

LEVEL OF AWARENESS ABOUT DIFFERENT LOAN PARAMETERS IN PRIORITY SECTOR LENDING

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Abstract

Priority Sector Lending (PSL) plays a pivotal role in promoting inclusive economic growth by directing credit to sectors that are often neglected by traditional banking, including agriculture, micro, small, and medium enterprises (MSMEs), education, housing, and weaker sections. Despite the policy's importance, borrowers' awareness of loan parameters such as eligibility criteria, interest rates, repayment terms, documentation requirements, and government subsidies varies significantly across sectors. This study examines the awareness levels of beneficiaries across different loan categories, analyzes gaps, and highlights areas for targeted interventions. Using primary data and statistical analyses, including ANOVA and Duncan's Multiple Range Test (DMRT), the study reveals significant differences in awareness among borrowers of agriculture, MSME, General Service Sector (GSS), and weaker section (WS) loans. Findings suggest that awareness is highest among MSMEs and GSS beneficiaries, moderate among agricultural borrowers, and lowest among WS loan recipients. The study emphasizes the need for focused financial literacy programs to maximize PSL's effectiveness.

Keywords:- Priority Sector Lending (PSL), Borrowers' Awareness, MSME Loans, General Service Sector (GSS) Loans, Weaker Section (WS) Loans, Financial Literacy.

*P*riority Sector Lending (PSL) is a strategic policy framework aimed at ensuring the flow of credit to critical sectors of the economy that are vital for socio-economic development but are often underserved by conventional banking. The key sectors include agriculture, MSMEs, housing, education,

renewable energy, and loans targeting weaker sections of society.

PSL not only facilitates inclusive growth but also strengthens financial inclusion by providing targeted credit under favourable terms. Despite its importance, borrowers' awareness of PSL loan parameters - such as interest rates, repayment schedules, eligibility criteria,

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margin requirements, security norms, and subsidies—remains uneven. A lack of awareness can lead to underutilization of PSL benefits, inefficiencies in credit allocation, and reduced socio-economic impact. Understanding borrowers' knowledge and perceptions is critical for policymakers and financial institutions to improve outreach and tailor educational efforts. This study explores the level of awareness among borrowers of different PSL loan categories, identifies gaps, and provides insights for enhancing the efficacy of PSL programs.

Review of Literature

Veerashekerappa (1993) discovered in his study that although advances to priority sectors in the state surpassed the targeted amount, the expansion of institutional finance primarily benefited larger farmers, leaving many rural households in lower strata without access to institutional finance.

Goyal et al. (2015) scrutinized the impact of PSL targets set by the Reserve Bank of India on the rising NPAs in both public and private banks, covering the period from 2001 to 2013.

Throve Harsha A. (2015) conducted an analytical study comparing Priority and Non-'priority sector lending' in nationalized banks in India, emphasizing the role of nationalized banks in the country's development. The study highlighted the importance of reducing NPAs, especially in the non-priority sector, and suggested government support to enhance 'priority sector lending'.

Rana (2016) focused on the "Analysis of Non-Performing Assets of Public

Sector Banks in India," emphasizing NPAs' detrimental impact on bank profitability and the need for preventative measures. The study categorized NPAs with respect to loan advances into priority and non-priority sectors, analyzing data from 2004 to 2014. Results revealed a continuous increase in NPAs in public sector banks across both sectors.

Statement of the Problem

Priority Sector Lending (PSL) is a key policy instrument designed to channel credit to sectors critical for socio-economic development, such as agriculture, MSMEs, education, housing, renewable energy, and weaker sections of society. While the availability of PSL loans is crucial for financial inclusion, there is a growing concern about borrowers' awareness of the loan parameters that govern these schemes. Despite government interventions and bank initiatives, disparities exist in the level of understanding of key aspects such as interest rates, repayment terms, margin money requirements, subsidies, pre-conditions for sanction, CIBIL/credit scoring, and borrowing limits. This lack of awareness can lead to underutilization of loans, financial mismanagement, and suboptimal socio-economic outcomes. The problem is further compounded in certain borrower groups, particularly weaker sections, where literacy, social-economic factors, and limited outreach reduce understanding of PSL loan terms. The central question is: Do borrowers across different PSL categories possess sufficient awareness of loan parameters, and how does this awareness vary across sectors? Addressing this problem is vital

to ensure that the intended benefits of PSL reach the right beneficiaries effectively and that credit supports inclusive economic growth.

