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A Comparative Study Of Priority Sector Lending By The Regional Rural Banks (Rrbs) And The Commercial Banks.

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ABSTRACT

Priority Sector Lending (PSL) is a mandate by the Reserve Bank of India (RBI) requiring all commercial banks are required to allocate a specific portion of their lending to those sectors which are all deemed to be a vital for the economic development of our country. In the priority sector lending, the Regional Rural Banks (RRBs) also join hands and in India the goal of establishing RRBs was to provide credit and other financial services to the rural populace, especially the economically disadvantaged segments. The aim of this paper is to investigate and analyse how the Commercial Banks (CBs) and Regional Rural Banks (RRBs) are contributing to the society in terms of lending to the specific sectors like agriculture, Micro, Small and Medium Enterprises, education and housing sector etc., the study found that both the banks are performing well and specifically the commercial banks are dominating their role in the area of priority sector lending. The study also statistically found that there is no significant difference in the performance during the study period.

KEYWORDS: Priority Sector Lending (PSL), Agriculture, Micro Small and Medium Enterprises (MSME's), and Reserve Bank of India, Regional Rural Banks (RRBs), Commercial Banks (CBs).

Introduction

In India banking institutions, including Regional Rural Banks (RRBs) and commercial banks, contribute effectively to inclusive development, the Reserve Bank of India (RBI) introduced the concept of Priority Sector Lending (PSL). The PSL framework mandates banks to allocate a certain proportion of their total credit to specified sectors considered vital for an economic and agriculture, micro and small enterprises (MSMEs), education, housing, social infrastructure, renewable energy, and weaker sections of society. The Indian banking system plays a pivotal role in promoting inclusive growth and equitable development across rural and urban sectors. Within this framework, Regional Rural Banks (RRBs) occupy a distinctive position as institutions specifically established in 1975, following the recommendations of the Narasimham Working Group (1975), under the Regional Rural Banks Act 1976. Their primary objective is to provide accessible banking and credit facilities to small and marginal farmers, agricultural labourers, rural artisans, and small entrepreneurs, thereby bridging the gap between institutional finance and rural communities. For RRBs, the PSL obligation is even more stringent than for other banks, reflecting their developmental mandate. As per current RBI guidelines, RRBs must allocate at least 75 percent of their Adjusted Net Bank Credit (ANBC) or

Credit Equivalent of Off-Balance sheet Exposures (CEOBE) to priority sectors. Within this, specific sub-targets are prescribed- 18 percent for agriculture, 7.5 percent for micro-enterprises, and 15 percent for weaker sections. These targets are designed to ensure that RRBs maintain a strong rural focus and directly support the productive base of the rural economy.

Review of Related Literature

In view of fact that priority sector advances/lending indispensable in the banking organization many governments and non- government agencies as well as individual academicians and practitioners undertook various studies.

Veena and G.V. Bhavani Prasad (2020) in their study explicates that public sector banks are the major pillar for charming lending to priority sectors in India and the targets of priority sector lending can amplify the economic growth of India. Sanjeev Kumar (2021) in his study found that the public private sector banks could not deploy 18 percent of net bank credit in the agriculture sector and thus failed to accomplish the stipulated target of agricultural lending. Dilpreet kaur and Amarjit Singhsidhu (2022) in their study analyzes the trends and performance of PSL and identify the difficulty areas and suggest some guiding principal implications to improve the lending to the priority sectors. Nisha Bharti and Sneha Kumari (2022) in their study found that financially RRBs have been more efficient compared to the agriculture finance and loans to weaker sections. The results of their study depict a strong positive significant relationship between agriculture and micro enterprise finance on the financial performance of the RRBs. Debsish Nandy (2024) the study seeks to provide a comprehensive picture of the function and significance of RRBs in West Bengal, providing insightful information to stakeholders in rural development, financial institutions and policy-makers. Dr. Saritha P.K. and Dr. D. Vennila (2023) in their research study concluded that lending to agriculture and housing sectors contributed more significantly to improving the standard of living of the beneficiaries. Thiyaam Jitendra Singh(2024) examined in this paper titled “Examining Regional Rural Banks’ Loans and advances to priority and non-priority sectors in India” that the role of RRBs in mobilizing deposits, their credit- deposit ratio, and the provision of loans and advances to priority and non-priority sectors and found that the RRBs significantly impact rural economic progress by facilitating access to credit for sustainable development. Advancing the rural economy is essential for achieving broader economic planning objectives and realizing India’s vision of becoming a developed country. D.Umapathi (2025) in his study suggested that the commercial banks are expected to play an important role in economic development in which the removal of regional disparities has been emphasized as a key objective. Further, the study recommends that agricultural credit should be provided to the farmers when they are in need and rigid and complicated procedure, delay in sanctioning, rejecting the applications by demanding security should be eluded.

