
New Face of Bank's Lending to the Priority Sector

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ABSTRACT

Finance is the life blood of economic activity. This is because it provides access to all other resources required in economic activities. No business enterprises can start and continue its operation without sufficient funds at its disposal. Financial system contributes to growth and development of the economy by mobilizing saving and then efficiently allocating these savings across investment projects. The Bank is an intermediary between those having resources and those requiring resources.

Sector wise distribution of bank credit provides an outstanding contribution towards economic growth and financial inclusion as well as its role in ensuring financial stability. Various efforts have been done to increase formal credit to key priority sectors. An internal working group (IWG) was set up in July 2014 by RBI to revisit the existing priority sector lending guidelines. The diversification and development of our Economy and the acceleration of the Growth process are in no small measure due to the active role the banks have played in financing economic activities in different sectors specially priority sector.

Banking system is no longer confine to metropolitan cities and large town, Infact Indian banks are now spread out into the remote corners of the country, even more significant achievement is the close association of India's banking system with India's developmental efforts. The target set for advances to the agriculture sector raises concern from the point of view of equitable distribution of credit to productive sector of the economy. Therefore non-adherence to the agricultural lending target raises concern as till a large proportion of India's population depends on the agricultural sector for livelihood.

This paper provides an overview of the targets to priority sector lending by commercial banks in India set by RBI. The present study ensures growth with justice by taking into account all sectors of the economy.

Keywords: Banking sector, priority sector and credit.

INTRODUCTION

In today's world, the Banking System plays an important role in the economic development of a country. Banking in India is fairly mature in terms of supply product range and reach even in rural India. The Reserve Bank of India is an autonomous body which in collaboration with Government of India, work for achieving the growth of the India economy.

At the meeting of the National credit council held in July 1968, the Government of India emphasised that Commercial banks should increase their involvement in the financing of priority sectors. The description of the priority sector was later formalised in 1972 on the basis of the report submitted by the informal study group on statistics relating to advances to the priority sectors constituted by the Reserve Bank of India in May 1971. Based on this report, the Reserve bank prescribed a modified return for reporting on the priority sector advances and certain guidelines issued in this connection indicating the scope of the items to be included under the various categories of priority sectors. Although initially there was no specific target fixed in respect of priority sector lending, the Reserve bank advised the banks in November 1974 to raise the share of these sector in their aggregate advances to the level of 33 and one-third percent by March 1979.

At a meeting of the Union Finance Minister with the CEOs of Public sector banks held in March 1980, it was agreed that banks should aim at raising the proportion of their advances to priority sectors to 40 percent by March 1985. Based on the recommendations of the working group on the modalities of implementation of priority sector lending and the twenty points economic programme by banks, all commercial banks were advised to achieve the target of priority sector lending at 40 percent of the aggregate bank advances by 1985. Sub target were also specified for lending to agriculture and the weaker sections within the priority sector. Since then, there have been several changes in the scope of priority sector lending and the target and sub target applicable to various bank groups.

The Reserve Bank of India set up an Internal Working Group (IWG) in July 2014 to revisit the existing priority sector lending guidelines.

OBJECTIVES

For the easy approach of the subject to its culmination and to find out the ultimate results of the research the following objectives are preferred

- (i) To learn the concept of priority sector.
- (ii) To know the priority sector lending by the banking sector.
- (iii) The Reserve bank of India guidelines on priority sector lending and the latest developments in this field.
- (iv) To discuss that the banking sector ensures growth with justice by taking into account all sectors of the economy.

RESEARCH METHODOLOGY

Research methodology is a way to systematically solve the research problem. These are various methods used in conducting research in order to precede the research. In this particular work, the research preferred to use secondary data, collected from various publications, Reserve Bank of India annual report, books, magazines, journals etc. Here descriptive method is followed to justify the topic.

Significance of the methodology

Though recently a large number of studies, evaluating the performance of commercial banks have come up yet, certain important aspect like the priority sector lending by commercial banks ensuring growth with Justice have remain untouched. Thus for measuring the lending performance to priority sector by commercial banks, a present study is conducted and using the research methodology is justified. Research methodology inculcates scientific and inductive thinking and it promote the development of logical habits of thinking and organisation.

The role of research methodology on several fields of applied economics, whether related to business of the economy as a whole, has greatly increased in modern times. The increasing complex nature of business and government has focused attention on the use of research in solving operational problems. It is an aid to the researcher thus gained importance. The researcher decided to use the aforesaid method to make analysis of the data so as to which design would be prove to be more appropriate for the research project.

Salient features of the guidelines are as under

- (i) Medium Enterprises, social Infrastructure and renewable energy is now included in the priority sector a part of the existing one.
- (ii) A difference between direct and indirect agriculture is dispensed with
- (iii) Agriculture will also include bank loan to food and agro based units.
- (iv) A target of 8 percent of ANBC or credit equivalent to balance sheet exposure, whichever is higher for small and marginal farmers to be achieved.
- (v) No change for weaker section, it will remain 10 percent of ANBC or credit equivalent to balance sheet exposure, whichever is higher.
- (vi) A target of 7.5 percent of ANBC or credit equivalent to balance sheet exposure, whichever is higher has been prescribed for micro enterprises.
- (vii) Foreign banks with 20 branches and above have already target and sub target for priority sectors (agriculture and weaker section) to be achieved by 31 March 2018 and 40 percent of ANBC or credit equivalent to balance sheet exposure, whichever is higher by 2019-20.
- (viii) The loan limit for housing under priority sector has revised.
- (ix) Export credit upto 32 percent of ANBC or credit equivalent to balance sheet exposure, whichever is higher, under priority sector for foreign banks with less than 20 branches.