Significance of the Study

This study is significant as it provides valuable insights into the varying levels of awareness of loan parameters among different categories of PSL beneficiaries, highlighting critical gaps, particularly among weaker sections. By identifying disparities in financial knowledge, the study supports policymakers, banking institutions, and stakeholders in designing targeted financial literacy programs and improving communication strategies to enhance borrower understanding. It contributes to strengthening financial inclusion by promoting better utilization of credit facilities and informed decision-making among borrowers. Additionally, the study enriches academic literature with empirical evidence and offers a foundation for future research on financial awareness, policy effectiveness, and inclusive banking practices.

Scope of the Study

The study focuses on assessing the level of awareness among borrowers regarding various loan parameters under Priority Sector Lending (PSL), specifically across four categories: Agriculture, Micro, Small and Medium Enterprises (MSME), General Service Sector (GSS), and Weaker Sections (WS). It examines awareness of key aspects such as interest rates, repayment periods, subsidy provisions, margin money requirements, borrowing limits, security norms, CIBIL/credit scores, and pre-conditions for loan sanction. The analysis is based on primary

data collected from beneficiaries and employs statistical tools like One-Way ANOVA and Duncan's Multiple Range Test (DMRT) to identify differences among categories. The study is geographically limited to the selected study area and focuses only on existing borrowers, without considering non-beneficiaries or institutional performance, thereby emphasizing comparative awareness levels across loan.

Research Objective

1. To examine the level of awareness about different loan parameters under PSL among beneficiaries.

Analysis and interpretation- Level of Awareness

Assessing awareness levels within different categories of loans under Priority Sector Lending (PSL) is crucial for gaining insights into the familiarity of both banks and borrowers with various sectors. Agricultural loans often enjoy relatively high awareness levels due to the sector's significant role in many economies. However, awareness may vary based on regional and economic development factors, with higher awareness in more developed areas. General Service Sector (GSS) loans, including education, housing, renewable energy, and export credit, showcase diverse awareness levels. Education loans may be well-known among students and families, contingent on the accessibility of higher education and bank marketing efforts. Housing loan awareness tends to be significant, especially in urban areas, depending on housing availability and local real estate dynamics. Awareness of renewable energy loans fluctuates with regional focus and bank

promotion efforts. For export credit loans, awareness hinges on regional international trade engagement. Loans targeting weaker sections may have varying awareness influenced by social, economic factors, and banks' outreach initiatives. This multifaceted analysis provides a nuanced understanding of PSL awareness across diverse loan categories.

Among agriculture loan category, the respondents were fully aware of the rate of interest ($\bar{x}=4.3 \pm 1.27$), subsidy on loan ($\bar{x}=4.07 \pm 1.391$) and repayment period ($\bar{x}=4.07 \pm 1.391$) while aware of security requirement for the loan ($\bar{x}=3.9 \pm 1.451$), subsidy on interest rate ($\bar{x}=3.5 \pm 1.507$), borrowing limit ($\bar{x}=3.32 \pm 1.497$) and different scheme of loans ($\bar{x}=3.3 \pm 1.595$). However respondents were moderately aware of the margin money requirement for the loan ($\bar{x}=2.92 \pm 1.391$), interest rate charge by different banks ($\bar{x}=2.88 \pm 1.429$), pre-conditions for sanction ($\bar{x}=2.63 \pm 1.231$) and CIBIL ($\bar{x}=2.26 \pm 1.134$).

Among MSME loan category, the respondents were fully aware of the repayment period ($\bar{x}=4.6 \pm 1.02$), subsidy on loan ($\bar{x}=4.55 \pm 1.066$), CIBIL ($\bar{x}=4.42 \pm 1.184$), subsidy on interest rate ($\bar{x}=4.16 \pm 1.351$), security requirement for the loan ($\bar{x}=4.16 \pm 1.351$), borrowing limit ($\bar{x}=4.16 \pm 1.351$), rate of interest ($\bar{x}=4.16 \pm 1.351$), interest rate charge by different banks ($\bar{x}=4.02 \pm 1.586$) and pre-conditions for sanction ($\bar{x}=4.02 \pm 1.408$). While aware of different scheme of loans ($\bar{x}=3.89 \pm 1.451$) and margin money requirement for the loan ($\bar{x}=3.76 \pm 1.481$).