Taking this into consideration, the above studies lose relevance and there is a need to conduct a fresh on the subject. It is against this backdrop that the present study is undertaken with a view to fill up this gap.

Objectives of the Study

The present study has been undertaken with the following objectives in mind.

- i) To assess and compare the performance of total amount of priority sector advances by among the Regional Rural Banks(RRBs) and Commercial Banks (CBs);
- ii) To evaluate the performance of priority sector advances towards the Agriculture. MSMEs and Housing sectors by the Regional Rural Banks(RRBs) and Commercial Banks (CBs);
- iii) To offer valuable suggestion to improve the Priority Sector Lending (PSL) by these two banks.

Hypotheses of the study

The first step in evaluating results is to set up a null hypothesis (Ho). The null hypothesis is a hypothesis of no differences. To achieve the objectives of the present study, the researcher has formulated and tested the following null hypotheses.

- (i) Ho1: There is not a significant difference among the amount of priority sector lending by the RRBs and CBs
- (ii) Ho2: There is not a significant difference among the amount of priority sector lending to agriculture by the RRBs and CBs
- (iii) Ho3: There is not a significant difference among the amount of priority sector lending to MSMEs by the RRBs and CBs
- (iv) Ho4: There is not a significant difference among the amount of priority sector lending to housing by the RRBs and CBs

Scope of the Study

The scope of the present study is confined to the following:

Academic Scope: The academic scope of the study is confined to Regional Rural Banks (RRBs), Commercial Banks (CBs).

Geographical Scope: The study gives an insight in to the priority sector advances by Commercial Banks and Regional Rural Banks for the whole of the country.

Analytical Scope: The analytical scope is confined mainly to secondary data based on RBI reports and other relevant journals and websites.

Research Methodology

The research design framed for this research paper is descriptive research design.

(a) Source of Data Collection

The nature of data collected and used for the research are mainly secondary in nature. The relevant and required data are collected from the secondary sources such as annual reports of RBI for various years, previous research reports of both national and international.

(b) Variables Selected for Measuring Performance- The following variables have been selected to measure the performance.

- i. The total amount of priority sector advances by the Regional Rural Banks (RRBs) and Commercial Banks (CBs)
- ii. Priority Sector Advances to the agriculture sectors
- iii. Priority Sector Advances to MSMEs.
- iv. Priority Sector Advances to Housing sectors

(c) Statistical Tools Employed- The data collected has been classified, tabulated and analyzed as per the requirement to fulfill the aforesaid objectives. The statistical tools used for the purpose of analysis are Descriptive Statistics and Independent - Samples T-Test has been applied using through SPSS Software.

Periodicity of the Study

The periodicity of the present study is 2019-2020 to 2023- 2024 i.e. five years.

Limitations of the Study

No research study is complete in all respects. The present study suffers from the following limitations.

- (i) The data is secondary in nature and inherits all the drawbacks of secondary data.
- (ii) The data collected for this study restricted only recent five years.
- (iii) The suggestions gave may not be applicable to organization in other sectors.

Results and Discussion

Priority Sector Lending (PSL)

Priority Sector Lending (PSL) is an important policy initiative of the Reserve Bank of India (RBI) aimed at ensuring that adequate institutional credit flows to the sectors of the economy that are considered vital for inclusive growth, such as agriculture, micro and small enterprises, housing, education and other weaker sections. Both the Regional Rural Banks (RRBs) and Commercial Banks (CBs) play a crucial role in implementing the objectives of PSL, RRBs, established with the primary goal of promoting rural development, focus mainly on providing credit to agriculture and allied activities, there by uplifting rural communities.

Table 1 provides the year-wise data about the total amount of priority sector advances by Regional Rural Banks (RRBs) and Commercial Banks (CBs).

