

ECONOMIC IMPACT OF PRIORITY SECTOR LENDING ON BENEFICIARIES: AN EMPIRICAL STUDY OF PUBLIC AND PRIVATE SECTOR BANKS IN KERALA

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Abstract

Priority Sector Lending (PSL) plays a vital role in promoting inclusive growth and socio-economic empowerment in India by directing institutional credit to underserved sectors such as agriculture, MSMEs, education, housing, and weaker sections. This study examines the socio-economic impact of PSL on beneficiaries in Kerala, with a particular focus on economic empowerment outcomes. Adopting an analytical, descriptive, and empirical research design, the study utilizes both primary and secondary data. Primary data were collected from 384 beneficiaries selected through a multistage stratified purposive random sampling technique across three districts representing southern, central, and northern Kerala. The analysis evaluates changes in income levels, business expansion, employment generation, savings behavior, asset creation, financial inclusion, and access to formal banking services following PSL assistance. The findings aim to provide empirical evidence on the effectiveness of PSL in fostering economic empowerment and reducing financial exclusion, thereby addressing a significant research gap in existing literature and offering policy-relevant insights for enhancing the impact of priority sector lending initiatives.

Keywords:- Priority Sector, Financial Inclusion, Lending, Economic Empowerment, Financial Self-reliance.

Priority Sector Lending (PSL) stands as a pivotal mechanism within India's financial framework, aiming to address sectors that historically struggled to secure adequate financial support. Since its inception by the Reserve Bank of India in 1947, this initiative has been pivotal in fostering the growth of sectors such as

agriculture, Small Scale Industries (SSI), education, and housing (Goyal et al., 2016; Manjushree & Giridhar, 2018).

The fundamental objective of PSL is to drive socio-economic benefits by ensuring that crucial sectors such as Agriculture, Micro, Small, and Medium Enterprises (MSMEs), housing, and education receive the necessary financial

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aid (Kaur & Sidhu, 2022). Originally conceptualized as a means of 'Direct Lending' to underserved sectors by banks, PSL has evolved into a cornerstone for the economic progress of the nation (Veena & Prasad, 2020). Recognizing the significance of the banking system as a linchpin for economic development, PSL remains a critical concern for both public and private sector banks. Its continued focus remains imperative in addressing the socio-economic realities prevalent in the Indian economy (Kumar, 2021).

Statement of the Problem

Lack of insight into the utilization patterns and outcomes of these funds can hinder policymakers' ability to fine-tune these schemes for maximum societal benefit. Moreover, an array of hurdles stands in the path of beneficiaries seeking to avail themselves of loans under priority sector lending schemes. These hurdles could encompass bureaucratic complexities, stringent eligibility criteria, lack of collateral or inadequate financial literacy among applicants. The presence of such barriers obstructs the seamless access to these financial resources, perpetuating the cycle of financial exclusion among the very populations these schemes aim to empower. Addressing these obstacles is pivotal in ensuring the equitable distribution of financial resources and promoting Economic empowerment among marginalized communities.

Objective of the Study

The primary objective of this study is to assess the economic impact of priority sector lending among the beneficiaries.

Importance of the Study

Studying Priority Sector Lending (PSL) and its impact on empowering marginalized sectors like agriculture, micro, small, and medium enterprises (MSMEs), education, housing and weaker section is of immense significance. PSL policies are specifically crafted to ensure these sectors receive essential credit support. Investigating how these policies directly empower individuals and communities within these sectors can highlight their profound societal impact. PSL is fundamentally geared towards fostering financial inclusion by extending banking and credit facilities to those who lack access to formal financial services.

Research Gap

This doctoral research aims to contribute significantly to the sparse literature on PSL's socio-economic impact. By emphasizing empowerment and socio-economic advancements, this study seeks to bridge the substantial research void, offering valuable insights into the multifaceted impacts of PSL on the masses, thereby paving the way for a more comprehensive understanding in academia.

Data Source and Methodology

Method of Study

The method of study is analytical, descriptive and empirical in nature which tests the feasibility of solution by using empirical evidence and is based on the opinion survey method. The variables and the sub component items are identified based on various research studies conducted in the area of Priority Sector lending practices by banks both Public and Private Sector.

Data Source

The study made use of both secondary and primary data.

Secondary Data

Secondary data were used for developing the overview on the priority sector lending and empowerment of masses and the review of literature. The sources of secondary data include text books, Journals, Research Articles, Ph D thesis, Working papers, Research reports, Reports of the Government, Reports of Committees and annual report of the Reserve Bank of India.