In the case of GSS loan category, the respondents were fully aware of priority

the different scheme of loans ($\bar{x}=4.67 \pm 0.932$), security requirement for the loan ($\bar{x}=4.66 \pm 1.035$), borrowing limit ($\bar{x}=4.61 \pm 1.125$), interest rate charge by different banks ($\bar{x}=4.51 \pm 1.106$), CIBIL ($\bar{x}=4.51 \pm 1.106$), pre-conditions for sanction ($\bar{x}=4.51 \pm 1.106$), repayment period ($\bar{x}=4.51 \pm 1.106$), rate of interest ($\bar{x}=4.45 \pm 1.265$) and margin money requirement for the loan ($\bar{x}=4.13 \pm 1.455$). Whereas the respondents were aware of the subsidy on interest rate ($\bar{x}=3.79 \pm 1.099$) and moderately aware of Subsidy on loan ($\bar{x}=2.76 \pm 1.407$).

Among WS loan category, the respondents were aware of the different scheme of loans ($\bar{x}=3.01 \pm 0.876$) and moderately aware of CIBIL ($\bar{x}=2.86 \pm 1.021$), repayment period ($\bar{x}=2.37 \pm 0.707$), interest rate charge by different banks ($\bar{x}=2.12 \pm 0.491$), rate of interest ($\bar{x}=2.12 \pm 0.336$), subsidy on interest rate ($\bar{x}=2.06 \pm 0.759$), margin money requirement for the loan ($\bar{x}=2.10 \pm 0.718$), borrowing limit ($\bar{x}=2.11 \pm 0.803$). The security requirement for the loan ($\bar{x}=1.93 \pm 1.93$), subsidy on loan ($\bar{x}=1.68 \pm 0.47$) and pre-conditions for sanction ($\bar{x}=1.68 \pm 0.692$) reported a low awareness among the respondents.

The analysis revealed that the agricultural loan category respondents had the highest awareness of the interest rate, whereas, among the respondents of MSME, it was the repayment period. But the respondents of the GSS and WS loan categories were highly aware of the different schemes of the loans. However, the respondents of different types of loans

had above-average knowledge about basic loan factors except those of the WS category.

One-way Analysis of Variance (ANOVA) results indicated that there was a significant difference among the respondents of agriculture, MSME, GSS and WS loan category regarding the basic factors of priority sector lending such as interest rate charge by different banks, different scheme of loans, subsidy on interest rate, Subsidy on loan, margin money requirement for the loan, security requirement for the loan, CIBIL, pre-conditions for sanction, borrowing limit, repayment period and rate of interest ($p < 0.05$). "Detailed insights can be found in Table 1."

Hypothesis

To examine the level of awareness about different loan parameters on priority sector lending among the beneficiaries.

Testing of hypothesis

Level of awareness

H₀: There is no significant difference in the level of awareness among beneficiaries regarding the basic factors of priority sector lending and the categories of loans provided by banks.

Testing tool used: ANOVA

Test result (Value): 0.000

Level of significance: 1% (0.001)

Compare between test result and level of significance = ($p < 0.001$)

Null hypothesis (H₀): Rejected

There is significant difference in the level of awareness among beneficiaries

regarding the basic factors of priority sector lending and the categories of loans provided by the banks.

Duncan Multiple Range Test (DMRT)

Regarding the interest rate charged by different banks, the respondents of agriculture, MSME, GSS and WS loan category significantly differ (Agriculture-b, MSME-c, GSS-d, WS-a).

In the case of different schemes of loans, the respondents of agriculture, MSME, GSS and WS loan category significantly differ from each other (Agriculture-b, MSME-c, GSS-d, WS-a).

Subsidy on interest rate was concerned; the respondents of WS were significantly different with GSS, agriculture and MSME loan category. But the respondents of GSS similar to those of agriculture and MSME categories. (Agriculture-b, MSME-c, GSS-bc, WS-a).

Regarding subsidy on loans, the respondents of agriculture, MSME, GSS and WS loan category significantly differ (Agriculture-c, MSME-d, GSS-b, WS-a).

In the case of margin money requirement for the loan, the respondents of the MSME loan category were significantly different from those of agriculture and WS but similar to those of the GSS loan category.