Table 1
Total Amount of Priority Sector Advances by the Regional Rural Banks (RRBs) and Commercial Banks (CBs) (Rs. In Crores)

Years	Regional Rural Banks (RRBs)		Commercial Banks (CBs)	
	Amount	YoY (%)	Amount	YoY (%)
2019-2020	2,98,214	-	39,69,922	-
2020-2021	3,34,171	12.05	44,11,603	11.13
2021-2022	3,62,838	8.58	48,66,481	10.31
2022-2023	4,10,738	13.2	54,35,792	11.7
2023-2024	4,70,109	12.63	64,31,629	18.32
Descriptive statistics				
Mean	3,75,214	-	50,23,085.4	-
S.D.	74,063.6	-	52,33,718.0	-
CV(%)	19.74	-	104.19	-

SOURCE: Statistical Tables Relating to Banks in India.

An introspection of the Table 1 reveals that the total amount of priority sector advances by Regional Rural Banks (RRBs) goes up from Rs. 2, 98,214 crores in the year 2019-2020 to Rs. 4, 70,109 crores in the year 2023-2024. The increase over the period was 1.58 times. The highest annual growth rate of priority sector advances was 12.63 percent registered in the year 2023-2024.

The total amount of priority sector advances by Commercial Banks (CBs) goes up from Rs. 39, 69,922 crores in the year 2019-2020 to Rs. 64, 31,629 crores in the year 2023-2024. The increase over the period was 1.62 times. The annual growth rates of priority sector advances were high 18.32 percent in the year 2023-2024.

By comparing the amount on the basis of the mean value of the period, it has been noted that the amount of priority sector advances is very high in case of commercial banks as the mean value is Rs. 50, 23,085.4 crores. The degree of variation is very low in Regional Rural Banks (RRBs) as the value standard deviation is Rs.74, 063.60 crores and variation is high in case of commercial banks as the value of standard deviation is Rs.52, 33,718.08 crores.

Since, the C.V. (%) of the priority sector advances by Regional Rural Banks (RRBs) are less than (19.74%) that of total priority sector advances by Commercial Banks (CBs), the Regional Rural Banks (RRBs) are found to be more successful and consistent.

Agriculture

Agriculture plays a vital role in the Indian economy, serving as the primary source of livelihoods for a large section of the rural population. The growth and sustainability of this sector largely depend on the availability of timely and adequate credit. To meet the financial needs of the agricultural and rural sectors, the government established apart from the commercial banks, Regional Rural Banks (RRBs) with the objective of providing credit and banking facilities to rural and semi-urban areas.

Table 2 exhibits the year-wise data about the total amount of priority sector advances by Regional Rural Banks (RRBs) and Commercial Banks (CBs).

Table 2

Priority Sector Advances Lending towards the agriculture by the Regional Rural Banks (RRBs) and the Commercial Banks (CBs) (Amount in Crore)

Years	Regional Rural Banks (RRBs)	YoY(%)	Commercial Banks (CBs)	YoY (%)
2019-2020	2,08,762	-	16,18,906	-
2020-2021	2,33,145	11.68	18,05,787	11.54
2021-2022	2,52,890	8.47	19,73,225	9.27
2022-2023	2,81,971	11.5	22,67,566	14.92
2023-2024	3,16,671	12.31	26,66,376	17.59
Descriptive Statistics				
Mean	2,58,688	-	1,03,31,860	-
S.D.	46,207	-	4,11,488.32	-
CV(%)	17.86	-	3.98	-

SOURCE: Statistical Tables Relating to Banks in India.

The analysis in Table 2 reveals that the total amount of priority sector advances lending to agriculture by Regional Rural Banks (RRBs) goes up from Rs. 2, 08,762 crores in the year 2019-2020 to Rs. 3,16,671 crores in the year 2023-2024. The increase over the period was 1.51 times. The annual growth rates of priority sector advances were highest in 2023-2024 i.e., 12.31%.

The total amount of priority sector advances lending to agriculture by Commercial Banks (CBs) goes up from Rs. 16, 18,906 crores in the year 2019-2020 to Rs. 26,66,376 crores in the year 2023-2024. The increase over the period was 1.65 times. The annual growth rates of priority sector advances were 17.59 percent which is highest in the year 2023-2024.

By comparing the amount on the basis of the mean value of the period, it has been noted that the amount of priority sector advances lending to agriculture is very high in case of commercial banks as the mean value is Rs.1,03,31,860 crores. The degree of variation is very low in Regional Rural Banks as the value standard deviation is Rs.46,207 crores and variation is high in case of commercial banks as the value of standard deviation is Rs. 4,11,488.32 crores.

