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Does Ownership Pattern Determine Banks' Priority Sector Lending Practices? Insights from Review of Literature

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Abstract: This article reviews the previous research and studies how bank ownership affects loans made under the Priority Sector Lending (PSL) program. This scheme requires banks to lend a particular amount of their lending to sectors that aren't getting enough funding, like agriculture, small businesses, and education. The findings indicate that public, private, and international banks contribute differently to the PSL targets. Public sector banks (PSBs) are more likely to follow PSL rules since they are in line with government policies and social welfare aims. However, they do have problems, such as inefficiency and higher credit risks in priority industries. On the other hand, private sector banks are pickier about who they lend to because they want to make money. They focus on less hazardous areas but nevertheless help PSL by strategically prioritizing. Foreign banks typically engage in PSL less frequently due to their global focus. Instead, they frequently purchase PSL certificates to indirectly participate. The assessment also talks about how digital banking and fintech developments might help banks attain their PSL goals. Digital tools have helped banks, especially PSBs, better serve priority sectors by making it easier for people in remote places to obtain financial services and by improving risk management. Overall, the studies reveal that while public sector banks dominate in PSL compliance, the roles of private and foreign banks—though more selective—are still vital for achieving the scheme's objectives, and fintech has the potential to enhance both the efficiency and effectiveness of PSL lending.

Keywords: Bank ownership, digital banking, financial inclusion, priority sectors

Introduction

Priority sector lending (PSL) is a banking strategy where banks allocate a specific percentage of loans to industries and groups crucial to a country's economic growth, such as housing, education, social infrastructure, MSMEs, and agriculture. Governments set PSL targets to ensure these sectors receive necessary funding for social fairness and economic stability. (Ud-Din Ahmed, 2010). Lending to priority sectors (PSL) is crucial for developing economies to flourish, include everyone, and reduce poverty. It provides credit to areas w ith limited resources, such as agriculture, small enterprises, and education, enabling them to grow and thrive. PSL encourages inclusive growth, ensuring low-income farmers, small business owners, and students are not left out of the economy. It sets aside loans for areas like agriculture, education, and healthcare, ensuring financial inclusion and sharing the benefits of economic prosperity across all regions, particularly rural areas. PSL directly combats poverty by providing power to less fortunate areas, improving their quality of life, and reducing income gaps. Direct access to finance also helps break the cycle of poverty by making it easier for people to obtain house loans and education, giving future generations better opportunities.(Kaur & Mahajan, n.d.) Emerging countries like India face significant challenges in financial inclusion, particularly in rural areas, due to inadequate infrastructure and lack of knowledge about money. Priority Sector Lending (PSL) addresses these issues by providing credit to underrepresented sectors, promoting financial inclusion and promoting economic growth (Pandey et al., 2022).

India's PSL aims to help small farmers, business owners, and low-income families access formal credit by ensuring banks allocate loans for sectors like agriculture, MSMEs, education, and housing. This helps those who cannot access traditional financial systems, such as small farmers, by providing loans to upgrade farming methods and improve technology(Sen & Sana, 2024). PSL in India provides access to credit and financial education to underserved populations, particularly in rural areas. Banks collaborate with local self-help groups and microfinance institutions to educate and open savings accounts, enabling them to make informed financial choices and better manage their finances (Maity, 2023).

PSL in India aims to promote economic growth for all by fighting poverty and empowering low-income families, small enterprises, and rural areas. Loans for micro and small businesses, as well as school loans for children from low-income families, help lower poverty, create stable jobs, and foster a fair economy (Kundu & Jana, 2024). PSL in India aims to promote economic growth for everyone by focusing on low-income families, small enterprises, and rural areas. It provides loans for micro and small businesses, boosting local economies and enabling students from low-income families to pursue higher education. PSL also ensures credit goes to rural communities and agriculture, diversifying the economy and reducing poverty in these areas. The Indian government's Pradhan Mantri Jan Dhan Yojana and Digital India programs promote financial inclusion, with PSL aligning with these goals. The regulatory framework ensures consistent allocation of funds towards priority sectors, making financial inclusion a real aim (Tripathi et al., 2016).

Bank Ownership Structure

Banks are categorized based on their ownership, which impacts their operations and impact on the economy. Public sector banks, owned by the government, aim to provide financial services to the public, particularly in underserved and rural areas. They often meet national economic goals, such as increasing access to credit for SMEs and supporting agriculture. Private sector banks, owned by individuals, groups, or businesses, focus on making money and reaching market-driven goals. They are more competitive and efficient, offering a variety of banking goods and services (M. Kumar, 2024).

