (b)-1]\ x\ 100 \text{———————— (3)}$$

Kruskal wallis H-test

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

The kruskal - wallis test is the non parametric alternative to the ANOVA. The H test is used when the ANOVA are met (like assumption of normality). The test determines whether the medians of two (or) groups are different.

This is a ranks test used for testing whether samples originate from the same distribution. The Kruskal-Wallis H Test statistic which is based on the sum of ranks of each of the samples can be computed as follows:

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

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

Ni = the number of items in sample i

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

Ri = total of the ranks for sample i.

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

Results and discussion

Allocation of funds to priority and non-priority sectors in Dharwad district

The allocation of funds to priority and non-priority sectors in Dharwad district is depicted in Table 1. It is evident from the table that, agriculture sector witnessed a lower H – test value (4.81) and was found to be less than the critical H - value (5.991) implied the acceptance of null hypothesis. On the other hand, the H – test value showed, substantially higher value than critical H – test values for other sector The highest 'H' – test values were witnessed in the housing sector (32.28) followed by allied sector (14.58), the education sector (12.43), MSME sector (12.72), non-priority sector (11.31), other priority sectors (9.71), and total priority sector (13.88). It could be seen that H – test values were almost on far with the education and MSME sector. The overall H – test value for the total priority sector was found to be 13.88. Thus, it can be concluded that there is a significant difference among the various sectors with respect to allocation of funds by institutional financing especially for priority sector.

Allocation of funds to priority and non-priority sectors in Belagavi district

The allocation of funds to priority and non-priority sectors in Belagavi district is presented in Table 2. It is evident from the table that all the selected sectors witnessed higher Kruskal – Wallis H –test values when compared to critical 'H' – values. The highest H – test value witnessed with respect to housing sector (20.01) followed by MSME sector (19.98), the agriculture sector (19.26), total priority sector (14.12), education sector (13.26), non-priority sector (12.73), allied sector (11.99) and other priority sectors (8.76). The overall H – test value for the total

Table 1. Performance of fund allocation to priority and non-priority sectors in Dharwad district (2004 to 2019)

Performance	Rejection region* Chi-square test (x) =R	H - Test statistics	Decision observations	Results Null hypothesis
Agriculture sector	R= (x²: x²> 5.991)	4.81	x2=04.81<x2=5.991	Accepted
Allied sector	R= (x²: x²> 5.991)	14.58	x2=14.58> x2=5.991	Rejected
Housing sector	R= (x2: x2 > 5.991)	32.28	x2=32.28> x2=5.991	Rejected
Education sector	R= (x²: x²> 5.991)	12.43	x2=12.43> x2=5.991	Rejected
MSME sector	R= x²: x²> 5.991)	12.72	x2=12.72> x2=5.991	Rejected
Non-priority sector	R= (x2: x2 > 5.991)	11.31	x2=11.31> x2=5.991	Rejected
Other priority sector	R= (x2: x2 > 5.991)	9.71	x2=9.71> x2=5.991	Rejected
Total priority sector	R= (x2: x2 > 5.991)	13.88	x2=13.88> x2=5.991	Rejected

Note: *chi-square value at 5% level of significance

priority sector was found to be 14.12. Thus, it can be concluded that there is a significant difference among the sectors with respect to allocation of funds by institutional financing especially for priority sector.

In the study area the commercial banks were performing much better in terms of funds allocation among the priority and non-priority sectors than the Regional Rural Bank (RRB), Karnataka State Financial Corporation (KSFC) and Other banks. The results of the study were on par with the study conducted by Naruka and Yadav (2017) on the performance of various financial institutions with respect to priority sector lending in the Jaipur district of Rajasthan.

Growth in the allocation of funds to priority and non-priority sectors in Dharwad district

The growth in fund allocation among the selected priority and non-priority sectors in Dharwad district is furnished in Table 3. Among all the sectors, MSME sector has grew with the highest growth rate of 38.06 per cent per annum and instability index of 42.71 per cent in the years 2004 to 2008. In 2009-13, allied sectors registered a higher growth rate of 42.76 per cent per annum and also showed a higher instability index (81.65 %). But in recent years (2014-2019), other priority sectors stood first with a growth rate of 45.65 per cent per annum and exhibited an instability index of 59.91 per cent. Positive and significant growth rate and instability index were also observed in agriculture sector (25.86%, 31.02%),total priority sector (TPS) (23.07%, 29.42%), micro, small, medium enterprise(MSME) sector (13.81%, 22.61%), non-priority sector (NPS) (11.49%, 19.61%), allied sector (9.20%, 18.09%), housing sector (7.53%, 12.74%) and education sector (5.72%, 10.18%) in the corresponding order. Growth in allocation of funds to priority and non-priority sectors in Dharwad district is also seen in Fig.1.