Since, the C.V.(%) of the priority sector advances to agriculture by Commercial Banks (CBs) are less than (3.98%) that of total priority sector advances by Regional Rural Banks (RRBs), the Commercial Banks (CBs) are found to be more successful and consistent.

Micro, Small and Medium Enterprises (MSMEs)

Micro, Small and Medium Enterprises (MSMEs) form the backbone of India's industrial and service sectors, contributing significantly to employment generation, innovation, and regional development. Despite their potential, MSMEs often face challenges in accessing timely and adequate credit due to their limited financial resources and lack of collateral. To address this issue, the Indian banking system, comprising Regional Rural Banks (RRBs) and Commercial Banks (CBs), plays a crucial role in extending financial assistance to these enterprises.

Table 3 depicts the year-wise data about the amount of towards the MSMEs by Regional Rural Banks (RRBs) and Commercial Banks (CBs).

Table 3

Priority Sector Advances Lending towards MSMEs the RRBs and CBs (Amount in Crore)

Years	Regional Rural Banks (RRBs)	YoY (%)	Commercial Banks (CBs)	YoY (%)
2019-2020	35,240	-	16,95,921	-
2020-2021	39,543	12.21	19,24,273	13.46
2021-2022	41,609	5.22	21,72,122	12.88
2022-2023	49,323	18.54	24,51,183	12.85
2023-2024	57,639	16.86	29,31,730	19.60
Descriptive Statistics				
Mean	44,670.80	-	22,35,045.80	-
S.D.	9,787.28	-	4,80,437.00	-
C.V.(%)	21.91	-	21.49	-

SOURCE: Statistical Tables Relating to Banks in India.

In the Table 3, it is exhibited that the total amount of priority sector advances lending to MSMEs by Regional Rural Banks (RRBs) goes up from Rs. 35,240 crores in the year 2019-2020 to Rs. 57,639 crores in the year 2023-2024. The increase over the period was 1.64 times. The annual growth rates of priority sector advances was 18.54 percent in the year 2022-2023.

The total amount of priority sector advances lending to MSMEs by Commercial Banks (CBs) goes up from Rs. 16, 95,921 crores in the year 2019-2020 to Rs. 29, 31,730 crores in the year 2023-2024. The increase over the period was 1.73 times. The annual growth rates of priority sector advances were 19.60 percent in the year 2023-2024.

By comparing the amount on the basis of the mean value of the period, it has been noted that the amount of priority sector advances lending to MSMEs is very high in case of commercial banks as the mean value is Rs. 22,35,045.80 crores. The degree of variation is very low in Regional Rural Banks (RRBs) as the value standard deviation is Rs.9787.28crores and variation is high in case of commercial banks as the value of standard deviation is Rs. 4,80,437.00 crores.

Since, the C.V.% of the priority sector advances by Commercial Banks (CBs) are less than (21.49%) that of total priority sector advances by Regional Rural Banks (RRBs) the Commercial Banks (CBs) are found to be more successful and consistent.

Housing

Housing is one of the essential needs of human life and plays a vital role in improving the quality of living and socioeconomic development of a nation. In India, the growing demands, for affordable housing, particularly in rural and semi-urban areas, highlights the importance of institutional credit for the housing sector. Regional Rural Banks (RRBs) and Commercial Banks (CBs) have been instrumental in providing financial support to individuals and households for housing construction, renovation, and purchase.

The year-wise data about the priority sector advances to Housing by the Regional Rural Banks (RRBs) and the Commercial Banks (CBs) are seen in Table 4.

Table 4

Priority Sector Advances Lending towards Housing the RRBs and CBs (Amount in Crore)

Years	Regional Rural Banks (RRBs)	YoY (%)	Commercial Banks (CBs)	YoY (%)
2019-2020	19814	-	554410	-
2020-2021	21127	6.63	585072	5.53
2021-2022	22020	4.23	613226	4.81
2022-2023	24503	11.28	636141	3.74
2023-2024	26047	7.77	766350	20.47
Descriptive Statistics				
Mean	22,702.2	-	6,31,039.74	-
S.D.	2894.66	-	81604.86	-

C.V.(%)	12.75	-	12.93	-
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SOURCE: Statistical Tables Relating to Banks in India.

In the Table 4, it is depicted that the total amount of priority sector advances lending to housing by Regional Rural Banks (RRBs) goes up from Rs.19, 814 crores in the year 2019-2020 to Rs.26,047 crores in the year 2023-2024. The increase over the period was 1.33 times. The annual growth rates of priority sector advances were 11.28 percent which is highest in the year 2023-2024.