Foreign banks, based in different countries, focus on corporate banking, large-scale commercial financing, and international transactions. They focus on high-value transactions and not much retail banking, especially for sectors targeted by priority sector lending (Berger et al., 2001). Cooperative banks, owned and run by community members, lend money to people and businesses, focusing on improving communities and helping people. They are widespread in rural areas, helping farmers and small businesses with their financial needs and providing microloans and small loans (K. Das, 2022).

Literature Review

Ownership Structure

The ownership structure of a company significantly impacts its strategic decisions, particularly in motivating management and determining the company's willingness to accept risk. Agency theory examines the relationship between principals (owners or shareholders) and agents (managers), focusing on how ownership distribution affects the alignment of their interests. Concentrated ownership, such as family-owned businesses or those controlled by a single shareholder, minimizes the principal-agent dilemma by ensuring financial interests align with the company's performance. However, this can lead to issues for minority shareholders, as the dominant shareholder may prioritize their own goals over minority shareholders' needs, making incentives less effective and affecting overall company governance. Dispersed ownership, like publicly traded enterprises, presents a bigger principal-agent dilemma, as each person owns a small part of the company, making it harder for management and shareholders to agree on actions. Performance-based pay, such as bonuses or stock options, is typically used to better connect managers' goals with shareholders' goals. However, scattered ownership may still lead to inefficiency, as shareholders have limited control over the company's operations, potentially leading to managers acting in their own best interests or making decisions that don't always align with the company's best interests (Demsetz et al., 2014). Ownership structures significantly influence a business's risk tolerance. Concentrated ownership, where a large portion of ownership is held by a single individual, may reduce risk-taking. This is because controlling shareholders prioritize stability over high-risk projects to secure their wealth. However, they may push for more risk-taking if it would help the company grow or develop new ideas.

Spread-out ownership, where control is distributed among many small shareholders, may lead to managers taking risks based on short-term performance criteria. Shareholders, not managers, bear the cost of failure, making managers more likely to take big risks for the expectation of big returns. Shareholders' risk preferences also play a role in a company's risk tolerance. Publicly listed companies typically have spread-out shareholders, which may make the company more willing to take risks. However, different shareholders may have different preferences, which can complicate decision-making. For example, some investors may prefer lower-risk methods, which could conflict with a manager's desire for higher profits (Jha & Tiwari, 2025).

Corporate governance is crucial in both concentrated and dispersed ownership structures to ensure the interests of principals and agents align with the company's long-term goals. The board of directors plays a crucial role in corporate governance, ensuring management decisions align with shareholders' interests and actions. Independent boards can lower agency costs and prevent managers from taking excessive risks. In concentrated companies, the main shareholder may have greater control over governance systems, making decisions easier. However, having a dominant shareholder may hinder minority shareholders' participation, leading to potential risks. Performance-based pay is often used to solve the principal-agent problem in both types of ownership models. However, these pay plans can sometimes have negative effects, such as encouraging risk-taking or changing success measurements. In concentrated companies, the controlling shareholder often has greater control over pay plans, ensuring incentives align with long-term goals (Bijoy & Mangla, 2023).

Public vs. Private Sector Objectives in Lending: Commercial Motives vs. Social Responsibility

Loans in both the public and private sectors are crucial for the economy, but their goals differ. Private sector lenders aim to maximize profits and reduce risk, while public sector lenders prioritize social responsibility and achieving larger economic and social goals. The nature of loans granted, their conditions, and outcomes are determined by these aims (Venugopal, 2024). Private sector lending is driven by business reasons, such as maximizing profits and risk management. They charge higher interest rates to borrowers with higher risk, and they compete to make lending more efficient. They may not lend to people or businesses with bad credit histories or projects considered too hazardous (Pallavi Chavan, 2017). On the other hand, public sector lending is driven by a sense of social obligation or a desire to fix market flaws or injustices. Public institutions, such as government-owned banks, development banks, or microfinance organizations, prioritize societal welfare, economic development, and equitable access to finance. Their main goals include encouraging economic growth, social inclusion, fixing market failures, and reaching policy goals (Levy-Yeyati et al., 2012). Public sector lenders often focus on funding initiatives that boost economic growth, especially in areas that don't receive enough financial support or are economically disadvantaged. They may lend money to small firms, new businesses, or infrastructure projects that could help industries grow, lower unemployment, and boost economic growth in a region (Levy-Yeyati et al., 2012).

