

PRIORITY SECTOR LENDING IN INDIA: AN ANALYSIS

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ABSTRACT

Indian banking sector have responsible commitment to straighten the agricultural sector in lending. India growing in population needs more food production even to meet its own demand. It is critical now that agricultural sector has been pushed as secondary sector rather than primary. Author has conceptually presented in this article the need for banking sector to consider improving their lending schemes. The primary objective of the author is to highlight that banks data are not sufficiently supporting the Priority sector lending, which in turn is going to have big impact on the agricultural sector itself. The factors like branch operations, number of branches in rural areas, financial inclusion and its impact, credit deposit ratio, lending policies, RBI policy, spectral development and other factors are analyzed with empirical evidence and statistical relevance.

Authors are of opinion that agricultural sector needs more attention from union government and also they should watch how their policies are implemented in banks. More researchers should drive their academic and empirical research to show how rural branches at micro level functions. Authors are given their own suggestions and conclusions based on the statistical data collected from different reliable sources.

Keywords: Banks, agricultural lending, priority sector lending, financial inclusion.

INTRODUCTION:

Until the mid-1960s, the beneficiaries of bank credit were the people having direct or indirect control over the administration of banks. Hence agriculture, small-scale industries and other priority sectors failed to get the required bank credit in spite of their importance in the country's development planning. Towards the end of 1965, a beginning was made to mould the credit policy of the commercial banks so as to make it consistent with the planning policies. With this clear objective in perspective a scheme known as "Credit Authorization Scheme" was introduced in November 1965. Later on, the scheme of social control over banking was introduced under which banks were required to allocate bigger amount of credit to the priority sectors. In February 1968, the National Credit Council was set up with a view to provide a forum for deciding priorities on an all-India basis. These measures were soon found inadequate and the government thus resorted to nationalization of 14 major banks. The extension of credit to small borrowers in priority sectors was in fact the foremost aim of nationalization and therefore, its magnitude is considered to be the real test of its success

The term 'priority sector' indicates those activities which have national importance and have been assigned priority for development. Hence, the adoption of priority sector concept for the purpose of bank lending reflects the effort to synchronize the lending activities of each bank with the national priorities. These sectors, in particular agriculture, small industries and other small business were the neglected sectors and for the purpose of bank credit, they have been categorized as priority sector.

The scope and extent of priority sector lending has undergone a significant change in the post-reform period with several new areas and sectors being brought under its purview while there had been demands to include new areas, such as infrastructure, within the ambit of priority sector, there is apprehension that it will dilute the definition of the priority sector with the focus on the needy sectors of the economy and weaker section of society getting completely lost. Against this background, an internal working group was set up in the Reserve Bank (Chairman: shri. C.S. Murthy) to examine the need for continuance of priority sector lending prescriptions, review the existing policy on priority sector lending, including the segments constituting the priority sector targets and sub-targets and to recommend changes, if any, required in this regard. Based on the draft technical paper submitted by the internal working group and the feedback received thereon, the guidelines were revised. The sectors of the society economy that impact large segments of the population, the weaker section and the sectors which are employment-intensive such as agriculture and micro and small enterprises, have been retained as priority sector in the revised guidelines, which came into effect from 30 April, 2007. Agriculture, small enterprises, micro credit, retail trade, education loans and housing loans up to 20 lakh are the broad categories included in the priority sector.

CATEGORIES OF PRIORITY SECTOR ADVANCES:

The broad categories of priority sector for all scheduled commercial banks are as under:

Agriculture (Direct and Indirect Finance):

Direct finance to agriculture includes short medium and long term loans given for agriculture and allied activities directly to individual farmer, self-help groups (SHGs) or joint liability groups (JLGs) of individual farmers without limit and to others (such as corporate partnership firms and institutions) upto Rs. 20 lakh for taking up agriculture allied activities. Indirect finance to agriculture includes loans given for agriculture and allied activities.

Policy measures by RBI:

The description of the priority sector was formalized in 1972 on the basis of the report submitted by the informal study group on statistics relating to advances to the priority sector, constituted by the Reserve Bank. Although, initially, there were no specific targets fixed in respect of priority sector lending in November, 1974. Public sector banks were advised that their priority sector lending should reach a level of not less than one-third of the outstanding credit by March 1979. In November, 1978, the private sector banks were also advised to send a minimum of 33% of their total advances to the priority sector by the end of March 1980. Subsequently, the target was enhanced to 40% of aggregate advances. In achieving this overall target, sub-target for lending to agriculture sector and weaker section were also stipulated for the banks. At present, banks are required to lend at least 18 and 10% of their net bank credit (NBC) to the agriculture sector and weaker section of society, respectively.