The total amount of priority sector advances lending to housing by Commercial Banks (CBs) goes up from Rs. 5, 54,410 crores in the year 2019-2020 to Rs. 7, 66,350 crores in the year 2023-2024. The increase over the period was 1.38 times. The annual growth rates of priority sector advances were 20.47 percent registered as highest in the year 2023-2024.

By comparing the amount on the basis of the mean value of the period, it has been noted that the amount of priority sector advances lending to housing is very high in case of commercial banks as the mean value is Rs. 631039.74 crores. The degree of variation is very low in Regional Rural Banks (RRBs) as the value standard deviation is Rs.2,894.66 crores and variation is high in case of commercial banks as the value of standard deviation is Rs.81604.86 crores.

Since, the C.V.(%) of the priority sector advances by Regional Rural Banks (RRBs) are less than (12.75%) that of total priority sector advances by Commercial Banks (CBs), the RRBs are found to be more successful and consistent.

In this study, the null hypotheses have framed and the results have been tabulated hereunder.

Table 5 Test Results

Null Hypotheses	F value	Sig.	Results
There is not a significant difference among the amount of priority sector lending by the RRBs and CBs. (H ₀₁)	9.033	.017 (1.7 % < 5%)	Rejected
There is not a significant difference among the amount of priority sector lending to agriculture by the RRBs and CBs. (H ₀₂)	10.018	.013 (1.3 % < 5%)	Rejected
There is not a significant difference among the amount of priority sector lending to MSMEs by the RRBs and CBs. (H ₀₃)	9.988	.013 (1.3 % < 5%)	Rejected
There is not a significant difference among the amount of priority sector lending to housing by the RRBs and CBs. (H ₀₄)	5.387	.049 (4.9 % < 5%)	Rejected

Findings, Suggestions and Conclusion

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Findings

The analysis and discussion in the proceeding pages reveals the following

(i) The performance with regard to the total amount of priority sector lending by the Commercial Banks (CBs) are sound than that of Regional Rural Banks (RRBs). The coefficient of variation of the priority sector advances by the Regional rural Banks (RRBs) are less than (19.74%) that of total priority sector advances by Commercial Banks (CBs). Therefore, it is concluded that the RRBs are found to be more successful and consistent.

(ii) The study found that the amount of priority sector lending towards agriculture by the Commercial Banks (CBs) are more comprehensive than that of Regional Rural Banks (RRBs). The coefficient of variation of the priority sector advances by the Commercial Banks (CBs) are less than (3.98%) that of amount of priority sector lending towards agriculture by Regional Rural Banks (RRBs). It is, therefore concluded that, the Commercial Banks (CBs) are found to be more fruitful and consistent.

(iii) The amount of priority sector lending towards the Micro, Small and Medium Enterprises (MSMEs) by the Commercial Banks (CBs) are more rigorous than that of Regional Rural Banks (RRBs). The coefficient of variation of the priority sector advances by the Commercial Banks are less than (21.49%) that of amount of priority sector lending towards the Micro, Small and Medium Enterprise (MSMEs) by the Regional Rural Banks (RRBs). Therefore, it is concluded that the Commercial Banks (CBs) are found to be more successful and constant.

(iv) The performance with regard to the total amount of priority sector lending towards housing by the commercial banks (CBs) are sound than that of Regional Rural Banks (RRBs). The coefficient of variation of the priority sector advances by the Regional Rural Banks (RRBs) are less than (12.75%) that of priority sector advances by the Commercial Banks (CBs). Therefore, it is concluded that the RRBs are found to be more successful and consistent.

Suggestions

(i) It is suggested that these two banks are to implement the effective risk management systems to assess and moderate potential risks associated with priority sector lending.

(ii) To monitoring and evaluation of priority sector lending portfolios to identify areas for improvement and measure progress toward targets.

(iii) To provide training and capacity-building programs for bank staffs to enhance their skill and knowledge in priority sector lending.

(iv) It is also suggested that both the banks organize outreach programs to increase awareness about priority sector lending products and services among potential borrowers

Conclusion

Priority Sector Lending (PSL) by Regional Rural Banks (RRBs) and Commercial Banks (CBs) played a vital role in promoting inclusive growth and supporting key sectors such as agriculture, MSMEs, and housing. Both the banks have contributed significantly in meeting the credit needs of under banked and rural populations

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