Public sector lending can also be used to reach larger social and economic policy goals, such as education, healthcare, or environmental protection. These loans may not focus on immediate financial gains but on long-term benefits to society. Governments may also lend money to stabilize the economy during tough times to keep businesses and jobs going (Ahamed, 2021). The main difference between lending by the public and private sectors banks is the balance between making money and doing the right thing. In the private sector banks, lenders balance risk and return by avoiding borrowers who are likely to default unless they can promise big returns. Public sector lenders are more likely to take on more risk, especially if the project has a bigger social goal, such as lowering poverty or helping the economy grow. Public sector lenders aim to bridge market gaps by providing credit to those who don't have access, making society fairer and in line with government policies. The time horizon for private sector loans is longer, focusing on long-term social and economic advantages (Koley, 2025).

The Role of Government Policies in Shaping Lending Behaviour of Public and Private Banks

Government policies significantly impact the lending practices of public and private banks. These policies, whether from the government or through incentives, influence how banks lend money, handle risk, and invest their money. Government regulations can help public and private banks work towards the same economic goals, even when they have different interests (FAO, 2018). Public banks, owned or run by the government, are responsible for social and development goals, such as economic growth, financial inclusion, and stability. They are often asked to fix market problems and support industries important for the country's growth, such as building infrastructure, supporting small and medium-sized businesses, and developing rural areas. Government policies also encourage public banks to lend more money to stabilize the economy during economic downturns, such as recessions or financial crises. Regulatory frameworks also play a significant role in public banks, ensuring their activity aligns with national goals. In some countries, public banks may have to follow certain government policies when lending money, such as supporting green energy projects or social housing projects (Ture, 2021). Government policies significantly impact private banks, which are focused on making money and maximizing shareholder value. These policies control how private banks lend money, keep customers safe, and make it easier for people to lend money responsibly while lowering systemic risk. Key factors include monetary and interest rate policies, regulation and prudential standards, risk and consumer protection laws, incentives for lending to specific sectors, and competition and market stability (Borio et al., 2017).

Central banks set interest rates, which directly affect borrowing costs. When central banks cut interest rates, private banks often do the same, boosting investment and supporting the economy during tough times. Conversely, when central banks raise interest rates to keep inflation in check or prevent an economy from getting too hot, private banks tend to lend less, making credit harder to get (Kasana et al., 2023). Risk and consumer protection laws make lending more open and safeguard consumers by requiring lenders to disclose loan terms and circumstances. Governments may also offer incentives for lending to specific sectors or projects aligned with public policy goals, such as housing, renewable energy, or small business growth. Government policies can also help public and private banks work together, with state banks providing money or guarantees to private banks to lend to risky but beneficial projects (Davies, 2008).

State-Owned Banks and Priority Sector Lending

State-owned banks (SOBs) play a crucial role in promoting financial inclusion and economic growth, particularly through priority sector lending (PSL). PSL ensures that banks lend money to industries that contribute to the economy's growth but may not receive enough support from private banks. Government policies often set PSL conditions to direct loans towards projects that can have a significant impact on society, such as poverty reduction, rural development, and job creation (Kaur & Mahajan, n.d.). SOBs play a significant role in carrying out PSL policies by giving credit to areas that don't receive enough funding, helping the government with development initiatives, and assisting in economic stabilization during economic crises. They also provide loans to small farmers, rural business owners, and low-income groups, closing the funding gap in areas crucial for long-term economic growth (Angadi, 1983). PSL through state-owned banks has several benefits for the economy, including encouraging financial inclusion, promoting economic growth and job creation, and lowering regional inequalities. However, there are also problems associated with PSL, such as loan default risks, concerns about efficiency, and the possibility of too much debt (Agarwala et al., 2024).

Despite these challenges, state-owned banks remain an essential part of many countries' plans for economic growth. They ensure that credit goes to important areas like agriculture, small and medium-sized businesses, and rural development, which are essential for equitable economic growth. However, PSL must address issues like credit risk, inefficiencies, and the possibility of too much debt to achieve its goals (Almekinders et al., 2023).

Government-Set Goals for Priority Sector Lending (PSL)

Priority Sector Lending (PSL) is a government-set strategy that involves banks and financial institutions providing credit to sectors crucial for a country's economic growth but lacking private sector funding. These sectors include agriculture, small and medium-sized businesses (SMEs), education, housing, and rural development. PSL targets are set to ensure financial inclusion, economic development, regional differences, risk reduction, and access to financial services for marginalized populations Reserve Bank of India. (2020).