Primary Data

Primary data were collected from 384 respondents, drawn on Multistage Stratified Purposive Random Sampling Technique in confirmation to sample size adequacy as per Cochran (1963) method.

Sampling

Sample Size

Sample size is determined by Cochran's method. The method developed by Cochran (1963) is widely used in social science research for determining sample size. It is based on the confidence level, sampling error and variability of proportion of sample.

Sampling Technique

Multistage Stratified Purposive Random Sampling Technique is used for collection of primary data from respondents in respect of selection of beneficiaries from various Public and Private Sector Banks in Kerala.

Economic Empowerment

Assessing the economic empowerment impact of Priority Sector Lending (PSL) requires a comprehensive evaluation of various factors. This involves comparing beneficiaries' current income with their pre-PSL income to gauge income growth. Additionally, assessing the expansion of businesses, job creation, and impact on local employment rates provides insights into the initiative's economic impact. Investigating post-PSL savings behavior, acquisition of assets, and overall wealth accumulation contributes to understanding the broader financial changes. Examining banking penetration, formal service usage, and profitability of investments further refines the assessment. It's crucial to analyze the inclusivity of economic growth, considering wealth distribution and social mobility. Evaluating the influence of financial literacy programs on beneficiaries' decision-making adds a dimension to the overall impact assessment, providing valuable insights for future strategies in promoting economic empowerment through PSL.

Paired t-test was conducted to evaluate the impact of the Priority Sector Loans on the economic empowerment of beneficiaries. The result showed a significant increase in the income earning capacity of the beneficiaries before ($x=2.857$, $SD= 0.681$) to after ($x= 4.206$, $SD= 0.908$, $t= -22.001$ (two-tailed), $p= <0.001$). The mean increase in the test score was 1.348 with a 95 per cent confidence level. The eta square statistic (0.55) indicated a large effect size.

Financial self-reliance of beneficiaries reported a significant increase after taking priority sector loans ($x=3.781$, $SD=0.820$) than before ($x=2.812$, $SD=0.639$), $t=-19.869$ (two-tailed), $p<0.001$. The mean increase was 0.968 with a 95 per cent confidence level and the eta square statistics (0.50) indicated a large effect size.

Regarding the saving habits, the analysis revealed that there is a significant increase in the saving habits after taking priority sector loan ($x=4.039$, $SD=0.821$) than before ($x=2.794$, $SD=0.789$), $t=-20.374$ (two-tailed), $p<0.001$. The mean increase in the test score was 1.244 with a 95 per cent confidence level. The eta square statistic (0.52) indicated a large effect size.

The result showed that there is a significant increase in the self-employment prospects of beneficiaries before taking priority sector loans ($x=3.104$, $SD=0.778$) to after ($x=4.130$, $SD=0.935$), $t=-21.411$ (two-tailed), $p<0.001$. The mean increase in the test score was 1.026 with a 95 per cent confidence level. The eta square statistic (0.54) indicated a large effect size.

Wealth mobilization of beneficiaries witnessed a significant increase after taking the loans ($x=3.714$, $SD=0.881$) than before ($x=2.796$, $SD=0.637$), $t=21.230$ (two-tailed), $p<0.001$. The mean increase in the test score was 0.918 with a 95 per cent confidence level. The eta square statistic (0.54) indicated a moderate effect size.

The result showed a significant increase in the economic independence of the beneficiaries before taking loans

($x=2.661$, $SD=0.726$) to after ($x=4.104$, $SD=0.881$), $t=-13.371$ (two-tailed), $p<0.001$. The mean increase in the test score was 0.366 with a 95 per cent confidence level. The eta square statistic (0.31) indicated a large effect size.

There is a significant increase in the financial security of the beneficiaries after taking loans ($x=3.893$, $SD=0.738$) than before ($x=3.807$, $SD=0.863$), $t=-17.537$ (two-tailed), $p<0.001$. The mean increase in the test score was 0.308 with a 95 per cent confidence level. The eta square statistic (0.21) indicated a large effect size.

The analysis revealed that there is a significant increase in the access to financial services among beneficiaries before ($x=2.791$, $SD=0.863$) to after the ($x=4.132$, $SD=1.014$) the loan, $t=-24.794$ (two-tailed), $p<0.001$. The mean increase in the test score was 1.145 with a 95 per cent confidence level. The eta square statistic (0.44) indicated a large effect size.