The respondents of the agriculture and WS categories differed significantly from all other loan categories. (Agriculture-b, MSME-c, GSS-c, WS-a).

Security requirement for the loan was considered, the respondents of the agriculture category were significantly

different from GSS and WS but similar to the respondents of MSME. (Agriculture-b, MSME-b, GSS-c, WS-a).

Regarding CIBIL, the respondents of the MSME loan category were significantly different from those of agriculture and WS but similar to those of the GSS loan category. The respondents of the agriculture and WS categories differed significantly from all other loan categories. (Agriculture-b, MSME-c, GSS-c, WS-a).

In the case of pre-conditions for sanction, the respondents of agriculture, MSME, GSS and WS loan categories were significantly different from each other (Agriculture-b, MSME-c, GSS-d, WS-a).

Concerning the borrowing limit, the respondents of agriculture, MSME, GSS and WS loan categories were significantly different (Agriculture-b, MSME-c, GSS-d, WS-a).

Regarding the repayment period, the respondents of the MSME loan category were significantly different from the respondents of agriculture and WS but similar to the respondents of the GSS loan category. The respondents of the agriculture and WS categories differed significantly from all other loan categories. (Agriculture-b, MSME-c, GSS-c, WS-a).

Regarding the interest rate, the respondents of agriculture significantly differed from the respondents of the WS category but was similar to those of the MSME and GSS loan categories. (Agriculture-b, MSME-b, GSS-b, WS-a).

Regarding the overall, the respondents of the MSME loan category were significantly different from the

respondents of agriculture and WS but similar to the respondents of the GSS loan category. The respondents of the agriculture and WS categories differed significantly from all other loan categories. (Agriculture-b, MSME-c, GSS-c, WS-a).

The previous study (Selvam, 2013) implies that the computed 317 value is more than the table value, the null hypothesis "There is no significant relationship between the category of loan of the respondents and their level of attitude" is rejected. As such, there is a significant relationship between category of loan of the respondents and their level of attitude. Therefore, the type of loan influences the respondents. The study reveals that the overall awareness of basic factors in Priority Sector Lending (PSL) remains high, particularly within the crucial sectors of agriculture, micro, small, and medium enterprises (MSMEs), and the General Service Sector (GSS). Given their pivotal roles in economic development, these sectors naturally exhibit heightened awareness.

The GSS, covering essential services such as healthcare, education, and housing, enjoys widespread recognition, contributing to its elevated awareness. MSMEs, acknowledged as economic pillars, garner substantial attention due to their significant contributions to GDP and employment. Government policies emphasizing agriculture further elevate awareness, with strong collaboration between sector associations and financial institutions fostering advocacy. In contrast to the "Weaker Section" category, which may require more targeted outreach, the high awareness in these sectors stems from their economic importance,

Table 1
Level of Awareness - Category Wise Analysis

Variables	Bank	Mean	SD	F value	sig
Interest rate charge by different banks	Agriculture	2.88 ^b	1.429	43.477	<0.001**
	MSME	4.02 ^c	1.586		
	GSS	4.51 ^d	1.106		
	WS	2.12 ^a	.491		
Different scheme of loans	Agriculture	3.30 ^b	1.595	71.217	<0.001**
	MSME	3.89 ^c	1.451		
	GSS	4.67 ^d	.932		
	WS	3.01 ^a	.876		
Subsidy on interest rate	Agriculture	3.50 ^b	1.507	24.021	<0.001**
	MSME	4.16 ^c	1.351		
	GSS	3.79 ^{bc}	1.099		
	WS	2.06 ^a	.759		
Subsidy on loan	Agriculture	4.07 ^c	1.391	74.630	<0.001**
	MSME	4.55 ^d	1.066		
	GSS	2.76 ^b	1.407		
	WS	1.68 ^a	.470		
Margin money requirement for the loan	Agriculture	2.92 ^b	1.391	27.332	<0.001**
	MSME	3.76 ^c	1.481		
	GSS	4.13 ^c	1.455		
	WS	2.10 ^a	.718		
Security requirement for the loan	Agriculture	3.90 ^b	1.451	40.030	<0.001**
	MSME	4.16 ^b	1.351		
	GSS	4.66 ^c	1.035		
	WS	1.93 ^a	.669		
CIBIL	Agriculture	2.26 ^b	1.134	162.631	<0.001**
	MSME	4.42 ^c	1.184		
	GSS	4.51 ^c	1.106		
	WS	2.86 ^a	1.021		
Pre- conditions for sanction	Agriculture	2.63 ^b	1.231	73.466	<0.001**
	MSME	4.02 ^c	1.408		
	GSS	4.51 ^d	1.106		
	WS	1.68 ^a	.692		
Borrowing limit	Agriculture	3.32 ^b	1.497	42.969	<0.001**
	MSME	4.16 ^c	1.351		
	GSS	4.61 ^d	1.125		
	WS	2.11 ^a	.803		
Repayment period	Agriculture	4.07 ^b	1.391	36.239	<0.001**
	MSME	4.60 ^c	1.020		
	GSS	4.51 ^c	1.106		
	WS	2.37 ^a	.707		
Rate of interest	Agriculture	4.30 ^b	1.270	30.683	<0.001**
	MSME	4.16 ^b	1.351		
	GSS	4.45 ^b	1.265		
	WS	2.12 ^a	.336		
Overall	Agriculture	3.38 ^b	.906	72.345	<0.001**
	MSME	4.17 ^c	1.011		
	GSS	4.28 ^c	.972		
	WS	1.81 ^a	.393		