The main goals of PSL targets include financial inclusion, economic development, leveling regional differences, risk reduction in important areas, and focusing on long-term social and economic growth. Agriculture is often one of the most important sectors under PSL objectives, as it requires loans for crop cultivation, irrigation systems, and rural infrastructure. SMEs are also crucial for job creation and economic growth but often struggle to secure loans due to their risk. PSL targets also focus on affordable housing, education, and microfinance and rural development. State-owned banks play a significant role in meeting PSL targets, as they are more willing to lend to riskier sectors, making defaults less expensive. For example, the Reserve Bank of India mandates that commercial banks give 40% of all loans to priority sectors, with smaller goals for certain areas like agriculture and small businesses. However, there are challenges associated with PSL targets, such as credit risk, inefficiencies, and too much debt. While these issues can affect the profitability and stability of lending institutions, PSL remains essential for increasing financial inclusion, boosting economic growth, and addressing market problems. State-owned banks play a crucial role in addressing these challenges by working with the government to provide fair access to credit in areas crucial for inclusive growth (Gaur & Mohapatra, 2021).

The Historical Context and Institutional Framework of State-Owned Banks in Promoting Priority Sector Lending (PSL)

State-owned banks (SOBs) have played a crucial role in promoting Priority Sector Lending (PSL) and financial inclusion in many countries. PSL is a government-mandated distribution of bank loans to sectors that are important for social and economic growth but may not receive enough from private banks due to their riskiness or less profitability. These sectors often include agriculture, small and medium-sized enterprises (SMEs), rural development, education, and housing (Bhatty & Khan, 2023).

The historical context of SOBs in PSL can be traced back to times of economic change when commercial banks were not willing to lend to industries seen as important for national development. In many developing nations, governments needed to regulate the financial industry to boost economic growth, reduce income inequality, and enhance social welfare.

The institutional framework that controls state-owned banks and their role in promoting PSL includes formal rules and government policies. These rules dictate how much credit banks have to give to priority industries, such as agriculture, small businesses, and rural development. Central banks and regulatory authorities play a significant role in deciding who can get priority sector loans, developing rules for credit distribution, and ensuring these rules are followed.

SOBs also have two main goals: to make money and meet their social obligations, which is a dual mandate in their role in PSL (Central, 2012).

State-owned banks (SOBs) play a crucial role in promoting Public-Private Partnership (PSLs) by providing credit to underprivileged communities and sectors. They encourage financial inclusion by lending to low-income households and rural farmers, supporting important economic sectors like agriculture, SMEs, and education, and reducing market failures (Cull & Martínez Pería, 2013). However, SOBs face challenges such as credit risk and loan defaults, concerns about efficiency, and too much debt. Lending to high-risk regions can lead to more defaults, and political factors may affect loan choices, making PSL programs less effective. Additionally, borrowers in priority sectors, particularly farmers, may face too much debt due to poor harvests or market conditions. Despite these challenges, SOBs have been instrumental in promoting PSL through their institutional structure, which includes government requirements, regulatory control, and national development objectives. To continue their role in PSL, SOBs need to address credit risk, efficiency, and debt, demonstrating the need for continuous changes to support the economy and society.

Advantages of state-owned banks in PSL (e.g., social goals, government support)

State-owned banks play a crucial role in achieving Priority Sector Lending (PSL) goals in India, particularly in supporting low-income individuals, rural development, and under-recognized sectors like agriculture and MSMEs. With government support, these banks are able to meet both social and economic objectives. State-owned banks prioritize these sectors, offering loans at lower rates, making it easier for farmers, small enterprises, and low-income families to access credit (Kundu & Jana, 2024). The Economic Survey of India (2020–21) highlights the importance of state-owned banks in providing financial services to rural and distant areas, particularly low-income families and small farmers. Government programs like capital infusions and interest subventions allow state-owned banks to take on more risk and lend to priority sectors at cheaper interest rates, reducing financial risks, particularly in industries like agriculture *(Economic Survey 2020-2021).*

Criticisms and problems with state-owned banks, such as inefficiency and political meddling

State-owned banks in India are crucial for the government's social and economic goals, but they face numerous challenges that hinder their performance. These include inefficiency, political interference, high levels of non-performing assets (NPAs), problems with governance, and concerns about capital adequacy (Shetty et al., 2019). Inefficiency is often attributed to outdated methods and bureaucratic management structures, leading to low productivity and greater operational costs than private sector banks. State-owned banks are also less competitive due to their reluctance to innovate and meet customer needs quickly. Political interference can lead to increased NPAs, as loans may be given to borrowers who cannot repay them due to outside factors (Committees & Committee, 2012).