Foreign banks operating in India were also advised to progressively increase their advances to the priority sector to reach a level of 15% of their NBC by end-March 1992. In April 1993, this ratio was further raise to 32% of NBC to be achieved by March 1994.

SCOPE OF THE STUDY:

In the context of the failure of the large industries to solve the worsening problem of unemployment and poverty which is the result of the concentration of economic power in the hands of few and increased inequalities in the distribution of income and wealth, agriculture (especially small farmers), play a major role in solving these problems. This has been

recognized throughout the world by the policy makers, governments as well as academicians and researchers. As these sectors can be developed with limited available capital and light technology, it permits more population to participate in gainful economic activities with which we can solve the problem of poverty, reduce the inequalities in the distribution of income and wealth at the national level and unemployment problem at the individual level. But these sectors, in particular agriculture, the purpose of bank credits, they have been categorized as priority sector. Therefore our study will be focus on priority sector lending by banks in India

REVIEW OF RELATED LITERATURE:

There are many research studies on priority sector lending by banks in India. Brief reviews of these studies are given in the following paragraphs.

Joshi P.N. (1972), in his study entitled “Financing of Priority Sector by Commercial Banks”, analyzed that the RBI to give clear and specific definition of the different component of priority sector as some of the bankers are not clear about the precise scope of agricultural lending.

Angadi (1983), in his study entitled “Bank’s Advances to Priority Sectors -an Enquiry in to the Causes of Concentration”, observed that the concentration of PSL in general and agricultural advances in particular in some state because of rapid branch expansion, deposit mobilization, privileged cropped area, adoption of high yielding variety etc.

Muhammed Yunus (1988), in his study entitled “The Poor as the Engine of Development, Economic Impact”, Analyzed that credit without discipline is nothing but charity and charity in the name of credit will only destroy the poor, instead of helping them. He, however, stressed on the loan recovery mechanism rather than blaming the defaulters.

But these studies do not deal with the extent of priority sector lending by banks, its impact, utilization and recovery. Hence, there is need for a more comprehensive study on Karnataka. It is proposed in the present study to carry out a comprehensive study of priority sector lending with particular reference to agriculture sector.

OBJECTIVES:

- To study the growth and trends of priority sector lending in India and Karnataka.
- To analyze the priority sector lending of banks in India.
- To analyze the impact of priority sector lending on agriculture India.
- To study the issues and strategies of priority sector lending in India.

HYPOTHESES

- Priority sector lending of banks have been more significant.
- Priority sector lending is a more impact on agriculture.
- There are number of problems arises in priority sector lending in India.

METHODOLOGY:

To conduct research work, information will be collected from both primary and secondary data. The primary data will be collected from beneficiaries through questioners’. The Secondary Data will be collected from published and unpublished data from various sources including Journals and Articles.

MAJOR FINDINGS AND ISSUES:

Preferences of RBI to priority sector advances have created various issues for the Indian banking industry which need quick resolution. These issues are discussed below:

- **Low profitability**
- **High NPAs**
- **Quantitative targets**
- **Government interference**
- **Transaction cost**

SUGGESTIONS:

- Short-term loans for raising crops, i.e. for crop loans. This will include traditional/non-traditional plantations and horticulture.
- Loans to small and marginal farmers for purchase of land for agricultural purposes.
- Loans to distressed farmers indebted to non-institutional lenders, against appropriate collateral or group security. Loans to distressed farmers indebted to non-institutional lenders, against appropriate collateral or group security.

CONCLUSION

Thus, our study will be made an attempt to focus on priority sector lending by banks in India. In spite of increasing lending, Indian banks have not achieved some targets fixed by RBI. Lending to priority sector creates many problems for the Indian banks like low profitability, high NPAs, transaction cost etc. It is a need of the hour to find out solutions for these problems otherwise progress of the Indian banks will cease. If the proper priority sector advances are given they will be helpful in reducing the poverty level.

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