The growth of priority and non-priority sectors in terms of fund allocation in Belagavi district is shown in Table 4. It could be observed from the table that all the sectors in the district have shown a positive growth rate and instability index. Among the selected sectors, MSME sector have recorded a highest growth rate of 40.44 per cent per annum and also exhibited an instability index of 41.45 per cent for the period from 2004 to 2008. In 2009-2013, allied sector registered a higher growth rate and instability index of 37.12 per cent per annum and 39.29 per cent respectively. During the period of 2013-2019, Non-priority sector has registered higher growth rate of 40.55 per
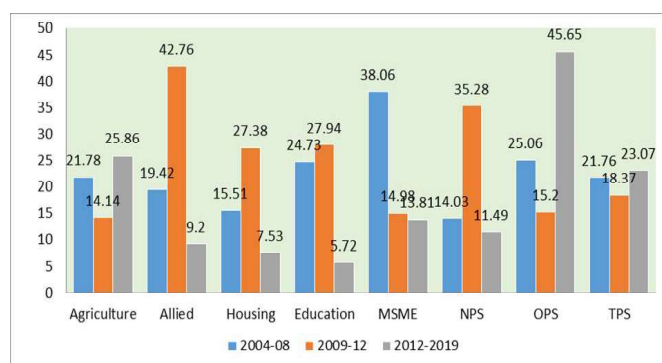

Fig. 1. Growth in allocation of funds to priority and non-priority sectors in Dharwad district
Source: Yearbooks of Lead Bank, Dharwad (2004 to 2019).

cent per annum and showed an instability index of 49.22 per cent. Positive and significant growth rate and instability index were also observed in agriculture sector (38.01%, 49.35%), TPS (28.82%, 38.73%), OPS (14.08%, 31.05%), MSME sector (10.93%, 17.42%), Education sector (10.19%, 15.75%), Housing sector (9.73%, 14.81%), and Allied sector (9.54%, 20.75%) in that corresponding order. Growth in allocation of funds to priority and non-priority sectors in Belagavi district is also seen in Fig.2.
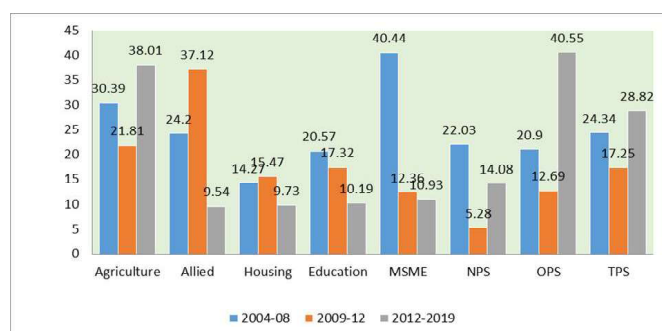

Fig. 2. Growth in allocation of funds to priority and non-priority sectors in Belagavi District
Source: Yearbooks of Lead Bank, Belagavi district (2004 to 2019).

However, the growth rate in funds allocation to the education sector was found lowest (5.72 per cent per annum) in Dharwad district while in case of allied sectors (9.54 per cent per annum) in Belagavi district when compared to other priority sector The findings of this study was in conformity with the research conducted by Oladele (2014) on comparative study of the flow of institutional credit to agricultural and non-agricultural

Table 2. Performance of fund allocation to priority and non-priority sectors in Belagavi district (2004 to 2019)

Performance	Rejection region *Chi-square test (x) =R	H- Test statistics	Decision observations	Results Null hypothesis
Agriculture sector	R= (x2: x2 > 5.991)	19.26	x2=19.26<x2=5.991	Rejected
Allied sector	R= (x2: x2 > 5.991)	11.99	x2=11.99> x2=5.991	Rejected
Housing sector	R= (x2: x2 > 5.991)	20.01	x2=20.01> x2=5.991	Rejected
Education sector	R= (x2: x2 > 5.991)	13.26	x2=13.26> x2=5.991	Rejected
MSME sector	R= (x2: x2 > 5.991)	19.98	x2=19.98> x2=5.991	Rejected
Non-priority sector	R= (x2: x2 > 5.991)	12.73	x2=12.73> x2=5.991	Rejected
Other priority sector	R= (x2: x2 > 5.991)	8.76	x2=8.76> x2=5.991	Rejected
Total priority sector	R= (x2: x2 > 5.991)	14.12	x2=14.12>x2=5.991	Rejected