Government issues are another significant concern for state-owned banks. The governance framework lacks the freedom it needs to perform well, with political factors determining who gets to be a bank executive. This makes decisions less effective and makes it harder to hold people accountable. Additionally, state-owned banks struggle with adequate capital and recapitalization, making it difficult for them to lend money and deal with economic downturns (Echeverri-Gent & Sané, 2025).

Despite government efforts to recapitalize these banks, they still struggle to maintain strong capital buffers, raising concerns about the long-term sustainability of the state-owned banking arrangement. To improve efficiency and longevity, state-owned banks need significant changes in their operations, risk management, and operational freedom (Brain et al., 2025).

Private Banks and Priority Sector Lending

Private banks in India have made significant strides in meeting the Reserve Bank of India's (RBI) PSL targets, with 40% of loans going to priority sectors, including 18% to agriculture and 7.5% to micro, small, and medium-sized businesses (MSMEs). However, their distribution and commitment to PSL vary significantly between banks. In FY 2020-21, private sector banks made up about 26% of total PSL credit, with agriculture receiving 14.5% and MSMEs 19.3%. Despite these numbers being lower than public sector banks, private banks are lending more in these areas, particularly in cities and towns where they have a larger presence (*Report on Trend and Progress of Banking in India 2020-21).* Private banks have been investing more money into areas like MSMEs and agriculture as part of their PSL pledges. They have used technology to speed up loan processing and offer tailored loan solutions, helping the sector flourish. However, agriculture remains a challenging area for private banks due to unpredictable weather and lack of knowledge about money. Private banks are slowly becoming more involved in Agri-lending through programs like Kisan Credit Cards (KCC) and agricultural loans using technology like mobile apps (Gaikar et al., 2021). However, private banks still face challenges in reaching their PSL goals, especially in rural areas. The Reserve Bank of India suggests that private banks employ Priority Sector Lending Certificates (PSLCs) to satisfy PSL targets, but this strategy does not necessarily improve financial inclusion or fill credit shortages in underserved areas. Private banks have also expanded their digital presence through mobile banking and online loan platforms, making financial services more accessible to more people in cities and suburbs. Government policies, such as interest subvention schemes, financial literacy programs, and credit guarantee plans for MSMEs, have also helped private banks lend more effectively to priority sectors (Khera, 2021).

State-owned banks (PSBs) and private sector banks in India have different goals and methods. PSBs focus on meeting larger social and economic goals, such as providing access to banking services, helping rural areas expand their economies, and giving credit to sectors like agriculture and small enterprises. They are under pressure to reach their Priority Sector Lending (PSL) goals, which are set at 40% of all lending Reserve Bank of India *(Report on Trend and Progress of Banking in India 2019–20. Reserve Bank of India).* Private sector banks are more interested in making money and are controlled by private companies or shareholders. They are less likely to put social aims first, especially when lending money costs more risk or lower returns. They tend to focus on more profitable areas like retail banking, corporate lending, and wealth management (P. Kumar et al., 2021). PSBs lend more to priority sectors, which are generally seen as a public service, especially in rural areas and for vulnerable groups. However, their non-performing asset (NPA) ratio is higher since they lend to riskier sectors. Private sector banks are pickier about who they lend to and tend to focus on more profitable areas like personal finance, retail loans, and corporate lending (A. Das & Ghosh, 2007). Private sector banks are usually more efficient and focused on making money, using advanced technologies and cost-effective systems to boost their profits. They are better at cost-to-income ratios and return on assets (ROA) than state-owned banks (A. Das et al., 2005). PSBs are important for financial inclusion, as they focus on areas that don't get enough attention. They have more branches in rural areas, helping more low-income families, farmers, and small enterprises. Private banks, on the other hand, focus on including people with higher incomes and better credit histories who live in cities. They are better at running their businesses and making money, but they don't contribute as much to priority sector financing as PSBs do.

The impact of competition, capital constraints, and financial health on private sector lending

Private sector lending is a crucial aspect of economic growth, as it involves the provision of loans by banks and other financial institutions to businesses and individuals. The relationship between competition, capital constraints, and financial health is essential for the functioning of private sector lending markets. More competition leads to lower interest rates and better terms for borrowers, while less competition can lead to higher interest rates and harsher lending terms (Berger & Udell, 2006).