- (x) Non achievement of the priority sector will be assessed on quarterly basis from 2016-17 onward, instead of annual basis.

Categories under priority Sector

- (i) Agriculture
- (ii) Micro, small and Medium enterprises
- (iii) Export credit
- (iv) Education
- (v) Housing
- (vi) Social infrastructure
- (vii) Renewable energy
- (viii) Others

Target/Sub-targets for priority sector:

- (i) The target and sub target set under priority sector lending for all scheduled commercial banks are as follows:

categories	Domestic scheduled commercial Banks and foreign banks with 20 branches and more	Foreign banks with less than 20 branches
Total Priority Sector	40 percent of ANBC or credit equivalent to balance sheet exposure, whichever is higher. Foreign banks with 20 branches and more have to achieve the target within maximum period of five years starting from 1 April 2013 to 31 March 2018.	40 percent of ANBC or credit equivalent to balance sheet exposure, whichever is higher to be achieved by 2020.
Agriculture	18 percent of ANBC or credit equivalent to balance sheet exposure, whichever is higher Foreign banks to achieve the target within maximum five years starting form 1 April 2013 to 31 march 2018.	Not Applicable
Micro enterprises	7.5 percent of ANBC or credit equivalent to balance sheet exposure, whichever is higher to be achieved by March 2016 and 7.5 percent by March 2017. Foreign banks would be made applicable after a review in 2017.	Not applicable
Advances to weaker Sections	10 percent of ANBC or credit equivalent to balance sheet exposure, whichever is higher Foreign Banks to achieve the target within a maximum period of five years starting from 1 April 2013 to 31 march 2018 as per the approval of RBI.	Not applicable

Source: RBI report on Priority Sector lending-target and classification.

- (ii) The total priority sector target of 40 percent for foreign banks with less than 20 branches has to be achieved in the following manner as under:

Financial Year	The total Priority Sector as percentage of ANBC or credit equivalent to balance sheet exposure, whichever is higher
2015-16	32
2016-17	34
2017-18	36
2018-19	38
2019-20	40

Source: RBI report on Priority Sector lending-target and classification.

Description of the eligible categories under priority sector

- (i) **Agriculture:** It includes farm credit, agriculture infrastructure, Ancillary industry
- (ii) **Micro, small and medium enterprises (MSMEs):** It includes manufacturing enterprises, service enterprises, Khadi and Village industries sector, other finance to MSMEs.
- (iii) **Export Credit:** It include pre shipment and post shipment export credit and customer services to exporters.
- (iv) **Education:** Loans to individual for education purpose including vocational courses upto rs. 10 lakhs.
- (v) **Housing:** Loans to individuals, loans for repairs to damaged dwellings, housing projects, housing finance companies
- (vi) **Social infrastructure:** schools, hospitals, drinking water facilities, sanitation facilities.
- (vii) **Renewable energy:** Solar based power generation, wind mill, street lighting system, remote village electrification, electricity for individual household.

Weaker sections

- (i) Small and Marginal Farmers
- (ii) Artisans, village and cottage industries
- (iii) Scheduled caste and schedules tribes
- (iv) Self help groups
- (v) Persons with disabilities
- (vi) Minority communities
- (vii) Individual women beneficiaries
- (viii) Distressed farmers
- (ix) Distressed person other than the farmers

Findings

- (i) Various purpose for which banks are granting to agriculture and other allied activities.
- (ii) How is the bank credit essential for development of our economy keeping in view our large population, rural base of the economy?

- (iii) The recent development in priority sector lending by commercial banks with a view to bringing farmers in general and the rural poor in particular within the reach of the extension system and the enhanced flow of bank credit.
- (iv) Various features like target and sub target assigned to both domestic and foreign banks under each sector and sub sector are also discussed
- (v) Priority sector and their relevance to the overall economic development.

Suggestions

Based on the study conducted, there are some of the suggestions that how the Banking should be and how to face the challenges of the advances to the priority sector.

- (i) Firstly all the banks should follow the guidelines framed in the norms of RBI.
- (ii) The banks should increase the rate of saving accounts, so that more deposits can be generated and thus can be mobilised.
- (iii) More loans should be provided to the priority sectors at the low rate of interest.
- (iv) More bank branches should be opened in rural and unbanked areas.
- (v) There should be transparency while dealing with the customers.
- (vi) The bank staff should be cooperative and must be capable of understanding the customer's problem, especially belong to priority sector.

Indian Banking is continuously improving by leaps but still it needs to be improved further.

CONCLUSION

With the significant changes in the economic environment and the thrust given by the Government of India for doubling of agriculture in the tenth five year plan, it is important to increase the farmers' participation in the existing extension system. The Reserve bank of India has advised banks to form farmers' advisory committee in all rural branches. This committee will play a vital role in the rural development and it will not only strengthen the extension system, but will also make it more reliable and transparent by proper planning and resource allocation. A branch advisory committee comprising of selected elected representatives, including women leaders of local panchayat raj institutions, within the service area of the branch, is established at every rural branch. It should meet at least once in a quarter. These meetings are made mandatory and are to be attended by the controlling official of the bank.

The priority sector has been extended by the Reserve Bank of India. The commercial banks enlarge the credit to the priority sector and ensures that priority sector advances constitutes 40 percent of the net bank credit and that substantial portion is directed to the weaker sections, this ensures that growth is accelerating with justice.

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