Note: *chi-square value at 5% level of significance

Table 3. Growth in allocation of funds to priority and non-priority sectors in Dharwad district (Rs. in lakhs)

Particulars		Agriculture	Allied	Housing	Education	MSME	NPS	OPS	TPS
2004-08	Mean	96.48	3.42	14.00	8.47	7.06	6.11	8.84	144.37
	S.D	29.89	0.81	2.89	2.75	3.02	1.18	3.61	43.14
	C.V	30.98	23.63	20.67	32.45	42.71	19.38	40.87	29.88
	CAGR	21.78*	19.42*	15.51*	24.73*	38.06*	14.03*	25.06*	21.76*
2009-13	Mean	201.74	7.28	26.73	21.03	14.80	13.67	18.05	303.29
	S.D	36.89	5.94	13.39	10.49	3.67	9.07	4.47	80.03
	C.V	18.29	81.65	50.11	49.88	24.79	66.33	24.78	26.39
	CAGR	14.14*	42.76*	27.38*	27.94*	14.98*	35.28*	15.20*	18.37*
2014-19	Mean	549.85	24.28	63.94	47.72	32.28	41.05	90.69	849.85
	S.D	170.58	4.39	8.14	4.86	7.30	8.05	54.33	250.02
	C.V	31.02	18.09	12.74	10.18	22.61	19.61	59.91	29.42
	CAGR	25.86*	9.20**	7.53**	5.72**	13.81*	11.49**	45.65*	23.07*

Note: *Significance level at 5% level   ** Significance level at 1% level

CAGR (%) - Compound annual growth rate & C.V (%) - Coefficient of variation

Table 4. Growth in allocation of funds to priority sectors and non-priority sectors in Belagavi district (Rs. in lakhs)

Particulars		Agriculture	Allied	Housing	Education	MSME	OPS	NFS	TPS
2004-08	Mean	23.26	1.28	12.29	8.70	6.46	5.91	7.30	65.20
	S.D	8.96	0.54	2.38	2.17	2.69	1.81	2.24	19.63
	C.V	38.52	42.14	19.35	24.96	41.54	30.65	30.65	30.11
	CAGR (%)	30.39*	24.20*	14.27*	20.57*	40.44*	22.03*	20.90*	24.34*
2009-13	Mean	72.05	5.60	22.05	18.64	16.94	7.51	17.29	159.82
	S.D	20.13	2.20	5.04	4.53	3.13	1.81	4.16	37.94
	C.V	27.94	39.29	22.86	24.31	18.49	24.05	24.04	23.74
	CAGR (%)	21.81*	37.12*	15.47*	17.32*	12.36*	5.28**	12.69*	17.25*
2014-19	Mean	223.29	9.21	38.88	33.59	30.39	17.74	92.69	445.79
	S.D	110.20	1.91	5.76	5.29	5.29	5.51	45.62	172.64
	C.V	49.35	20.75	14.81	15.75	17.42	31.05	49.22	38.73
	CAGR (%)	38.01*	9.54**	9.73**	10.19**	10.93**	14.08*	40.55*	28.82*

Note: *Significant at 5% level   ** Significant at 1% level

sectors in north Karnataka the results showed that there was a low demand for a loan in the allied sector in Belagavi district.

Conclusion

Lending to priority and non-priority sectors in both districts has shown an increasing trend every year. We found that there is a significant difference between the performance of various financial institutions in the allocation of funds to priority sectors in the Dharwad and Belagavi districts. Kruskal Wallis H-test showed the only agriculture sector of Dharwad district shown no significant difference (H value 4.81). Results showed, that the non-farm sector grew at a higher rate in Dharwad with rate of 45.65 per cent and Belagavi 40.55 per cent per annum. The growth of the education sector (5.75%) was found lowest in Dharwad district and allied sector (9.54%) in Belagavi districts, as compared to other priority sector. Thus, there is a need to create awareness of financial inclusion among the public in general and farmers in particular.

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