Capital availability is crucial in determining the amount of credit banks can give, as banks must have a specific amount on hand to protect against possible losses from defaults. Regulatory capital requirements set by frameworks like Basel III agreements can also make it harder to get credit, especially for smaller banks with limited access to capital markets (Kashyap et al., 2010). Lenders' financial health is also crucial for their ability to give out credit. Financially stable institutions are better able to lend money to borrowers and offer good loan terms. However, poor financial health can limit lending to preserve solvency and increase borrowing costs (FED, 2003). The relationship between competition, capital constraints, and financial health is integral to the functioning of private sector lending markets. More competition usually means cheaper borrowing prices and easier access to credit, while when lenders lack enough money or are in bad financial shape, credit conditions might get tighter, interest rates can go up, and access to finance can go down. Policymakers and regulators must carefully balance these factors to ensure a healthy, competitive, and stable lending environment that supports economic growth and provides credit to businesses and consumers in need (Love & Martínez pería, 2015).

Success stories: How some private banks have excelled in PSL through innovation and technology.

Private banks like HDFC Bank and ICICI Bank have successfully implemented new ideas and technology in lending. HDFC's digital platforms have simplified loan application and disbursement, while ICICI's big data and AI have improved credit underwriting in high-risk sectors. Axis Bank has also expanded financial inclusion by offering mobile banking and working with microfinance providers in rural areas.

Foreign-Owned Banks and Priority Sector Lending

Foreign-owned banks (FOBs) play a significant role in the global banking industry, particularly in developing countries (Roy & Roy, 2016). However, they often struggle to meet specific rules for Priority Sector Lending (PSL) objectives, particularly in countries like India where regulators require international banks to give a percentage of their credit to less profitable or risky sectors. Research shows that FOBs may not always excel in PSL activities due to their focus on more profitable assets and global trends. However, they can help priority sectors by improving loan processes, risk management, and creating new financial products (Koley, 2025). The success of foreign banks in PSL is influenced by their fit into the local market, understanding the socio-economic dynamics of the target population, and working with government agencies and local organizations. A regulatory approach that balances global efficiency and local inclusion could be beneficial for both the banking industry and the economy. Understanding the relationship between foreign-owned banks and PSL is challenging, but regulatory restrictions and market opportunities can encourage them to create financial solutions for underserved sectors (Massand & V, 2018).

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Empirical Studies on Bank Ownership and PSL

The relationship between bank ownership and Priority Sector Lending (PSL) is a significant focus in banking and financial economics. Governments, particularly in developing countries, use PSL as a financial policy instrument to ensure that important areas like agriculture, small companies, and education receive the necessary funding. The ownership structure of banks, including public sector banks (PSBs), private banks, and foreign banks, plays a crucial role in how well banks help with PSL (Dave, 2016).

Public sector banks are often considered the key sources of PSL, especially in developing countries like India. They are responsible for providing credit to those who need it, especially in rural areas. However, they face challenges such as rising non-performing assets (NPLs) and managing the risk of defaults in high-risk industries like agriculture (Gupta et al., 2011).

Private sector banks, on the other hand, are more focused on making money than PSBs and help with PSL in a more strategic and selective way. They tend to meet PSL goals by focusing on more profitable areas like education loans and housing rather than riskier areas like agriculture and micro-enterprises. Studies have shown that private banks often meet PSL requirements by buying PSL certificates from other banks instead of giving loans directly to priority industries (Koley, 2025).

Foreign banks, especially those operating globally, are usually less involved in PSL activities than banks in their own country. They focus on high-value corporate clients and wealth management services, which have higher profit margins than usual priority areas. Research shows that foreign banks don't play a big part in PSL, especially in countries like India, where they would rather do international trade finance and big corporate loans than follow PSL rules Priority sector continues to scare foreign banks While foreign banks may satisfy PSL goals by buying PSL certificates or moving loans to local banks, they may also follow the rules while still focusing on their major business sectors, which are usually more profitable and less dangerous. Additionally, foreign banks usually only service urban and metropolitan areas, so they don't reach out to rural and underserved communities too much. This lack of involvement in rural development and agricultural financing remains a major problem with international banks' role in promoting inclusive growth in countries like India (Arora & Anand, 2021).