Source: Primary Data ** Significant at 1% level * Significant at 5% level

government backing, and diverse opportunities. Continuous efforts in awareness, training, and alignment with government policies are pivotal to ensuring optimal benefits from PSL for these critical sectors. Top of Form

Findings

1. Overall Awareness Levels

Awareness of PSL loan parameters varies significantly across loan categories. MSME and GSS loan beneficiaries demonstrate higher awareness compared to agricultural and weaker section (WS) borrowers.

2. Category-wise Awareness

- a. *Agriculture Loans*: Respondents are highly aware of interest rates, subsidies on loans, and repayment periods but show moderate awareness regarding margin money, CIBIL, and pre-conditions for sanction.
- b. *MSME Loans*: Beneficiaries have high awareness across most parameters, including repayment period, CIBIL, subsidies, and interest rates. Moderate awareness exists for loan schemes and margin money requirements.
- c. *GSS Loans*: Respondents are most aware of different loan schemes, security requirements, and borrowing limits. Awareness is lower for subsidy on loan and subsidy on interest rate.

- d. *WS Loans*: Awareness is lowest among this group. Respondents have limited knowledge about most parameters, particularly pre-conditions for sanction, subsidy on loans, and security requirements.

3. Statistical Analysis

One-way ANOVA results indicate significant differences ($p < 0.001$) in awareness levels across loan categories for all parameters. Duncan Multiple Range Test (DMRT) further confirms that WS loan beneficiaries consistently have the lowest awareness, whereas MSME and GSS beneficiaries are significantly more aware.

4. Implications of Findings

High awareness in MSME and GSS sectors suggests that economic importance, government policies, and institutional outreach positively influence borrower knowledge.

Low awareness among weaker sections highlights the need for targeted financial literacy interventions and greater bank engagement.

Suggestions

To bridge the awareness gap and enhance the efficacy of PSL programs, the following suggestions are proposed:

1. Targeted Financial Literacy Programs

Conduct regular awareness workshops in rural and semi-urban areas for agriculture and weaker section

borrowers. Focus on explaining technical parameters such as margin money, CIBIL score, pre-conditions for sanction, and interest rate variations.

2. Simplified Loan Communication

Banks should provide simplified loan brochures, visual aids, and vernacular-language guides for borrowers with lower literacy levels. Use mobile applications and SMS alerts to inform borrowers about loan terms, due dates, and subsidies.

3. Strengthen Bank-Borrower Engagement

Bank officials should proactively guide borrowers through the loan process, particularly for WS and low-awareness groups. Establish dedicated help desks at branch and regional levels for PSL loan queries.

4. Government and NGO Collaboration

Collaborate with NGOs, agricultural cooperatives, and MSME associations to conduct awareness campaigns. Use community platforms and local leaders to disseminate knowledge about PSL schemes.

5. Periodic Monitoring and Evaluation

Conduct surveys and feedback mechanisms to assess borrowers' understanding regularly. Modify outreach programs based on survey results to address knowledge gaps effectively.

6. Incentivize Awareness

Provide small incentives for borrowers who complete financial literacy training, such as reduced processing fees or easier loan approval.

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