Regarding the acquisition of financial asset, the analysis indicated that there is a significant increase before ($x=2.583$, $SD=0.910$) to after ($x=3.830$, $SD=0.867$), $t=-20.152$ (two-tailed), $p<0.001$. The mean increase in the test score was 1.247 with a 95 per cent confidence level. The eta square statistic (0.51) indicated a large effect size.

The result showed a significant increase in the access to finance among beneficiaries before ($x=2.791$, $SD=0.863$) to after ($x=3.656$, $SD=0.971$), $t=-17.904$ (two-tailed), $p<0.001$. The mean increase in the test score was 0.864 with a 95 per cent confidence level. The eta

square statistic (0.45) indicated a large effect size.

Loans from money lenders reported a slight decrease after taking priority sector loans ($x=3.755$, $SD=0.713$) than before ($x=3.763$, $SD=0.803$), $t= .159$ (two-tailed, $p=>0.05$). The mean decrease was 0.007 with a 95 per cent confidence level and the eta square statistics (0.24) indicated a large effect size.

Finally, the result showed a significant increase in the Overall Economic Empowerment of the beneficiaries before ($x=2.933$, $SD=0.499$) to after ($x=3.899$, $SD=0.717$), $t=23.034$ (two-tailed), $p= <0.001$. The mean increase in the test score was 0.966 with a 95 per cent confidence level. The eta square statistic (0.58) indicated a large effect size.

It can be concluded that, there was a significant increase in the income earning capacity, financial self-reliance, saving habits, self-employment prospects, wealth mobilization, economic independence, acquisition of financial asset, access to finance and loan from money lenders were decreased after taking the loan. The overall economic empowerment among the beneficiaries also witnessed a significant increase after taking loans than before as the p value <0.05 at 5 per cent significant level.

Economic Empowerment

The analysis found that the priority sector loan has reduced the poverty level for 229 (68 per cent) respondents. It shows the effective use of the priority sector loan (Selvam, 2013). The present study reveals that the analysis of various variables before and after the

implementation of Priority Sector Lending (PSL) among beneficiaries reveals a positive impact on their economic empowerment. There is a substantial increase in the mean income earning capacity post-PSL, indicating improved financial capacity. Financial self-reliance has significantly increased, reflecting greater independence in financial matters. Notable improvements in saving habits suggest a positive shift in financial behavior. The increased mean for self-employment prospects indicates a positive influence on entrepreneurship due to PSL. Improved wealth mobilization and economic independence imply greater financial autonomy.

The mean for the acquisition of financial assets has improved, signaling positive changes in asset ownership. Access to finance has increased, showcasing improved financial inclusivity. Minimal change in the mean for loans from moneylenders suggests a stable trend. The overall mean increase signifies a positive impact on the economic empowerment of beneficiaries. Across various indicators, PSL has consistently contributed to positive changes in financial behavior, entrepreneurial prospects, and asset acquisition, fostering the economic empowerment of beneficiaries.

Major Findings

1. Significant improvement after PSL

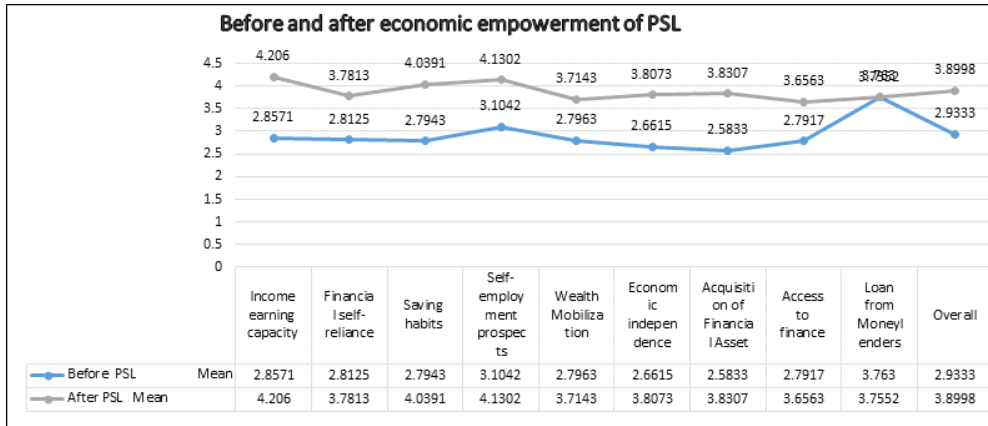
- All key economic indicators - income earning capacity, financial self-reliance, saving habits, self-employment prospects, wealth mobilization, economic independence, acquisition of financial