Over the past few decades, the rules and regulations surrounding Priority Sector Lending Certificates (PSL) have evolved, impacting banks. The RBI has made it harder for commercial banks to meet PSL targets and set sub-targets for certain sectors, such as agriculture and MSMEs. Private and international banks often follow these rules through trading certificates or agreements. The Indian government introduced programs like Priority Sector Lending Certificates in the 2000s, which allowed banks to achieve PSL goals without directly lending to priority industries.

Findings of different research:

Public banks often fulfill PSL targets better but may face inefficiencies, while private banks tend to focus more on profitability but may still contribute to PSL in specific contexts. Research on the relationship between bank ownership and Priority Sector Lending (PSL) is complex. Public sector banks (PSBs) often meet PSL goals due to necessity but may face issues like increased non-performing assets due to riskier loans. Private sector banks, on the other hand, are more selective about PSL, focusing on safer areas like housing and education loans. However, they can still achieve PSL goals when rules make it easier or more rewarding for people to work in priority industries. This highlights the trade-off between regulatory compliance and financial stability, with each form of ownership responding differently to PSL implementation problems (Kanyan & Singh, 2024).

Cross-Country Comparisons of the Impact of Bank Ownership on Priority Sector Lending (PSL) Outcomes

Cross-country comparative research has shown that bank ownership affects Priority Sector Lending (PSL) outcomes, particularly in developing economies where financial inclusion is a major policy goal. Public sector banks (PSBs) are more oriented on meeting social and policy goals, such as meeting PSL criteria, due to their direct accountability to the government and regulatory pressure. However, they face problems with inefficiencies and rising non-performing assets (NPAs) due to lending to priority industries (Dar et al., 2021).

Private sector banks, which care more about making money, are less likely to stick to PSL goals unless given incentives by the law. Studies show that private banks in India, China, and Turkey meet PSL regulations but mostly lend to more profitable subsectors within larger PSL categories. In developing countries like Argentina and Colombia, international banks are often hesitant to lend money to important sectors like agriculture and small businesses (Detragiache, Enrica; Gupta, Poonam; Tressel, 2006). Regulatory frameworks play a crucial role in determining how much different types of banks are involved in PSL. Countries with less strict regulatory frameworks have more freedom to choose which lending activities to prioritize, making PSL less important. When governments have rigorous PSL criteria, public sector banks tend to follow these rules when they lend money. Private and foreign banks in these nations generally follow the rules by buying PSL certificates or getting loans from other banks instead (Selvarajan & Vadivalagan, 2013). Research from different countries on bank ownership and PSL outcomes shows that public, private, and foreign banks make quite different amounts and types of PSL contributions. Public sector banks are the main drivers of PSL, especially in developing nations, although they often have problems and higher risks.

Methodology

The Priority Sector Lending (PSL) program has been studied using various research methods, including quantitative methods like regression analysis and qualitative methods like interviews and case studies. These methods aim to understand how different types of ownership (public, private, or foreign) affect PSL loans given to important sectors like education, agriculture, and small companies.

Regression analysis is the most common method used to analyze the link between bank ownership and PSL advances. Studies have shown that public sector banks (PSBs) are more likely to reach PSL targets due to their focus on social goals, while private banks are more focused on making money and participating in PSL on a limited basis.

Panel data analysis is another approach used to examine bank-level data over time. Studies have found that state-owned banks are more likely to reach PSL targets but are less efficient at managing PSL advances than private banks due to the riskier nature of lending to priority industries (*Impact-of-Priority-Sector-Lending-on-Financial-Profitability-Segment-Wise-Panel-Data-Analysis-of-Indian-Banks_2021_Universiti-Teknologi-Mara*, 2021).

Qualitative research methods, such as interviews and case studies, provide insights into the impact of ownership structure on PSL loan performance. These methods help to separate the effect of ownership on PSL loan performance from other factors that may not be seen. Overall, both quantitative and qualitative research methods provide valuable insights into the relationship between bank ownership and PSL outcomes.

Qualitative research methodologies, such as interviews and case studies, have been used to understand the factors affecting PSL lending. These methods involve talking to bank management, policymakers, and industry professionals to understand how banks understand and follow PSL rules. For example, A semi-structured interviews with managers from both public and private banks in India to explore the challenges and opportunities of reaching PSL goals (Mani, 2022).

Case study methods have also been employed to examine how certain banks handle PSL and how ownership changes their lending habits. Hernandez (2014) used a case study method to examine how international banks in Latin America lend money under the PSL framework. The study found that international banks were less likely to lend money to priority industries, but changes in regulations made them more likely to lend money indirectly through PSL certificate markets (Montoro & Rojas-suarez, 2012). Mixed-methods approaches have been used to get a full picture of how bank ownership affects PSL performance. Rathi and Agarwal (2020) used regression analysis and policymakers' discussions to confirm quantitative results and gain a better understanding of the elements affecting PSL targets. However, these methods face limitations, such as limited data quality and the potential for biased responses from bank managers or policymakers (Jena, 2025).

In conclusion, both quantitative and qualitative methodologies have been used to study the impact of bank ownership on PSL lending. Quantitative tools like regression and panel data analysis are useful for finding connections and understanding the relationship between ownership and PSL lending.

Role of digital banking and fintech in overcoming some challenges faced by different types of banks in reaching priority sectors.

Digital banking and fintech have significantly contributed to the development of the Priority Sector Lending (PSL) framework, which aims to provide financial services to sectors like agriculture, small businesses, and low-income housing. However, the PSL framework has faced challenges such as slow loan distribution, high transaction costs, and limited access to financial services in rural or remote areas. Digital banking systems, such as mobile banking and internet banking, have made transactions more affordable, enabling banks to lend to industries previously considered high-risk or low-return.

Public sector banks (PSBs) have utilized digital banking tools to streamline PSL lending processes, despite inefficiencies and limited resources. Digitizing loan applications and automated credit scoring systems have enabled PSBs to reach these sectors more easily than before. Fintech companies have also played a crucial role in closing the gap in lending to priority sectors by offering flexible and data-driven lending options. These include peer-to-peer lending platforms and other ways to score credit, which help private and foreign banks deal with credit evaluation and risk management issues (Yadav et al., 2023). Fintech has also made risk management work better for PSL loans, enabling banks to assess the riskiness of lending to key industries more accurately. Machine learning algorithms have been used to score credit, making PSL loans more efficient and safer. This has made it easier for banks to lend to businesses that typically lack access to traditional banking services by automating some parts of the credit evaluation process without significant financial investment. However, there are still problems and limits to digital banking and fintech. The digital divide remains a significant issue, particularly in rural areas where poor internet access and lack of digital skills hinder online banking access. Additionally, regulatory issues related to data privacy and security remain a concern for both banks and borrowers (Bazarbash, 2019).

In conclusion, digital banking and fintech have significantly improved the accessibility of loans and risk management for individuals in priority sectors. They have made loans more accessible, sped up the loan process, and created new financial products specialized for underserved markets. Despite the challenges, the ongoing growth and integration of digital banking and fintech solutions may make banks even more important in helping key sectors.

Conclusion

The relationship between bank ownership and the ability to meet Public Sector Liquidity (PSL) targets is complex. Public sector banks, owned by the government and motivated by public policy and social welfare, are more likely to meet PSL goals. However, they face inefficiencies and higher default rates in priority sectors like agriculture and small businesses. Private sector banks, on the other hand, focus on making money and lowering risk, lending to certain sectors with lesser credit risk and better returns, such as housing or education. (A. Das & Ghosh, 2007).

Private banks have become better at PSL lending by using new technologies and digital tools, making it easier for them to balance generating money with being socially responsible. Foreign banks, however, do not participate in PSL as much due to their different business structures and focus on more profitable areas.

The challenges faced by banks of all types to reach PSL targets include the risk of lending to priority sectors and complicated rules. Digital banking and fintech developments have played a significant role in solving these problems, making it easier for banks to enter important industries and improve risk assessment processes.

In conclusion, factors such as bank ownership, social goals, business concerns, and regulatory incentives affect PSL outcomes. Public sector banks are the best in PSL compliance, while private and foreign banks still help in strategic areas and with new ideas. Fintech is becoming more important, potentially helping all types of banks fulfill PSL targets more quickly in the future, provided digital access and regulatory frameworks are resolved.

Summary of Key Findings

The structure of bank ownership significantly impacts the quantity and quality of Public-Private Partnerships (PSL). State-owned banks tend to adhere more closely to PSL rules, while private and international banks lend money with the goal of making money. Political interference and red tape can reduce efficiency.

Policy Recommendations

Strengthening rules for equal contributions among banks, encouraging private and foreign banks to explore new PSL lending methods, and addressing inefficiencies in state-owned banks while maintaining their role in social lending are key strategies.

Suggestions for Future Research

Further research is needed to explore the impact of bank ownership on PSL across various locations, particularly considering the influence of emerging digitalization developments on different bank types.

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