Table 1
Economic Empowerment

Variable	Before PSL		After PSL		Mean Difference	Paired t-test value	Sig. (2-tailed)	Eta Square
	Mean	SD	Mean	SD				
Income earning capacity	2.8571	.68146	4.2060	.90840	1.3489	-22.001	.000	0.55
Financial self-reliance	2.8125	.63923	3.7813	.82015	0.9688	-19.869	.000	0.50
Saving habits	2.7943	.78953	4.0391	.82141	1.2448	-20.374	.000	0.52
Self-employment prospects	3.1042	.77802	4.1302	.93592	1.026	-21.411	.000	0.54
Wealth Mobilization	2.7963	.63771	3.7143	.88180	0.918	-21.230	.000	0.54
Economic independence	2.6615	.72621	3.8073	.86375	1.1458	-17.537	.000	0.44
Acquisition of Financial Asset	2.5833	.91025	3.8307	.86715	1.2474	-20.152	.000	0.51
Access to finance	2.7917	.86313	3.6563	.91780	0.8646	-17.904	.000	0.45
Loan from Moneylenders	3.7630	.80377	3.7552	.71352	-0.0078	.159	.874	0.24
Overall	2.9333	.49988	3.8998	.71743	0.9665	23.034	.000	0.58

Source: Primary Data

Figure 1
Economic Empowerment



assets, and access to finance - show statistically significant improvement after PSL ($p = .000$).

2. Large mean differences

- Substantial increases are observed across variables, with mean differences ranging from 0.86 to 1.35, indicating strong positive change after participation in PSL.

3. Strong effect sizes

- Eta square values range from 0.44 to 0.58, reflecting moderate to large practical impact of PSL on economic empowerment outcomes.
- The overall effect size ($\eta^2 = 0.58$) indicates that PSL accounts for a large proportion of improvement in participants' economic status.

4. *Highest improvement areas*

- The most pronounced gains are seen in:
 - Income earning capacity
 - Saving habits
 - Acquisition of financial assets
 - Self-employment prospects

5. *No significant change in reliance on moneylenders*

- “Loan from moneylenders” shows no significant difference ($p = .874$), suggesting PSL has not reduced dependence on informal credit sources.

6. *Overall economic empowerment*

- The overall mean increased from 2.93 (Before PSL) to 3.90 (After PSL), confirming PSL’s effectiveness in enhancing economic independence and financial well-being.

Suggestions

1. *Strengthen financial inclusion components*

- Since dependence on moneylenders remains unchanged, PSL should intensify linkages with formal banking institutions, microfinance, and low-interest credit facilities.

2. *Enhance financial literacy training*

- Introduce targeted modules on credit management, interest calculation, and debt avoidance to discourage informal borrowing.

3. *Support income-generating activities*

- Provide advanced skill training, market linkage support, and entrepreneurship mentoring to

sustain gains in income earning capacity and self-employment.

4. *Promote long-term savings and asset creation*

- Encourage recurring savings schemes, insurance, and productive asset investment to consolidate improvements in saving habits and wealth mobilization.

5. *Post-PSL monitoring and support*

- Establish follow-up mechanisms to ensure continued economic independence and effective use of financial assets.

6. *Policy implication*

- Given the strong overall impact, scaling up PSL programs and integrating them with formal financial systems is recommended for broader socio-economic development.

Conclusion

The paired t-test analysis clearly demonstrates that the PSL programme has had a substantial and statistically significant positive impact on the economic empowerment of the respondents. Significant improvements are observed in income earning capacity, financial self-reliance, saving habits, self-employment prospects, wealth mobilization, economic independence, acquisition of financial assets, and access to finance, with all these variables showing highly significant differences between the pre-PSL and post-PSL periods ($p < 0.01$). The mean scores after PSL are consistently higher than those before PSL, and the large mean differences indicate meaningful economic progress among the

participants. Furthermore, the eta square values (0.44–0.58) suggest moderate to large effect sizes, confirming that PSL has played a crucial role in enhancing the overall economic condition and financial capability of the beneficiaries. However, the variable “Loan from Moneylenders” does not show a statistically significant change ($p = 0.874$), indicating that despite overall economic improvements, participants continue to rely on informal credit sources. This highlights a gap in the programme related to access to

affordable and formal credit mechanisms. Overall, the significant increase in the overall mean score from 2.93 before PSL to 3.90 after PSL, along with a strong effect size ($\eta^2 = 0.58$), confirms that PSL has been effective in promoting economic independence and financial empowerment. Strengthening institutional credit linkages and financial literacy components within PSL could further enhance its long-term impact and reduce dependence on moneylenders.

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